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INDEPENDENT OFFICES AND DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT APPROPRIATIONS, 1968

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

NINETIETH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON INDEPENDENT OFFICES AND DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

JOE L. EVINS, Tennessee, *Chairman*

EDWARD P. BOLAND, Massachusetts
GEORGE E. SHIPLEY, Illinois
ROBERT N. GIAIMO, Connecticut
JOHN O. MARSH, JR., Virginia
DAVID PRYOR, Arkansas
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WILLIAM E. MINSHALL, Ohio
LOUIS C. WYMAN, New Hampshire
BURT L. TALCOTT, California

G. HOMER SKARIN, *Staff Assistant to the Subcommittee*

MARYLAND STATE DEPARTMENT OF LEGISLATIVE REFERENCE

PART 1

Civil Service Commission
Federal Communications Commission
Federal Home Loan Bank Board
Federal Power Commission
Federal Trade Commission
Interstate Commerce Commission
National Aeronautics and Space Council
Office of Science and Technology
Renegotiation Board
Selective Service System
Veterans Administration

Printed for the use of the Committee on Appropriations

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INDEPENDENT OFFICES AND DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT APPROPRIATIONS, 1968

WEDNESDAY, FEBRUARY 8, 1967.

OFFICE OF SCIENCE AND TECHNOLOGY, EXECUTIVE OFFICE OF THE PRESIDENT

WITNESSES

DR. DONALD F. HORNIG, DIRECTOR, OFFICE OF SCIENCE AND TECHNOLOGY
DAVID Z. BECKLER, EXECUTIVE OFFICER, PRESIDENT'S SCIENCE ADVISORY COMMITTEE
DR. CHARLES V. KIDD, EXECUTIVE SECRETARY, FEDERAL COUNCIL FOR SCIENCE AND TECHNOLOGY
ROBERT BARLOW, SPECIAL ASSISTANT TO THE DIRECTOR, OFFICE OF SCIENCE AND TECHNOLOGY

SALARIES AND EXPENSES

Program and financing
[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Program by activities:			
10 Scientific policy development and program evaluation (costs—obligations)	1,058	1,200	1,837
Financing:			
25 Unobligated balance lapsing	12	0	0
40 New obligational authority (appropriation)	1,070	1,200	1,837
Relation of obligations to expenditures:			
71 Total obligations (affecting expenditures)	1,058	1,200	1,837
72 Obligated balance, start of year	129	182	130
74 Obligated balance, end of year (−)	182	130	215
77 Adjustments in expired accounts (−)	57	0	0
90 Expenditures	948	1,252	1,752

Object classification
[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Personnel compensation:			
11.1 Permanent positions	509	541	787
11.3 Positions other than permanent	132	169	250
11.4 Special personal service payments		49	60
11.5 Other personnel compensation	14	15	18
Total personnel compensation	655	774	1,115
12.0 Personnel benefits	36	46	67
21.0 Travel and transportation of persons	192	235	325
22.0 Transportation of things		3	15
23.0 Rent, communications, and utilities	28	33	50
24.0 Printing and reproduction	26	20	30
25.1 Other services	16	15	107
25.2 Services of other agencies	86	57	95
26.0 Supplies and materials	7	8	13
31.0 Equipment	12	9	20
99.0 Total obligations	1,058	1,200	1,837

Personnel summary

	1966	1967	1968
Total number of permanent positions	38	38	56
Full-time equivalent of other positions	7	9	13
Average number of all employees	42	45	67
Average GS grade	11.4	11.6	11.6
Average GS salary	$14,271	$14,781	$14,260

Mr. EVINS. The committee will come to order.

We shall begin our hearings of the Independent Offices and Department of Housing and Urban Development Subcommittee on Appropriations for the 90th Congress.

We have with us this morning Dr. Donald F. Hornig, who is the Director, Office of Science and Technology. Dr. Hornig is an adviser to the President.

Dr. Hornig, we welcome you.

We might introduce the members.

Mr. Boland of Massachusetts, Mr. Shipley of Illinois, Mr. Giaimo of Connecticut.

We have two new members on the Democratic side: Mr. Marsh of Virginia. Mr. Marsh is a lawyer and a distinguished veteran; Mr. Pryor from Arkansas also is a new member of our committee.

Mr. Jonas is an able man on the committee and a very great lawyer.

Mr. Minshall of Ohio, an oldtimer. He is a pilot.

Louis Wyman used to be with us before and he is back. We are glad to have him back. He is a very able man.

Burt Talcott of California who has served on the Banking and Currency Committee. I find that he is a pilot. We have three aviators on this committee.

Doctor, we know you have a very distinguished group. We know your mission is to coordinate all the science programs and science activities for the Government. They are many and varied.

The committee will be most pleased to hear you. Doctor, tell us what you have accomplished; what you propose to do, and what your budget requirements are and how he can help you.

GENERAL STATEMENT

Dr. HORNIG. I would have liked to bring with me Dr. Ivan Bennett, Deputy Director of the Office of Science and Technology, who has come aboard since we last met with this committee. However, Senator Muskie wanted testimony on air pollution this morning, so we have had to divide our forces and Dr. Bennett is testifying before Senator Muskie. He is a very distinguished M.D., and will work especially with health and medical science matters. He will add greatly to the strength of the Office.

As you well know, the Office of Science and Technology's primary task is to provide advice and assistance to the President on matters of national policy affected by or pertaining to science and technology. Broadly speaking, we advise on major policies and programs of the Federal Government relating to science and technology. We advise on the relationship of science and technology to national security, foreign policy, and the general welfare, and we assess scientific and technical

developments in relation to their impact on national policies. We are concerned with the integration and coordination of major Federal activities, with facilitating communication with the Congress, and with promoting productive relationships between the Federal Government and the scientific and engineering communities.

In meeting its responsibilities to the President under Reorganization Plan No. 2 of 1962, the Office functions as a component of the President's Office and is called upon to participate in a wide variety of activities ranging from problems of high technological content to policy problems in the development of new legislation. It works closely with the Bureau of the Budget throughout the year in dealing with specific budget issues and in the development of the President's budget.

Some typical topics with which we have been concerned in the past years as an integral part of the President's Office include:

National security: Antisubmarine warfare and associated problems, military aircraft, strategic military systems.

Space: The national space program and its future.

Civil programs: Government patent policy; rapid excavating technology; the potential role of research in the Department of Housing and Urban Development; problems in education, particularly higher education.

Coordination of Federal programs: For example, water resources research, atmospheric sciences and oceanography, and in interrelating the programs in all of the environmental sciences.

In addition, the President has given us a number of public assignments:

Aircraft noise: Chairmanship of a special interagency working group to define a program leading to the alleviation of jet aircraft noise; chairmanship of the Federal Coordinating Committee on Sonic Boom Studies.

Technological gap: Chairmanship of an interagency committee to examine the problems raised by the technological disparities between the United States and Western European countries; participation in a study of this problem under the Organization for Economic Cooperation and Development.

Presidential commissions: Involvement in the work of the President's Commission on the Patent System and the President's Crime Commission.

World Food: A major effort has been mounted in response to the President's directive to his Science Advisory Committee to search out new ways to develop synthetic dietary supplements, improve the quality of nutritional content of food crops and to apply technology to increasing food production. In his India food message, the President stated that he looks to this study "to supply further and more definitive guidelines for near-term action and for long-term planning."

Each of these tasks requires a major investment of staff time.

In response to other Presidential messages, we have assisted the President in assuring effective Federal action in such areas as water desalting and in the development of cheaper methods to transmit electricity underground. We have participated with other Presidential advisers and Cabinet officers in studies of environmental pollution, and in a study of advanced vessel concepts for our merchant marine.

There are two specific Presidential assignments which affect the level of OST staffing, and which I shall come to later.

We cannot adequately cope with this wide range of problems with our in-house staff of extremely limited size. As you know, in order to deal with these issues of importance to the President we depend heavily on the President's Science Advisory Committee and its many panels and consultants. It is our job to bring to matters of presidential concern the best available expertise wherever it may be found in the country. We also draw upon the great pool of expertise that exists throughout the Federal agencies. The Federal Council for Science and Technology is one of the important ways in which we bring to bear the collective knowledge and experience of the agencies on problems that transcend the responsibility of any one of them. The Council is also a primary means of coordinating the agencies' activities.

FUNCTIONS OF THE OFFICE

Mr. EVINS. In the justification you gave to us, you said you have two new programs for next year. One, to assist in planning of scientific information systems and the other to assist in the development of policies relating to energy. You mention these two programs and in your other statement you mention many others; a wide variety. We know that you have at least three hats. You're adviser to the President, Chairman of the President's Science Advisory Committee, Chairman of the Federal Council for Science and Technology, and you coordinate with the Federal departments and agencies.

You basically advise the President on all scientific matters. You coordinate all the scientific effort throughout the Government and the President is giving you more and more assignments, as I judge from your testimony. We think that the Secretary of Agriculture has research in food and in agriculture matters and the Secretary of Housing and Urban Development has research in new housing techniques, but I see that you are advising the President in both of these fields; that is, both in housing for the cities and agriculture for the farms. Both of these Secretaries advise the President and you advise him too. Are those among the new duties that you have?

Dr. HORNIG. Let me say that our cardinal principle is that we don't undertake to do anything in the Executive Offices that can be done in one of the agencies. There is just much too much to be done. I think we come in in two important ways with regard to the problems you mention. One is that many of the problems involve a number of agencies. When one talks about food production in the world, this turns out to be a question not just of agriculture, but of the economics and incentives to produce food, the transportation systems, the farm-to-market roads. People aren't going to raise something if they can't get it where they can sell it. It involves problems in nutrition.

It is true that the expertise for all of these things is in different parts of the Government, but some of us help assemble it for the President so he can present a program. This is really our role. It is not to replace what the agencies do, but to assemble for the President the best external and internal advice in its totality.

When it is within one agency, in general we don't have anything to do with it.

Mr. EVINS. You are sort of the refining or distilling process to get the most significant information to the President.

Dr. HORNIG. That is what we try to do.

On important issues there is another function. The Congress, for example, assembles the alternatives for itself, through the hearing process. It listens to various points of view before it makes up its mind. We try to do a similar thing for the President.

Mr. EVINS. Go ahead and finish your statement.

Dr. HORNIG. So one of our roles is to be sure that the President—even when it concerns one agency—is presented with the alternatives; that we have looked around to be sure we know what else could be done besides the program that is brought up to him.

Mr. EVINS. If you find duplication, you tell the President?

Dr. HORNIG. That is right. We then try to straighten this out in the next year's budget when we present it to the Congress. Better yet, perhaps we can eliminate it in substance on the spot.

Mr. JONAS. Do you make your recommendations to the President in writing, or do you meet with him in oral conversation?

Dr. HORNIG. I make many recommendations to the President in writing. We present both formal reports and informal memos. I meet with him. I work with the rest of the White House staff and with the Executive Office—the Council of Economic Advisers and the Bureau of the Budget. We use all of these.

Mr. JONAS. I wouldn't want you to disclose anything that is confidential, but do you have any samples of any of your recommendations?

Dr. HORNIG. We have some of the public reports we have issued during the year.

Mr. EVINS. Tell us what has been accomplished during the last year.

Dr. HORNIG. I will be glad to get into that.

Mr. EVINS. This is very informative, but let him finish his statement and then we will have a general discussion.

Dr. HORNIG. I do want to emphasize though that the small staff of good people I have in my office is the core around which we build the ability to either assemble the internal expertise in the Government or the external expertise throughout the country.

Our ability to use most effectively the capabilities of part-time experts, and to organize the interagency efforts, depends absolutely on the quality and numbers of full-time staff in OST: to organize the activities, to help define the issues and develop the agendas, and to provide the relevant facts. I have pointed out the crucial need for additional staff in the past and can only underscore the plain truth that the extent and quality of our contributions—of our ability to advise and assist the President—is severely limited by the small size of OST staff.

INCREASE IN FISCAL YEAR 1968 BUDGET

As you will note, the President's budget for this Office proposes an increase in dollars and personnel which is small in absolute amount but significant in percentage terms. It is proposed to increase the Office by roughly half its present size, from $1,200,000 and 38 perma-

nent positions in fiscal year 1967 to $1,837,000 and 56 positions in fiscal year 1968. Details are given in our statement of estimated requirements. I would like to emphasize that even this increased level will not be adequate to assure the general oversight of the $16 billion Federal scientific and technological effort which the President and the Congress expect of us, but is tailored to the guidelines necessarily laid down by the President to meet the financial stringencies imposed by Vietnam.

I would also like to assert to the committee my own personal conviction that there has been a very good return for the small expenditures which have been made and I doubt that there is anywhere in the Government a harder working group of individuals who have in one way or another contributed more to the programs of the United States.

There are three separate components of this proposed increase, and I should like to discuss each of them in detail. They relate (1) to the development of the general capabilities of the Office, (2) to new efforts concerned with scientific and technical information, and (3) to new efforts in energy policy studies and analysis.

With regard to the general needs of the Office, one of the new positions requested is in the area which can loosely be described as the earth sciences, encompassing the atmospheric sciences and meteorology, oceanography, seismology, and the physics of the solid earth. Current annual expenditures of the Federal Government in this area are more than half a billion dollars. Major responsibilities for coordination and management in connection with this complex of programs fall on OST: (1) in connection with the new emphasis being placed on weather modification; (2) in international programs such as the World Weather Watch and the follow-on activities; (3) in the FCST's Interagency Committee on Atmospheric Sciences; (4) in connection with earthquake prediction and earthquake engineering efforts (now being coordinated by a new Committee of the FCST). All of these are areas of escalating budgetary pressures generated by scientific promise or the opportunity for practical applications.

A second professional position is in the life sciences (including agriculture) to be concerned with such matters as environmental pollution, agricultural policies, and biological research policies and programs. In November 1965, for example, the Environmental Pollution Panel of the President's Science Advisory Committee completed its report entitled "Restoring the Quality of our Environment." This definitive study contains well over a hundred separate recommendations for Federal action.

I might note that many of them have found their way into legislation or into new proposed legislation on air pollution. Some of these recommendations are being implemented, but many are not or are moving at a pace far slower than is desirable in the public interest. This study will be valueless unless there is vigorous full-time followup to give it life and meaning.

STAFF ASSISTANT FOR CONGRESSIONAL CONTACT

A third requirement about which I have very strong feelings is for a staff man who can assist in maintaining necessary contact and communications with the Congress, so that we can anticipate and respond

to the needs of congressional committees in relation to Federal science programs and policies.

The executive branch is organized so that an operating agency can speak authoritatively to the Congress for the administration on practically all major areas of public concern—defense policy, foreign policy, welfare policy, agricultural policy, and so forth. No single operating agency can speak for science and technology because these activities are properly part of the activities carried on by numerous agencies to attain goals set in legislation. Yet Congress has felt that science and technology are so significant to the future of the Nation that it should be able to secure the views of the administration with respect to policy questions raised by the total Federal and national scientific and technological effort.

There are many problems involving science and technology which cut across agency lines, and for which no single agency can speak. Congress has felt a need to hear from a spokesman who could state the position of the administration with respect to broad areas. Finally, scientific or technological programs are often proposed for single agencies, which have implications for the Government as a whole, on which Congress wishes to know the views of the administration.

This task of providing overall information and an administration position on matters involving science and technology falls in substantial part on the Director of the Office of Science and Technology. Over the past 2 years, I have testified on 20 different subjects, including the contributions of science and technology to national goals, research and development outside the United States, amendment of the National Science Foundation Act, environmental pollution, underground transmission of energy, post-Apollo programs, the Northeast drought, geographical distribution of research funds, Federal patent policy, high-energy physics, and desalting. Informing Congress is an important function of the Office of Science and Technology, and substantial staff support is needed in the preparation of testimony and in maintaining interactions with the congressional staff to assure adequate attention to questions of interest to the committees of the Congress.

Mr. Evins. Attached to your statement is a 2-page list of appearances you have made before committees of Congress. You have been rather busy coming up testifying before the committees in 1966 and 1967.

I note you are asking for an assistant to do some of this testifying so you can put your good mind to objective scientific matters.

Dr. Hornig. I need no assistant to testify for me. I do not think formal testimony is an adequate channel of communication with the Congress. I need an assistant to help keep me in touch with committee staffs and help committee staffs keep in touch with work being done in my office. To provide the information which the Congress needs, which is what part of what Reorganization Plan No. 2 of 1962 calls for, requires me to communicate both formally and informally with the Congress.

Mr. Evins. You say no one is the official spokesman for all scientific agencies or for science and I doubt that anyone would want to be such a spokesman. The National Science Foundation wouldn't want

you to be. Neither would NASA. They want to be their spokesman but they are glad to have an extra weight.

Dr. HORNIG. That is true. Neither for the President nor the Congress would one want a single voice. But there is a need for one at least who can look at the situation as a whole and not from the point of view of the particular goals of each of the agencies.

Mr. EVINS. Proceed, Dr. Hornig, if you will.

NEW FUNCTIONS

Dr. HORNIG. As mentioned earlier, two new functions have been assigned to my Office by the President, and funds for them are specifically requested in this budget. The first is to assist him in the planning, development, and coordination of means for handling scientific and technical information.

This is a large job. The Federal Government currently invests over a half billion dollars per year in activities designed to make scientific and technical information easily available. In addition, provision of scientific and technical information is the function of a large private industry composed of publishing houses, abstracting services, translating services, and information services financed within companies. More than $1 billion per year is spent for the product of this industry.

Mr. EVINS. Haven't you been doing this all along since you started?

Dr. HORNIG. I have had one man on the staff, Mr. Knox, who left us to become vice president of McGraw-Hill. But there is some concern with planning on how we can proceed. We have had numerous outside groups look hard at this problem. All of them have said we must go forward. Until now we haven't actually attempted to perform the necessary development and coordinating functions. Mr. Knox's work has really been preparatory to this step. In order to bring together at least the activities of all of the agencies of the Government which are concerned with scientific and technical information, we shall require more than the efforts of just one man.

Mr. EVINS. How about nongovernmental agencies, scientific, engineering, and technical efforts outside of Government?

Dr. HORNIG. Mr. Knox—as much as one man can do it—has made an effort to keep in touch with the publishing industry, the professional societies engaged in the handling of scientific and technical information, and the various scientific organizations which do it, as well as with the agencies within the Government.

This is, as I emphasize in my testimony, very much a mixed public-private matter, but we at the moment spend a large volume of public funds on it.

Mr. EVINS. Do you feel that you are not coordinating the information sufficiently at the present time?

Dr. HORNIG. I think this has been the verdict of every one of the major groups in and out of the Government that has looked at the total scientific and technical information problem. The volume at which it is being generated is outstripping our ability to get it to the engineers, the industries, and scientists who might use it.

DETERMINING SIGNIFICANCE OF INFORMATION

Mr. EVINS. I notice, in the report on the tragedy of the three astronauts, the Apollo astronauts had 15 to 18 pounds of instructions to read. The first astronauts had a small tab which they could paste on the dashboard and read the instructions as to what to do. Their instructions are getting extremely complicated. They may be too much to digest. Perhaps we have become overwhelmed with too much information. We get all the Government and non-Government information and then you need a report to digest that.

Dr. HORNIG. You have put your finger on what I think is the central problem with information, to weed out the enormous volume so the user gets something he needs and isn't so overwhelmed with so much paper he doesn't read any of it.

This happens not only to Apollo teams, but it happens to me and I suspect it happens to others.

Mr. JONAS. You weren't very efficient in cutting that down if Mr. Evins' information is correct. Couldn't you get that 18 pounds reduced to 6?

Dr. HORNIG. I am afraid, sir, I have made no attempt to run Mr. Webb's business.

Mr. JONAS. That is what I am afraid of. It does not appear that you are getting across to the agencies you are supposed to coordinate.

Dr. HORNIG. Sir, we haven't started on this effort.

Mr. EVINS. You are seeking more personnel to coordinate more information.

Dr. HORNIG. I am speaking of the addition of three people. I want to make that clear. We are not asking to set up a bureaucracy. The major activities will have to be carried on in the agencies.

We have had this reviewed by a number of people. I think what is needed in the executive offices, and particularly the OST, is a small, capable group who understand the problem and who can pull the different aspects of the problem together in one place. They must essentially ask how we are going to spend Federal money so that, in the first place, it fits together and doesn't compete with the activities of the external sector, and so that we have efficient overall systems.

Mr. EVINS. Doctor, you proceed. As you point out, this is a big problem.

IMPROVING SCIENTIFIC AND TECHNICAL INFORMATION SYSTEMS

Dr. HORNIG. We currently spend in the Federal Government over $500 million a year in activities designed to make scientific and technical information available.

In addition, the provision of scientific and technical information is the function of a very large private industry composed of publishing houses, abstracting services, translating services, and information services financed within companies.

Every major industrial company that I know of now has its own internal information system which tries to organize its flow of information to perform just this function within itself.

More than a billion dollars a year is spent on the products of this industry.

In spite of its strengths, the combined public-private system for handling data has serious weaknesses. Its capacity to handle data is falling behind our capacity to produce data. And this is just the point you made. While the principle of decentralization is sound, it is accompanied by problems that are becoming more serious. There is a great deal of needless duplication—for example, multiple abstracing of the same scientific article. There are gaps, such as the failure to abstract findings in some fields. Costs are high and rising. The net consequence of those deficiencies is to create barriers to improved industrial efficiency, to innovation and to the effectiveness of research. The potential gains from increased investments in the solution of such problems are high. The Nation spends $22 billion per year on R. & D. That includes both public and private funds. Every increase of 1 percent in the efficiency of this process is worth $220 million per year.

There is no place in the Government outside the Executive Office of the President where these problems can be considered as a whole, where the total activities of Government can be assessed in relation to the activities of private industry, or where policy with respect to essential common specifications for information systems can be set. The Office of Science and Technology will engage only in the minimum core of work relating to policy, overall planning and ratification of standards. Everything else will be done in agencies outside the Executive Office. We plan on carrying out these central functions with four professional people, plus secretarial support. I have indicated that one of those four has already been on hand. We have had detailed from the agencies two more men who have worked on these problems. One is executive secretary of the Committee on Scientific and Technical Information, which is the interagency coordination committee. The other has worked on a highly classified matter dealing with the handling of intelligence information which I would rather not go into, but which you can appreciate also has all the same problems.

Mr. MINSHALL. You mentioned the handling of intelligence information. Do you mean the distribution of it, the analysis of it, or what do you mean?

Dr. HORNIG. I mean the total internal flow of information for intelligence purposes.

Mr. MINSHALL. Do you come up with suggestions as to the intelligence estimate, or what do you do?

Dr. HORNIG. No; this relates to the organization of the machinery for digesting, indexing, storing and distributing data. The individual intelligence agencies have their own abstracting systems. There is a lot of data to be handled before one gets to anything like a national estimate. At a much lower level, all sorts of assessed data including much technical information flows in this enormous system. There is the same problem of how do you get the necessary information to the guy who wants to do something about it, who wants to know—in the last resort, the President.

Mr. EVINS. Do you want to have a cataloging of the sciences and related science talents and capabilities? We thought they had that

in the National Academy of Sciences. This is an old institution in the field of science.

Dr. HORNIG. I don't want any national catalog. Let's see what one means by the handling of information. I would rather not go into detail on the intelligence side, but in general somebody writes an article describing either a new scientific discovery or a new way of doing things in a factory, and he finds somebody to publish the article. Now, this data is floating around. The question at this stage is to sort it. There are some good things and there is an awful lot of stuff that nobody wants to read anyway. Publication is done through many kinds of journals, through professional societies and so on. Then there is a very elaborate sorting mechanism which has several forms. There are so-called abstracting journals which go through all this stuff. For instance, one of them, Chemical Abstracts, alone abstracts about 2,400 different journals of this sort in chemistry. They produce little short abstracts. Then, from these, some people have to put together bibliographies of where you find what on what subject.

INTELLIGENCE INFORMATION

Mr. MINSHALL. What does your shop have to do with this? CIA is already doing this.

Dr. HORNIG. Could this be off the record?

Mr. EVINS. Off the record.

(Discussion off the record.)

Mr. EVINS. Doctor, would it be helpful to your office to have a computer to help digest and assemble the data in the field of science?

Dr. HORNIG. Some people have suggested that, Mr. Chairman.

Mr. EVINS. You would rather have the personnel than the computer?

Dr. HORNIG. We don't have enough staff within the Office to run a computer.

Mr. MINSHALL. For the record, I would like to state that in all of this off-the-record discussion there is nothing that has been classified.

Dr. HORNIG. I am willing to have it on the record. The reason we are involved in the intelligence information problem is that the President requested the Foreign Intelligence Advisory Board and myself jointly to provide him with recommendations. This assignment is based on recommendations made previously by other advisory boards, that we examine the question of how information could be handled more effectively. Not how it could be obtained more effectively, but how it could be handled more effectively so that it would be available more rapidly and completely.

Mr. MINSHALL. I thought this was what the Defense Intelligence Agency was to be doing, and what the CIA was to be doing, and all the others but primarily the Defense Intelligence Agency. They were to pull all these things together.

Mr. MARSH. May we——

Mr. EVINS. Let him finish the statement. Tell us about your final project which you are proposing.

Dr. HORNIG. I would be happy to come back to this point.

The final segment of our budget request arises from the President's message of January 30 entitled "Protecting Our Natural Heritage," in which he said:

> I am directing the President's Science Adviser and his Office of Science and Technology to sponsor a thorough study of energy resources and to engage the necessary staff to coordinate energy policy on a Government-wide basis.

This is a broad and complex assignment. The specific energy issues confronting the Federal agencies involve public land policy, trade policy, regulating activities, taxation, pollution, nonenergy uses, transportation, research and development, and social welfare. Moreover, policies affecting any one of the energy resources will inevitably produce important consequences for the others.

For example, consideration of how to meet the continued growth in demand for liquid and gaseous fuels touches several broad policy fields, including national security, foreign trade; that is, the import restrictions, R. & D., and regulatory practice.

The proposed study will be carried out under contract and will be designed to further our understanding (1) of the national energy resources supply and demand outlook—in a sense, this is a followup to the Paley report of 1952; (2) of the sensitive interrelationships among energy resources; and (3) of possible consequences of alternative Government policies to guide the decisions of the executive branch with respect to particular energy resource problems and to provide information to Congress.

The President has asked for additional staff for the Office of Science and Technology to carry out this assignment because past experience has shown the essential need for a small, central staff mechanism, linked to policy decisionmaking at the Presidential level, to analyze and coordinate the study of specific energy issues, and develop policy alternatives in cooperation with the responsible operating and regulatory agencies. Although the questions involved are only partly technological, the OST, through its leadership in the interagency energy study for the President, just published this last year, and its experience in analyzing policy issues having technological components, is considered by the President to be the most suitable organization for a broad assessment of our future energy needs and resources, and to assist the development of overall policies in this area.

This concludes my prepared statement, and I will be glad to answer any questions.

(The attachments follow:)

CONGRESSIONAL APPEARANCES OF DONALD F. HORNIG, DIRECTOR, OFFICE OF SCIENCE AND TECHNOLOGY

1966

January 7, 1966: Research and Technical Programs Subcommittee, House Committee on Government Operations (Congressman Reuss, Chairman). To discuss how R&D budget contributes to meeting our national goals.

February 2, 1966: House Independent Offices Appropriations Subcommittee, House Appropriations Committee (Congressman Albert Thomas, Chairman). OST FY '67 budget.

February 24, 1966: Research and Technical Programs Subcommittee, House Committee on Government Operations (Congressman Reuss, Chairman). U.S. support of R&D outside U.S.

April 20, 1966: House Subcommittee on Science, Research, and Development, House Committee on Science and Astronautics (Congressman Daddario, Chairman). Daddario Bill to amend NSF Act.

May 17, 1966: Senate Interior and Insular Affairs Committee (Senator Jackson, Chairman). S. 3107—bill to establish a National Water Comm.

May 24, 1966: Independent Offices Appropriations Subcommittee, Senate Appropriations Committee (Senator Magnuson, Chairman). OST FY '67 budget.

June 13, 1966: Senate Subcommittee on Independent Offices Appropriations, Senate Appropriations Committee (Senator Magnuson, Chairman). Support of NSF FY '67 budget.

June 28, 1966: House Committee on Science and Astronautics (Congressman Miller, Chairman). HR 15638—Standard Reference Data Act.

July 25, 1966: Senate Subcommittee on Government Research, Senate Government Operations Committee (Senator Harris, Chairman). Geographical Distribution of Government R&D.

1967

January 25, 1967: Committee on Science and Astronautics, House of Representatives, 8th Meeting with Panel and Science and Technology (Congressman Miller, Chairman). Science and Technology as a vehicle for promoting world comity—Seminar on Government, Science Public and International Policy.

LIST OF REPORTS MADE BY THE PRESIDENT'S SCIENCE ADVISORY COMMITTEE, THE OFFICE OF SCIENCE AND TECHNOLOGY, AND THE FEDERAL COUNCIL FOR SCIENCE AND TECHNOLOGY IN 1966

PRESIDENT'S SCIENCE ADVISORY COMMITTEE

Effective Use of the Sea (June 1966)
Handling of Toxicological Information (June 1966)

OFFICE OF SCIENCE AND TECHNOLOGY

Enregy R&D and National Progress (1965). Findings and Conclusions (September 1966)
Alleviation of Jet Aircraft Noise (March 1966)

FEDERAL COUNCIL FOR SCIENCE AND TECHNOLOGY

Ten Year Program for Federal Water Resources Research (February 1966)
Federal Water Resources Research Program for FY '67 (April 1966)
National Atmospheric Sciences Program (ICAS #10) (June 1966)
Management and the Marginal Employee (March 1966)
Environment for Quality (April 1966)
COSATI Inventory of Information Science and Technology (April 1966)
Standard for Descriptive Cataloging of Government Science and Technology Reports (October 1966)
Government Patent Policy (Annual Report) (June 1966)
National Oceanographic Program, FY '67 (1966)

OTHER REPORTS IN PROGRESS

The Space Program in the Post-Apollo Period (PSAC)
Computers in Higher Education (PSAC)
Privacy and Behavioral Research (OST)

LOANED PERSONNEL

Mr. EVINS. Dr. Hornig, that is a splendid statement. We thank you for it.

With reference to the latter portion of it, the third aspect, we have appropriated money here to the Federal Power Commission recently to make a report on all energy of this country, including atomic energy. They have made an assessment of the energy in the Nation. Of course, the Atomic Energy Commission is engaged in the same field,

as is the Bonneville Power Administration. Now, we concede the need for coordination of all this information; but can't you get a loan from each of these agencies? Can't the Atomic Energy Commission loan you a man or the Federal Power Commission, and give you an assessment of their reports?

In other words, couldn't you gain this information by requesting that the Atomic Energy Commission assign you one of their men for 6 months to work with you? I believe that they have sufficiently heavy staffs that you could call upon their resources for anything you want, and they would gladly and willingly give it to you.

Dr. HORNIG. We commonly do borrow people from agencies for special tasks. In general, the Congress has looked on it as a good idea. We haven't thought it was a good idea, however, to rely permanently on detailed people when there was to be a continuing task. We have generally had people detailed from the agencies when there was a short-term job to be done for which expertise was available within the Government. In this case we can't and don't intend to do any of the jobs of the agencies. The problem is complicated. At the present time, energy policy is considered, according to my count, by 26 committees of the Congress. There are 85 bureau-level organizations in the Government that have substantial concern with one aspect or another of the energy field. They each have particular responsibilities In the case of the bigger agencies, as you mentioned, they have broad responsibilities, but they are different, and separate, and they look at the problems from different points of view. What we are talking about is a very small staff to keep in continuing contact with all of them. I wouldn't say the question is so much to coordinate as to assemble for the President an overall view of what is happening.

ADVISORY FUNCTION

Mr. GIAIMO. Will the chairman yield at this point?

Mr. EVINS. Mr. Giaimo.

Mr. GIAIMO. In other words, Doctor, your function really is not to coordinate the activities of all these various agencies, but to be a staff adviser to the President?

Dr. HORNIG. Our job is to advise and assist the President.

Mr. GIAIMO. Therefore, to try and accumulate all of the data that comes to you from these various agencies and explain it in a stafflike way to the President, is that the real purpose?

Dr. HORNIG. Very good; that is correct. The purpose is to assemble the alternatives, both from within the agencies and from the outside, and the consequences of what one agency does for another agency's policies.

Mr. GIAIMO. As an adviser?

Dr. HORNIG. That is correct.

Mr. GIAIMO. And not as a coordinator of the various agencies, be they intelligence agencies or space agencies?

Mr. EVINS. The doctor has stressed the alternatives.

SIZE OF OFFICE

Mr. GIAIMO. Yes. One other question, if I may, and then I am through, Mr. Chairman. This bothers me: it seems to me that the reason for the need of an advisory group such as your own is because

of the multiplicity of agencies and the great numbers of people working on these projects from various aspects, or working on different phases of them.

Therefore, it seems to me that any executive has to have a toplevel advisory group which explains and capsulizes and puts it into intelligible and quick and immediate language for him. But are you not running the danger of now expanding so that you are going to get too large and are going to be in trouble, yourself, from having too many people working on the problem?

Dr. HORNIG. Not from having too many people working on the problem. Basically we are spread extremely thin. There is nothing resembling a bureaucracy in my office. Any one of my people has to work with a large number of agencies and cover a number of problems. They are not a narrow bunch of experts. The day could come. The RDB, which I did not think was terribly successful, was an organization of thousands of people. One could imagine an organization which had a little nucleus of people for every area concerned with science and technology in the Government, and I would be concerned as you are. This is why I stated the principle in the beginning that we do not do anything that we can find a place elsewhere in the Government to do.

Considering the size of the enterprise, and not just referring to my own office, the President, in my view, does not at the moment have adequate staff resources at the White House level as compared to what a large corporation would have, for example.

Mr. GIAIMO. I think your work is extremely important. But I also think you have to make sure that you do not get too large or you are going to be in the same difficulty that many of the other agencies are.

Dr. HORNIG. I am not a professional bureaucrat. I have a horror of the Office getting too large.

SPACE PROGRAM RECOMMENDATIONS

Mr. SHIPLEY. On page 2, I see you have a large area to cover, including the national space program and its future. You say you have been working with this a year. What recommendations have you made to the President officially or unofficially with respect to the future?

Dr. HORNIG. Unless something changes between now and tomorrow morning, the report I mentioned in my list of public reports in progress will be issued. It is called "The Space Program in the Post-Apollo Period."

Broadly speaking, it recommends that having succeeded in getting men to the moon it would not be wise for the Nation not to follow this up by providing support for manned landings in the form of logistic support vehicles. This is so that the exploration wouldn't be restricted to one point, and so that the timespan could be increased up to 2 weeks—there happen to be technical reasons for that limitation. These vehicles would provide mobility of a few miles.

Mr. SHIPLEY. Is this report in any way different from what NASA wants or what Dr. Seamans wants?

Dr. HORNIG. Mr. Webb, I think, is very happy with this report. This study was done by collecting an assortment of very good people from outside the Government. It is not a statement of administration policy. This is a set of recommendations for consideration by the President, by the Congress, and by the people, presenting the merits of what this group of people considers would be a reasonable follow-on Apollo program.

Mr. SHIPLEY. This was the point I was getting to, Doctor. I know we have hearings later today with regard to the National Aeronautics and Space Council. This is exactly what that agency is supposedly doing, advising the Vice President, and he in turn advises the President. So it seems to me that there would be a great deal of duplication between you and the Space Council. Yet you maintain that your purpose is to find the duplication and do away with it.

Dr. HORNIG. No. Let me say in the first place we work very closely with the Space Council. I do not think there is any duplication in activity. In the case of this report, this is really done by us rather than the Space Council, I suppose, because we have had long experience in many fields in assembling the best outside advice for the President, putting it together, and getting a report. The Space Council has worked much more with coordinating the details, the working programs. It hasn't attempted to work by this mechanism of assembling outside experts. I do not think it has developed the wide input that we have. But the Space Council staff has sat in on all of the meetings of this group.

This has been done working very closely with them.

Mr. EVINS. Mr. Marsh, are there any general questions?

Mr. MARSH. I have a series of questions I would like to have you answer for the record if you can. But first let us go off the record.

(Discussion off the record.)

Mr. EVINS. I wonder if my colleague isn't giving the Doctor more jobs than he has already. Dr. Hornig, Director of the Office of Science and Technology has a multitude of problems with which he is confronted.

Mr. MARSH. The point I am trying to make is that I believe we have the same problems. Ours relate to the problems of the individual citizen. I realize these are difficult questions and perhaps you may not be able to respond.

Mr. EVINS. If you could expand on some of those questions for the record it would be helpful.

Dr. HORNIG. May I suggest that many of them go far beyond my competence or the competence of my Office to respond to.

Mr. EVINS. Mr. Pryor, any questions?

BASIC FUNCTION OF OFFICE

Mr. PRYOR. Doctor, would you say that your agency works pursuant to assignments by the President or does your office take the initiative in a field that you believe the President should have advice and counsel?

Dr. HORNIG. Our basic charge is to advise and assist the President. This means both. A central job for any staff is to anticipate problems and develop the materials so that when it is time for the President to make decisions, the material is available to him.

I might cite as an example of that, this report, "Restoring the Quality of Our Environment." This was one of the important inputs to the pollution program. It by no means defines a program. I can not claim that. It is terribly dangerous in testimony like this to end up having claimed for 20 men that in a certain sense they have laid down the policies of Government. This would be silly. We can make intelligent inputs and do the best we can.

But at any rate this report did have a very considerable influence, by assembling data on what we knew about the pollution problem in the view of a very good group.

Mr. EVINS. You coordinate all the latest information available on a subject, such as a given scientific project, consolidate it in a report, present it to the President, and then you propose alternatives. Various agencies have different proposals. If there are alternative proposals, this is when the President comes into the decisionmaking process?

Dr. HORNIG. Of course; that is a very good statement.

Mr. EVINS. Mr. Jonas.

INCREASE IN PERSONNEL AND FUNDS

Mr. JONAS. Your office has been in existence since 1962, is that correct?

Mr. JONAS. You started off in 1963 with $764,150; 1964, $880,000; 1965, $976,500; 1966, $1,070,000, and 1967, $1,200,000. And now you are asking for $1,837,000. Right?

Dr. HORNIG. That is correct sir.

Mr. JONAS. You are asking for an increase of 18 people, three professional and other staff men?

Dr. HORNIG. No. Of the 18, there are seven professionals concerned with the two new tasks and three associated with the increase in our general capabilities.

IMPLEMENTATION OF RECOMMENDATIONS

Mr. JONAS. When I asked you if you could discuss some particular recommendation that had been implemented, you referred to a report you made last year which listed 100 recommendations. That is the same answer you gave to a similar question last year. Can you not give us some modern information, up-to-date facts? You were talking about those 104 recommendations last year. What happened to the 104? How many have been implemented?

Dr. HORNIG. I have here with me a paper which reports the results of a recent survey. This takes staff time. We have reviewed precisely that question with all of the agencies. I would say the majority of the recommendations have been acted on to varying degrees.

Mr. JONAS. Majority of the 100?

Dr. HORNIG. Yes. There are varying levels of details.

Mr. JONAS. Just pick out one. We cannot go into the entire 100. Tell us what happened to one.

Dr. HORNIG. All right.

Mr. JONAS. Just so the committee will have an idea. Pick out one that is not secret.

Dr. HORNIG. I will read you one little piece from this report to me on actions taken in response to our report, "Restoring the Quality of our Environment." I quote:

The Department of Health, Education, and Welfare agrees generally with the 13 principles recommended and has taken specific action on several of them.

1. The recent Executive Orders dealing with water and air pollution control at Federal installations implement the recommendation concerning that subject.

2. Relative to curtailing air pollution from automobiles, the 1965 Clean Air Act amendments provide for the imposition of exhaust standards in automobiles. Regulations have been issued to provide exhaust controls on the 1968 models. This does not, however, completely solve the problem.

3. The recommendation that departments or agencies should maintain administrative and budgetary separation between pollution research and enforcement was given careful consideration in planning the reorganization of PHS. All the research will be under the newly created Environmental Health Service Center within NIH, while the enforcement will rest in the Bureau of Disease and Injury Prevention and Control.

I think this is the kind of input and response we expect. It is not specific. The responses are in the form of general responses by the agencies. I can continue like this for 30 pages.

WORK ON WORLD FOOD PROBLEM

Mr. JONAS. I do not want you to go through the whole 100. What have you done in the field of world food?

Dr. HORNIG. In the field of world food we have brought together the best experts from the Department of Agriculture, from AID, the transportation field, economists, together with other outside experts, and initiated a series of 14 major studies on subparts of the problem. These range from the economic aspects to transportation, to the problem of producing fertilizers, to the problems of agricultural research. Much of this, as I said, is done by the Department of Agriculture. And this large study which will attempt to put together all the aspects of the world food problem will be presented to the President this spring.

Mr. JONAS. Is this not a function of the United Nations?

Dr. HORNIG. Of course this is a problem of the United Nations. I think it is a problem of all of the advanced nations who have a stake in what happens to the future of the world. But the United States has very serious commitments, largely through our foreign aid programs.

We are absolutely certain that the problem is going to get much worse before it gets better. We have to face the problem and we need an adequate background against which the President, the Congress, and the country can decide what our role is, either together with other nations or individually. There is no previous overall analysis to indicate the kinds of answers.

What we are trying to do is to put the whole picture together as well as possible for the President and for the country.

Mr. JONAS. I do not quite understand. You mean to compile information how to solve the world food problem?

Dr. HORNIG. No, sir.

Mr. JONAS. Identify the problem.

Dr. HORNIG. We are trying to identify for the President in the first place what the world food problem is, pulling this together from the

best sources. Second, we are trying to identify all of the things that are involved in agricultural development, no matter who is going to tackle it. There will be recommendations as to what needs to be done internationally, and what the alternative possibilities are for American action, either in concert with other nations or individually. At this point this will be an input for consideration. It will not have laid down the American actions.

Mr. JONAS. Who do you have working on that?

Dr. HORNIG. Dr. Ivan Bennett, who is the Deputy Director of the Office, is heading it, because we consider it important.

I can supply you the names of the Panel itself. It includes, I think, the best and most knowledgeable people in this country who have actually been involved with this problem of agricultural development.

And each of the subpanels includes the best people we can find from inside and outside the Government for each subtopic.

(The list referred to follows:)

THE PRESIDENT'S SCIENCE ADVISORY COMMITTEE

PANEL ON WORLD FOOD SUPPLY

Dr. Ivan L. Bennett, Jr. (Chairman), Deputy Director, Office of Science and Technology.
Dr. Nyle C. Brady, Director of Research, N.Y.S. College of Agriculture, Cornell University.
Dr. Melvin Calvin, Department of Chemistry, University of California.
Dr. Milton Stover Eisenhower, President, The Johns Hopkins University.
Dr. Samuel A. Goldblith, Department of Nutrition and Food Science, Massachusetts Institute of Technology.
Dr. Grace A. Goldsmith, Tulane University School of Medicine.
Dr. Lowell S. Hardin, The Ford Foundation.
Dr. J. George Harrar, President,[1] The Rockefeller Foundation
Dr. James G. Horsfall, Director, Connecticut Agricultural Experiment Station
Dr. Arthur Mosher, Department of Agricultural Economics, Institute of Agriculture, University of Minnesota
Dr. L. Dale Newsom, Department of Entomology, Agricultural Center, Louisiana State University
Dr. William Pritchard, Dean, School of Veterinary Medicine, University of California
Dr. Roger Revelle, Director, Center for Population Studies, Harvard University
Mr. Thomas M. Ware, Chairman,[2] International Minerals and Chemical Corporation
Dr. Stewart G. Younkin, Vice President, Campbell Soup Company
Executive Staff Director: Dr. H. F. Robinson, Administrative Dean for Research, North Carolina State University
Technical Assistant: Dr. Claire L. Schelske, Office of Science and Technology, Executive Office of the President

WORLD FOOD SUPPLY

SUB-PANEL 1—INTENSIFICATION OF PLANT PRODUCTION

Co-Chairmen:
Dr. H.F. Robinson, Administrative Dean for Research, North Carolina State University at Raleigh
Dr. L. Dale Newsom, Director, Department of Entomology, Agricultural Center, Louisiana State University

[1] Assisting Dr. Harrar: Dr. Sterling Wortman, Deputy Director, Agricultural Sciences, The Rockefeller Foundation.
[2] Assisting Dr. Ware: Dr. John Kincaid, Vice President, International Minerals and Chemical Corporation; Mr. Charles Dennison, Vice President, International Minerals and Chemical Corporation.

Other Panel Members:
- Dr. J. George Harrar, President (Alternate: Dr. Sterling Wortman), The Rockefeller Foundation
- Dr. William L. Brown, Pioneer Hi-Bred Corn Company
- Dr. Milo Cox, Rural Development Division, Office of Institutional Development, Bureau for Latin America, Agency for International Development
- Dr. Herbert W. Johnson, Head, Department of Agronomy and Plant Genetics, University of Minnesota
- Dr. B. A. Krantz, Department of Soils and Plant Nutrition, School of Agriculture, University of California
- Dr. Francis J. LeBeau, Agriculture Division, Office of Institutional Development, Bureau for Africa, Agency for International Development
- Dr. E. C. Stakman, The Rockefeller Foundation
- Dr. Martin Weiss, Agricultural Research Service, U.S. Department of Agriculture

SUB-PANEL 2—INTENSIFICATION OF ANIMAL PRODUCTION

Chairman: Dr. William R. Pritchard, Dean, School of Veterinary Medicine, University of California

Dr. Frederick N. Andrews, Vice President for Research and Dean of the Graduate School, Graduate School, Graduate House, Purdue University

Dr. Raymond F. Dasmann, Conservation Foundation

Dr. Norman L. Garlick, Animal Health Division, Federal Center Building, Agricultural Research Service, U.S. Department of Agriculture

Mr. Robert J. Kleberg, Jr., The King Ranch

Dr. Nels M. Konnerup, Department of Health Data, Walter Reed Army Medical Center

Dr. John A. Pino, The Rockefeller Foundation

Dr. Clair E. Terrill, Animal Husbandry Research Division, Agricultural Research Service, U.S. Department of Agriculture

SUB-PANEL 3—MANUFACTURED PHYSICAL AND BIOLOGICAL INPUTS

Chairman: Dr. John Kincaid, Vice President, International Minerals and Chemical Corporation

Other Panel Members:
- Dr. L. Dale Newsom, Director, Department of Entomology, Agricultural Center, Louisiana State University
- Dr. Lyle T. Alexander, Chief Soil Survey Laboratories, Soil Conservation Service, U.S. Department of Agriculture
- Mr. Ira T. Ellis, Economist, E. I. du Pont de Nemours and Company
- Dr. W. B. Ennis, Jr., Crops Protection Research Branch, Agricultural Research Service, U. S. Department of Agriculture
- Dr. Raymond H. Ewall, Vice President for Research, State University of New York at Buffalo
- Mr. G. Wallace Giles
- Mr. Richard F. Holland, DeKalb Agricultural Association, Inc.
- Dr. Lewis B. Nelson, Manager, Office of Agricultural and Chemical Development, Tennessee Valley Authority

SUB-PANEL 4—FINANCIAL METHODS, SOURCES, AND REQUIREMENTS

Co-Chairmen:
- Mr. Thomas M. Ware, Chairman, International Minerals and Chemical Corporation
- Mr. Charles Dennison, Vice President, International Minerals and Chemical Corporation

Other Panel Members:
- Dr. Milton S. Eisenhower, The Johns Hopkins University
- Mr. Forest F. Hill, The Ford Foundation
- The Honorable Winthrop Knowlton, Assistant Secretary for International Affairs, U. S. Department of the Treasury
- Mr. George S. Nowak, Bureau for Near East and South Asia, Office of Capital Development and Finance, Agency for International Development
- Mr. Jesse W. Tapp, Board of Directors, Bank of America
- Mr. Herbert J. Waters, Assistant Administrator for Material Resources, Agency for International Development

SUB-PANEL 5—MARKETING, PROCESSING, AND DISTRIBUTION OF FOOD PRODUCTS

Chairman: Dr. Stewart Younkin, Vice President, Campbell Soup Company
Other Panel Members:
Dr. Samuel A. Goldblith, Department of Nutrition and Food Science, Massachusetts Institute of Technology
Dr. Henry Arthur, Harvard Business School
Dr. Calvin Golumbic, Market Quality Research Division, Agricultural Research Service, U.S. Department of Agriculture
Dr. W. Richard Graham, Jr., Director of Research, Quaker Oats Company
Dr. Kenneth E. Ogren, Director, Marketing Economics Division, Economic Research Service, U.S. Department of Agriculture
Mr. Robert L. Olson, Western Utilization Research and Development Division, Agricultural Research Service, U.S. Department of Agriculture
Dr. F. R. Senti, Deputy Administrator, Agricultural Research Service, U.S. Department of Agriculture

SUB-PANEL 6—FARMERS INCENTIVE

Chairman: Dr. Arthur Mosher, Department of Agricultural Economics, Institute of Agriculture, University of Minnesota
Other Panel Members:
Dr. James G. Horsfall, Director, Connecticut Agricultural Experiment Station
Dr. Howard W. Beers, Center for Developmental Change, University of Kentucky
Dr. Peter Dorner, Land Tenure Center, University of Wisconsin
Dr. Lawrence I. Hewes, Jr., Staff Chief, Natural Resources Conservation and Development, Rural Community Development Service, U.S. Department of Agriculture
Dr. Floyd F. Higbee, Deputy Administrator, Farmers Home Administration, U.S. Department of Agriculture
Dr. J. Virgil Highfill, Assistant Administrator for Operating Type Credit, Farmers Home Administration, U.S. Department of Agriculture
Dr. Erven J. Long, Associate Assistant Administrator, Office of Technical Cooperation and Research, Agency for International Development
Dr. Harold A. Miles, Assistant to the Governor, Farm Credit Administration, U.S. Department of Agriculture
Dr. Vernon W. Ruttan, Head, Department of Agricultural Economics, University of Minnesota

SUB-PANEL 7—TRANSPORTATION

Chairman: Dr. Arthur Mosher, Department of Agricultural Economics, Institute of Agriculture, University of Minnesota
Dr. Bernard R. Bell, International Bank for Reconstruction and Development
Dr. William C. Crow, Director, Transportation and Facilities Research Division, Agricultural Research Service, U.S. Department of Agriculture
Dr. Wilfred Owen, Brookings Institution
Dr. Stanley K. Seaver, Department of Agriculture Economics, University of Connecticut
Mr. Foster Weldon, Matson Lines
Dr. John D. Wilkes, Science Director, Office of Technical Cooperation and Research, Agency for International Development

SUB-PANEL 8—WATER AND LAND

Chairman: Dr. Roger Revelle, Director, Center for Population Studies, Harvard University
Other Panel Members:
Dr. Nyle C. Brady, Director of Research, N.Y.S. College of Agriculture, Cornell University
Dr. Albert L. Brown, Assistant Director, Office of Institutional Development, Bureau for Latin America, Agency for International Development
Dr. Robert M. Hagan, Co-ordinator of International Agricultural Program, University of California
Mr. Arnold C. Orvedal, Soil Conservation Service, World Soil Geography, U.S. Department of Agriculture

Dr. Dean F. Peterson, Dean, College of Engineering, Utah State University
Dr. Morell B. Russell, Director of Agricultural Experiment Station, University of Illinois
Dr. J. van Schilfgaarde, Soil and Water Conservation Research Division, Agricultural Research Service, U.S. Department of Agriculture

SUB-PANEL 9—RESEARCH AND EDUCATION

Chairman: Dr. Nyle C. Brady, Director of Research, N.Y.S. College of Agriculture, Cornell University
Other Panel Members:
Dr. William R. Pritchard, School of Veterinary Medicine, University of California
Dr. H. F. Robinson, Administrative Dean for Research, North Carolina State University at Raleigh
Dr. Daniel G. Aldrich, Jr., Chancellor, University of California
Dr. A. J. Coutu, Professor of Economics, North Carolina State University at Raleigh
Dr. Harold C. Knoblauch, Associate Administrator, Cooperative State Research Service, U.S. Department of Agriculture
Dr. Joseph L. Matthews, Assistant Administrator, Federal Extension Service, U.S. Department of Agriculture
Dr. A. H. Moseman, Assistant Administrator, Office of Technical Cooperation and Research, Agency for International Development
Dr. Marion W. Parker, Associate Administrator, Agricultural Research Service, U.S. Department of Agriculture
Dr. Sterling Wortman, The Rockefeller Foundation
Dr. E. T. York, Provost, Institute of Food and Agricultural Sciences, University of Florida.

SUB-PANEL 10—PROJECTED TRENDS OF TRADE IN AGRICULTURAL PRODUCTS

Chairman: Dr. Lowell S. Hardin, The Ford Foundation
Other Panel Members:
Dr. Arthur Mosher, Department of Agricultural Economics, Institute of Agriculture, University of Minnesota
Dr. Kenneth L. Bachman, Director, Foreign Development and Trade Division, Economic Research Service, U.S. Department of Agriculture
Mr. William F. Doering, Foreign Agricultural Service, U.S. Department of Agriculture
Dr. Dale E. Hathaway, Department of Agricultural Economics, Michigan State University
Dr. Max Millikan, Department of Economics, Massachusetts Institute of Technology
Dr. Donald Paarlberg, Department of Agricultural Economics, Purdue University
Dr. Quentin M. West, Director, Foreign Regional Analysis Division, Economic Research Service, U.S. Department of Agriculture

SUB-PANEL 11—INCREASING HIGH QUALITY PROTEIN

Chairman: Dr. Samuel A. Goldblith, Department of Nutrition and Food Science, Massachusetts Institute of Technology
Other Panel Members:
Dr. Melvin Calvin, Department of Chemistry, University of California
Dr. Aaron M. Altschul, Southern Utilization Research and Development Division, Agricultural Research Service, U.S. Department of Agriculture
Dr. M. L. Anson
Dr. Richard Gordon, Monsanto Chemical Company
Dr. E. E. Howe, Merck & Company
Dr. A. T. McPherson
Dr. Richard I. Mateles, Department of Nutrition and Food Science, Massachusetts Institute of Technology
Mr. E. R. Pariser, Technological Laboratory, U.S. Bureau of Commercial Fisheries

Dr. Claire Schelske, Office of Science and Technology, Executive Office of the President
Dr. H. S. Swingle, Department of Zoology, Auburn University
Dr. Harold Wilke, Ralston Purina Company

SUB-PANEL 12—AGRICULTURE AS A PART OF NATIONAL ECONOMY

Chairmen:
Dr. Lowell S. Hardin, The Ford Foundation
Dr. Arthur Mosher, Department of Agricultural Economics, Institute of Agriculture, University of Minnesota
No sub-panel members.

SUB-PANEL 13—POPULATION AND NUTRITIONAL DEMANDS

Chairman: Dr. Grace A. Goldsmith, Tulane University, School of Medicine
Other Panel Members:
Dr. Roger Revelle, Director, Center for Population Studies, Harvard University
Dr. Calvin L. Beal, Economic Development Division, Economic Research Service, U.S. Department of Agriculture
Dr. Ruben W. Engel, Head, Department of Biochemistry and Nutrition, Virginia Polytechnic Institute
Dr. Willis A. Gortner, Director, Human Nutrition Research Division, Agricultural Research Service, U.S. Department of Agriculture
Dr. Ogden C. Johnson, National Institutes of Health, Office of International Research
Dr. Nathan Keyfitz
Miss Trienah Meyers, Office of Administrator, Economic Research Service, U.S. Department of Agriculture
Dr. Max Milner, Nutrition Branch, Health Service, Office of Technical Cooperation and Research, Agency for International Development
Dr. Robert E. Shank, M.D., Department of Preventive Medicine, Washington University School of Medicine
Dr. Irene Taeuber, Office of Population Research, Princeton University

SUB-PANEL 14—TROPICAL SOILS AND CLIMATES

Chairman: Dr. James G. Horsfall, Director, Connecticut Agricultural Experiment Station
Other Panel Members:
Dr. Nyle C. Brady, Director of Research, N.Y.S., College of Agriculture, Cornell University
Dr. M. G. Cline, Department of Agronomy, Cornell University
Dr. Matthew Drosdoff, Administrator, International Agricultural Development Service, U. S. Department of Agriculture
Dr. Paul C. Guilkey, Southeastern Forest Experiment Station, U. S. Forest Service, U. S. Department of Agriculture
Dr. Charles Kellogg, Deputy Administrator for Soil Survey, Soil Conservation Service, U. S. Department of Agriculture
Dr. Howard Odum, Department of Zoology, University of North Carolina
Dr. Johannes van Overbeek, Shell Development Company

Mr. EVINS. Doctor, do you gain any data or information from the Brookings Institution?

One of our colleagues referred to the great wealth of information they have.

Dr. HORNIG. Yes, sir. In fact, for instance, we will not have the competence to carry out in-house the large scale energy study that was referred to in the President's message. We would consider the Brookings Institution as one of the organizations through which we might carry it out.

Mr. EVINS. Mr. Minshall?

IMPLEMENTATION OF RECOMMENDATIONS

Mr. MINSHALL. Doctor, last year, along the line of the question that Mr. Jonas asked you, I asked you concerning the recommendations that you made in the book, "Restoring the Quality of Our Environment." And on pages 16 to 38 of that book, you made 104 recommendations and I asked also at that time, "How soon do you expect these implementations to be made on these recommendations?" And you answered, "I expect quite a few implementations to be made this year."

How many have been made in the past year?

Dr. HORNIG. I have not counted the number. I would say some action was probably taken with respect to two-thirds of them.

Mr. EVINS. Some action? What do you mean?

Dr. HORNIG. Mind you, when someone makes a set of recommendations, there are several situations. Some of the recommendations are first class. As I read to you, in the case of HEW, the agency agrees there are good ideas.

Mr. EVINS. Off the record, Doctor.

(Discussion off the record.)

Dr. HORNIG. With regard to some of the recommendations, the agency has simply said it does not think they are good. In such a case, we continue to explore the question further with them, but when a group advises us, I do not think they are necessarily right about all 104 recommendations. These are inputs which the agencies consider, and the agency people are responsible, competent people, too.

Mr. EVINS. But have any of them been implemented fully so that no further action would be required?

Dr. HORNIG. I think I read into the record one example in connection with the separation of standard setting and enforcement.

Mr. EVINS. How many others are there, without going into any of the detail?

Dr. HORNIG. That have been fully implemented?

Mr. EVINS. Yes.

Dr. HORNIG. A very large number.

As I say, I have the report here on the response of the Federal departments and agencies which is on just that point, but I have not counted them as kind of a numbers game. I can go through this, though, and answer your question.

Mr. EVINS. The President appreciates Dr. Hornig and finds him very useful.

Dr. HORNIG. May I answer that question a little more fully though?

Recommendations are of several forms and for several purposes. The bill which is just being submitted for the consideration of the Congress with respect to air pollution has built into it many ideas. It did not come in neatly from this report, but in many cases it was stimulated by this report. This is what we really expect above all at the Presidential level. Not just the minor responses but the recommendations which are substantial enough so that they can find their way into legislation.

ASSEMBLING OF INFORMATION FOR THE PRESIDENT

Mr. EVINS. I do not wish to pursue this, Doctor, but what information can you give to the President that he could not get from one of his Cabinet members by meeting with them as a group or individually, or for example, in the matters of intelligence, from the National Security Council?

Dr. HORNIG. The question you are asking, of course, is what is the role of a staff in any organization? I think if the President sat long enough, when information is contained in 15 places, and he met with each of the 15, he presumably could get all of the information. He is also a busy man. So that the problem is, when information is contained in many places in the Government and not all of it is even contained in the Government, how does one assemble a digestible, relevant, to-the-point package that the President could consider?

Mr. EVINS. I thought that was the whole intent of the National Security Council and the Defense Intelligence Agency, to collate all of this?

Dr. HORNIG. I must make it clear that when I talk about intelligence information, it is not the content of the information, which is their job, but the organization of information handling, which is something that we have developed some expertise in.

In this study I mentioned, all of the intelligence agencies participated. What we did is bring them together. There are many problems of this sort.

For instance, if one agency puts its information on tapes according to one code, shall we say it is biographical information on people of any sort, and another agency puts that on tapes in another code, it would turn out that the two agencies would not generally have access to each other's files. By bringing them together and looking over the total system, one can arrange it so that each agency uses common coding, so that the information is available from one agency to another.

Now these are things that someone has to bring the agencies together to do. As I said, it is not superseding their work. Someone else besides me might do it. I am not unique in this respect. But someone has to bring them together at a common point to make common plans.

PERMANENT POSITIONS

Mr. WYMAN. Doctor, since 1962, would you supply for the record, if you do not know offhand, what your permanent position count has been for each of the fiscal years since that time. I note at the present time you are asking for an increase to 56 positions from 38, which is more than a 50-percent increase. Will you do that, sir?

Dr. HORNIG. Certainly, I will be very happy to.

(The information requested is inserted below.)

Permanent positions

Fiscal year:		Fiscal year—continued	
1963	29	1966	38
1964	34	1967	38
1965	34	1968 (estimated)	56

Mr. WYMAN. I think we understand that you are esentially a supervisory catalyzer who gives the President the word, not in the sense of usurping any of the functions of the existing departments or agencies, but more in the sense of performing the staff function of trusted advice to the man who must make the decisions. But you asked for a congressional liaison representative as one of these additional positions. In your testimony you laid considerable stress on the fact that this is needed. All of these agencies have congressional liaison representatives. Since we face the problem of trying to hold the line on expenses, this seems to be a rather extreme case of proliferation.

Why do you need, where you are a staff position, a congressional staff position to be liaison for you?

Dr. HORNIG. Well, for one thing, I am instructed by the Reorgaization Plan which created the office to maintain communications with the Congress. I suppose that is the simplest answer. But to elaborate just a little bit, the Members of the Congress come to me in my office all the time about problems for which they do not know which agency is responsible.

Mr. EVINS. We do not want you to neglect the Congress.

We know you advise the President, but do not neglect the Congress. We want you to come and see us and advise us.

Dr. HORNIG. Take the case when the Congress gets interested in the geographical distribution, for example, of the research and development activities of the U.S. Government. A Congressman can assemble the data, and this was done by the Daddario subcommittee, by calling in all the agencies and asking this question, separately, which left some very considerable gaps. But the question is: Who will tell the Congress what the Government is doing as a whole, for example? This is an immediate question which was asked me many times last year. And there are many subcategories.

How is the total R. & D. spending of the Government distributed among universities in this country, and among industries in this country? How does it go by different levels of education, by different kinds of industry?

There are many questions. When people ask questions about pollution activities, for example, they want to know how this is spread among agencies, and quite properly. It touches every agency of the Government, but when someone wants to know what is happening overall, on many questions we are at least the most appropriate place to contact initially.

Mr. WYMAN. Do you have that information, generally speaking, on a current basis?

Dr. HORNIG. We do not have information about everything. When questions become urgent, we do assemble it. In the case of the geo-

graphic distribution of research and development funds, for example, we undertook to assemble overall information, and particularly to insure that the agencies had the information, themselves, to give to everyone.

Mr. JONAS. Will the gentleman yield?

Mr. WYMAN. Yes.

Mr. JONAS. That leads me to ask this: I had understood that our research and development effort was in the range of $12 to $13 billion. You used the figure $22 billion. Now if I wanted to elaborate on that or expand on it, get the exact facts, I could find that out by asking you where that $22 billion is spent?

Dr. HORNIG. Yes, indeed, not down to the last penny, but the first breakdown is that $16 billion of that is in the Federal budget, $6 billion is spent by private industry.

Mr. JONAS. I mean you would have that information in your office?

Dr. HORNIG. Yes. I can break it down and tell you. I could almost tell you off the top of my head how the Federal expenditures are broken down by agency and by major activity.

INCREASED STAFF REQUESTED

Mr. WYMAN. In your prepared statement and in your direct testimony from it, you at page 10 referred to a portion of the President's message which says:

I am directing you—

The President's science adviser—

and your office to sponsor a thorough study of energy resources and to engage the necessary staff to coordinate energy policy on a Government-wide basis.

Are you now before this subcommittee with the request that this 38 to 56 increase is in conformity with this Presidential request?

Dr. HORNIG. No, I am before you to say that I have requested three staff members plus two supporting staff at secretarial levels to implement that directive this year.

Mr. WYMAN. Does the President want this increase from 38 to 56 himself?

Dr. HORNIG. It is in his budget. Therefore, I suppose in that sense, yes.

Mr. WYMAN. Will there be at any point some kind of a statement or a message, or otherwise as a matter of record, from the White House itself, indicating that this close staff adviser position and function which is yours, is wanted and needed to keep the President posted, or are we just to leave this as a matter of the Bureau of the Budget proposition?

Dr. HORNIG. Everything in the budget this year went through the most careful and intensive screening, including my requests. In this case, as I said, two-thirds of the requested increase is in the form of new assignments to me, which I think reflects the President's general confidence that the mode of action has been useful and important to him.

Mr. WYMAN. Could you not accomplish this, as has been previously suggested, in large measure by borrowing personnel from existing agencies?

Dr. HORNIG. On specific topics, yes. I have at any given time usually six to eight people who are borrowed temporarily. I think it would be a disorderly way to conduct Government to do this for continuing activities.

For instance, Mr. Beckler here has been with this Office not only since its inception by the reorganization plan, but is predecessor organization, which was in the White House for a long time. His knowledge of how this Government operates and where science and technology come into the problems of the various agencies is invaluable to us, and could not be served by people who come over for 1 year except where there is a rather special problem. So that the detailing mechanism is useful but limited.

Mr. TALCOTT. I am a little bit surprised. I always thought the problem of the President was that he had so much information that he could not use it, that he probably had more information available to him than any other person in the history of mankind, but that his problem was mainly of interpreting it.

Do you function in the interpreting field?

Dr. HORNIG. If you like, I function in the role of distilling it and sorting out what is essential and trying to sort out what are the real alternatives available, and what things make sense, utilizing the judgment of the best people we can find to advise us. In general the function is to distill and back up the information so that he does not have to cope with a flood of random information.

INFORMATION AVAILABLE TO THE PUBLIC

Mr. TALCOTT. You are gathering and distilling all of this information for the President. I would like to ascertain the reverse opportunities. How much of this information is made available to the general public?

It seems to me you have a wealth of information that would be useful to universities, private foundations, private business, local governments, other nations of the world, and I am wondering how tightly or exclusively the President holds on to this information or if he shares it with others who could probably use it better than he.

Dr. HORNIG. I have appended to my testimony a list of the public reports.

I should make it clear that we work at a variety of levels. There are day-to-day problems, the quick fixes; there is the general participation in the generation of new legislative proposals and messages; and then there are, finally, the formal studies which are only a part of the total. When the studies involve matters that are not classified or do not involve security information, we in general publish them for just the purpose you mention. I have given a list of those.

Mr. TALCOTT. In response to Mr. Jonas' question about the world food studies, you said you utilized the Agriculture Department and the people in AID. I do not know what they know about modern agriculture, but you use them. Did you also use private industry, farmers, and processors?

Dr. HORNIG. Yes, indeed.

Mr. TALCOTT. Do you make the information you gathered and distilled available back to the farmers and processors?

Dr. HORNIG. We confidently anticipate this report will be published. I think it will be the best thing in this area that is available to any of them, either the business people or farmers.

Mr. EVINS. We want the widest possible distribution of information. You might make available some of your reports to members of the committee.

Dr. HORNIG. We have some along with us.

Mr. TALCOTT. I would like the one on food.

Dr. HORNIG. That is in preparation. We will see you get one.

Mr. EVINS. Doctor, in your role of assessing all of the scientific and technical operations and programs, you have taken an overall look at it. Do you ever get the impression that in some areas perhaps we are not doing enough and in other areas we are doing too much? Are there some areas in which we are doing more than what needs to be done?

Do you get the impression in some areas we are going too far and too fast? I know in certain areas we want increased effort, this is always a recommendation, but are there other areas in which we are doing too much?

Dr. HORNIG. I am not aware, sir, of any general area in which I think we are doing too much. Naturally in the Government you find lots of little things not quite the way you would do it yourself.

Mr. EVINS. Do you not go into the picture of assisting not only the President, but also the Bureau of the Budget, on how much money shall be expended for research and development in scientific efforts? The Budget Bureau needs your advice and opinion as to whether the program x agency has recommended is vital to our national interests or is otherwise a high-priority item.

Do you make the assessment of which program should go forward?

Dr. HORNIG. We work very closely with the Budget Bureau. We are not in any sense an arm of the Budget Bureau, but they do not in themselves have a scientific and technical staff, and more than $15 billion worth of the budget request to them involves science and technology. We provide lots of advice to the Bureau of the Budget.

SPACE RESEARCH

Mr. EVINS. We have been looking at the research budget for science, particularly NASA and the National Science Foundation who come before this subcommittee. Both of their expenditures for basic research are greatly increased.

NASA's expenditures go from $568 million in 1966 to $875 million in 1968, more than a $300 million jump for the conduct of basic research. The National Science Foundation's expenditures in 1966 were $176.3 million, and for 1968 it is estimating expenditures of $226.4 million. This indicates a substantial increase in both of these agencies' scientific efforts.

We are going to have to pass on this and we would appreciate your advice.

Dr. HORNIG. I am sure the agencies can explain it better than I, but we have looked in considerable depth at the NASA program. I think there are two completely separate matters.

In the case of NASA, one has to note that scientific research is largely the cost of the rockets that carry——

Mr. EVINS. The President's budget identifies this as basic research.

Dr. HORNIG. Basic research in NASA—if the item is flying a spacecraft to study Mars—for instance, the 1969 Mariner mission—most of the cost of doing that is the cost of buying the rocket, launching it, and operating the space facilities. And since the object for which it is all spent is a basic research item; namely, photographing the surface of the planet and measuring, this cost is all charged to basic research. So the NASA program has that unusual property.

In most areas you spend the basic research money at the beginning and produce the development at the end. In the NASA case, when you go to Mars you do the basic research at the end after you have developed all the hardware. So the increase in basic research represents carrying forward largely two things: first, the unmanned expolration of the planet Mars in 1971 and 1973 for which starts have to be made, and second, the programs aimed at utilizing the hardware that has been developed for the Apollo mission on which we have spent quite a few billion. There is in the budget 300 and something million dollars for the purpose of developing uses for the Apollo hardware. This is counted in basic research in the NASA budget.

Mr. Webb, as I said, can tell you more.

Mr. EVINS. Give us your views on NSF.

Dr. HORNIG. In the case of the National Science Foundation you will recognize as a background that basic scientific research, for instance in universities, is funded by a large number of agencies in the U.S. Government. In fact only about 13 percent of it is funded by the National Science Foundation, which is the agency which by law is entrusted with the general health of basic science and science education in this country. For some years we have felt that it was important that a larger proportion of the total basic research expenditures be handled by NSF. This increase in the budget was weighed against holding the line for many other agencies that also spend moneys in universities—for instance, the Department of Defense, which supports twice as much work in universities as NSF does.

Mr. EVINS. On the problem of funding basic research for these agencies, you were called in and were asked for and gave advice and your counsel?

Dr. HORNIG. Yes, sir; we have worked very hard on looking at the total picture, not just agency by agency.

Mr. EVINS. Mr. Wyman.

NEW POSITIONS

Mr. WYMAN. Just one thing. In looking at these tables, Mr. Chairman, I do not see any breakdown, although you can find the number of positions at a given level, the GS–18, GS–17, GS–16, and so forth that are requested, I do not see any breakdown in the discretionary positions or what assignments are requested for these people.

The organizational sheet shows a general description of professional positions, but I wonder if we might have, for the record, some indication of the number of these 18 additional positions in the professional position category, and what they are being requested for. I know the general objective.

For example, there is an increase here of two GS–18's; $310,000 will be the total figure for salaries there. What are they going to do within the Office?

Dr. HORNIG. One is to head the science information activity and one to head the energy staff, the two new major activities assigned by the President.

Mr. WYMAN. Where would be the level for the congressional liaison officer? What is his proposed pay?

Dr. HORNIG. GS–15 is what we had planned.

Mr. WYMAN. There are four new ones there?

Dr. HORNIG. That is right.

Mr. WYMAN. What are the other three going to do?

Dr. HORNIG. Two will work on information matters and one on energy matters. In total, we have plans in here for three new men on the economic energy studies and analysis activities, three for the science information activity, and two who are professional additions to the general capability of the staff. One additional position is for congressional liaison.

Mr. WYMAN. Thank you.

JUSTIFICATION MATERIAL

Mr. EVINS. Mr. Reporter, we will place in the record the language of the justification and the detail of personnel compensation.

(The material follows:)

Detail of personnel compensation

	1966 number	Actual total salary	1967 number	Estimated total salary	1968 number	Estimated total salary
Grades and ranges: Special positions at rates equal to or in excess of $25,890:						
Director	1	$30,000	1	$30,000	1	$30,000
Deputy Director	1	27,000	1	27,000	1	27,000
GS–18, $25,890, technical staff member	10	253,820	10	258,900	12	310,680
GS–17, $22,760 to $25,800, technical staff member	2	46,765	2	47,800	2	49,320
GS–16, $20,075 to $25,435, technical staff member	2	41,950	2	44,170	4	84,320
GS–15, $17,550 to $23,013, technical staff member	0		0		4	70,200
GS–14, $15,106 to $19,813, technical staff member	1	14,680	1	15,629	1	16,152
GS–13, $12,873 to $16,905, administrative officer	0		0		1	12,873
GS–12, $10,927 to $14,338, secretary	1	11,355	1	12,064	1	12,064
GS–10, $8,421 to $11,013	1	8,744	1	9,285	1	9,285
GS–9, $7,696 to $10,045	2	18,006	2	18,524	2	18,785
GS–8, $7,068 to $9,183	7	56,063	10	82,199	13	104,809
GS–7, $6,451 to $8,368	4	27,974	2	14,393	7	45,157
GS–6, $5,867 to $7,649	1	7,430	2	12,526	5	31,117
GS–5, $5,331 to $6,915	3	17,082	2	11,718	1	5,331
GS–4, $4,776 to $6,216	2	9,906	1	4,936	0	
Total permanent	38	570,775	38	589,140	56	827,093

Detail of personnel compensation

	1966 number	Actual total salary	1967 number	Estimated total salary	1968 number	Estimated total salary
Total permanent	38.0	$570,775	38.0	$589,140	56	$827,093
Pay above the stated annual rate	------	----------	------	----------	------	----------
Net decrease due to lower pay scale for part of year	------	3,702	------	----------	------	----------
Lapses	3.2	57,847	2.1	48,510	2	40,159
Net permanent (average number, net salary)	35.0	509,226	36.0	540,630	54	786,934
Positions other than permanent:						
Temporary employment	------	604	------	15,282	------	4,704
Intermittent employment	------	131,295	------	153,718	------	245,296
Special personal service payments: Payments to other agencies for reimbursable details	------	----------	------	49,112	------	60,225
Other personnel compensation: Overtime and holiday pay	------	14,293	------	15,000	------	18,000
Total personnel compensation	------	655,418	------	773,742	------	1,115,159

JUSTIFICATION OF ESTIMATES—OTHER OBJECTS, FISCAL YEAR 1968

12.0 Personnel benefits

Staff benefits include reimbursement to the employees retirement fund, health, and life insurance. This figure is approximately 8.5% of the amount required for permanent personnel compensation.

21.0 Travel

Approximately $50,000 will be required for staff travel, both to provide attendance of the Director or his staff at important scientific conferences, and to enable members of the staff to convene panel meetings in locations other than Washington, when this is necessary. The remainder of the total requested will be used to cover the travel costs of the more than 200 panel members and consultants. This will include the travel costs for panelists who serve without compensation, but who usually request reimbursement for travel expenses incurred.

22.0 Transportation of things

To provide for transportation of household effects of new employees who are in the CSC shortage categories.

23.0 Rent, communications, and utilities

To provide the necessary telephone, telegraph, and teletype services as well as postage expenses anticipated in the budget year.

24.0 Printing and reproduction

To reimburse the GPO, other government agencies, and private contractors for the printing and reproduction of numerous reports, publications, and allied materials prepared by this Office, or prepared under the auspices of the President's Science Advisory Committee and the Federal Council for Science and Technology.

25.1 Other services

To provide for studies and reports prepared by non-government organizations on behalf of this Office, and to provide for the necessary contractual services required such as repair of typewriters, adding machines, and other office equipment; rental of Xerox and MTST system; furniture rehabilitation; reporting services; photographic and art services.

25.2 Services of other agencies

This item provides for necessary security clearances for staff, panel members, and consultants. An estimated 80 clearances will be required during the fiscal year, at a unit cost of approximately $1,060, totaling $84,800. Also included is reimbursement of the PHS for employee participation in the services of a health unit, reimbursement of the White House for mail room services, and reimbursement of the General Services Administration for messenger and related services.

26 and 31 Supplies, materials, and equipment

This amount will enable the Office to provide the items required for normal operations throughout the year, and to institute a program of gradual replacement of equipment which is no longer usable. It will also provide for the purchase of necessary periodicals and books.

PRIVATE CONSULTANTS

Mr. EVINS. Doctor, are you going to have a substantial increase in travel? You want to bring in private consultants. You need to bring in 200 or 300 people during the year to get their views and consult with them. Your travel is up and the jobs jump from 38 to 56.

Dr. HORNIG. The point I would like to introduce into the record, because I think it is important in understanding the Office, is the degree of service we get from very busy and very good private consultants, because I think this is one of the great records which is not met anywhere else in the Government. The members of the President's Science Advisory Committee include presidents of universities and so on. People who have very little time to spare on the average devote 35 to 40 days a year to this activity. They work on these problems.

The members of a typical panel, aside from the staff work in the background, put in let's say 16 or 18 days of hard work for us and the President. There is a tradition here that these consultants do not come in to pass on wise advice or opinions.

The thing I am proudest of in the Office is the extent to which busy people throughout the country have been willing to devote substantial amounts of time, and the reason they do it is very simple: they think that after they work it has some effect on what happens.

Mr. JONAS. What do you pay them per day?

Dr. HORNIG. We have paid consultants $75 per day. In the case of those from private industry, in general they do not accept a fee.

Mr. MINSHALL. Would you give us an example of how you employ private consultants, who are they, and what do they do?

Mr. EVINS. Off the record.

(Off the record.)

Mr. EVINS. I think with respect to the advice and counsel of the experts in the field, it would be well for the doctor to seek a wide range of information.

Mr. MINSHALL. I still did not hear an answer to my question, Mr. Chairman.

Dr. HORNIG. We employ them by and large to come in and work on specific problems for which they have competence.

Mr. MINSHALL. Give us one example of whom you employed and what he did. Put it in the record later.

Mr. EVINS. Read in the record a few of the men you have called in.

Mr. HORNIG. I can read you immediately the President's Science Advisory Committee list.

Mr. MINSHALL. I mean the people called in from industry that you are paying the $75 a day to.

Dr. HORNIG. As I said, in general, the industry people do not accept a fee.

Mr. EVINS. Read the names.

Dr. HORNIG. On the Advisory Committee, William R. Hewlett, the president of Hewlett-Packard Co., is a member. Dr. John R. Pierce from the Bell Telephone Laboratories is a member. I think that is the industrial representation on the Science Advisory Committee.

If we look to jet aircraft noise, a typical problem, on the panel was as follows:

JET AIRCRAFT NOISE PANEL MEMBERS

Hornig, Dr. Donald F., Director, Office of Science and Technology
MacLeod, Dr. Colin, Deputy Director, Office of Science and Technology
Golovin, Dr. Nicholas E., Office of Science and Technology
Bakke, Dr. Oscar, Director, Eastern Region, Federal Aviation Agency
Dygert, Dr. P. K., University of California, Berkeley
Fox, Mr. Francis T., General Manager, Los Angeles Department of Airports
Frankum, Mr. J. E., Vice President, Transportation, Trans World Airlines, Inc.
Galloway, Dr. W. J., Bolt, Beraneck & Newman, Inc.
Garwin, Dr. Richard L., International Business Machines
Gebhardt, Mr. George T., Chief, Electro-Dynamics Staff, The Boeing Co., Airplane Division
Goldstein, Mr. Sidney, General Counsel, Port of New York Authority
Hubbard, Mr. Harvey H., Langley Research Center, NASA
Kolk, Mr. Frank W., American Airlines, Assistant Vice President, Engineering and Development
Kryter, Dr. Karl D., Stanford Research Institute
McPike, Mr. A. L., Douglas Aircraft Co., Inc.
Odell, Mr. Albert H., Aeronautical Planning Section, Port of New York Authority
Randall, Mr. Robert L., Deputy General Counsel, Federal Aviation Agency
Ruby, Capt. Charles H., President, Air Line Pilots Association
Rummel, Mr. Robert W., Vice President, Planning and Research, Trans World Airlines, Inc.
Strunck, Mr. James E., Assistant Corporation Counsel, City of Chicago
Suciu, Dr. Spiridon, General Electric Co., Large Jet Division
Tyler, Mr. John M., Project Engineer, Pratt & Whitney Aircraft Co.
Von Gierke, Dr. H., Chief, Biodynamics and Bionics Division, Aerospace Medical Research Laboratories, USAF
Woodall, Mr. James F., Aircraft Development Service, Federal Aviation Agency

CONSULTANTS TO THE PANEL

Aiken, Mr. William S., Jr., Office of Advanced Research and Technology, National Aeronautics and Space Administration
Tondel, Mr. Lyman M., Jr., Cleary, Gottleib, Steen & Hamilton
Zimmerman, Mr. Paul M., National Aircraft Noise Abatement Council

NOISE SUPPRESSION

Mr. EVINS. How much have you spent on this noise-suppression project of yours?

Dr. HORNIG. We have not spent anything to speak of. Our role was to call together a meeting of all of the relevant agencies, FAA, HUD, Commerce, and NASA and the most knowledgeable people in the country to discuss the nature and dimensions of the problem.

Thereafter, working together with the agencies, they devised a set of 10 tasks which were parceled out to the agencies, the biggest part of them naturally to the FAA, but such problems as compatible land usage to HUD. We parceled out the tasks to the agencies and the agencies take up from there. So our role has primarily been to call them together from time to time, since the actions are independent, to compare notes on how they were doing and the extent to which we are making progress on the overall problem which is to make life a little better around airports.

Mr. EVINS. You are asking $50,000 for about 200 panel members and consultants to be called in in the next year. Do you think you will use that many?

Dr. HORNIG. That has been the average number. Some years it has gone up to 300.

Mr. EVINS. You referred not only to the Government Printing Office, but private contractors for printing. Who are they?

Mr. BARLOW. I am unable to think of one. Maybe ocasionally we have them do something the GPO cannot handle.

SECURITY CLEARANCES

Mr. EVINS. You estimated you need $84,800 for security clearances for your staff. You state that 80 clearances will be required, at a cost of $1,060 to check out each man.

Dr. HORNIG. That price is set by the FBI. There are two aspects to that. Since many of our problems, of course, are very highly classified, all of these people naturally have to be cleared at the highest level. In fact, anyone that works closely with the White House now has to have a clearance.

PERCENTAGE INCREASE IN BUDGET REQUEST

Mr. EVINS. Perhaps our committee has belabored you a little long this morning on a relatively small budget. We appreciate your coming and like to hear you. You have a good deal of knowledge and we value your views. But after all, it has been pointed out that you are requesting a 50-percent increase from last year. Considering the tone of this Congress, do you not feel as adviser to the President and as our leadoff witness that you might economize a little bit and help the President? Not that your request is large, but this certainly would set a favorable example.

Do you want to comment on that and make a little voluntary reduction? Most of these budegt are up 5 or 10 percent, maybe some as much as 15 percent, but yours is a 50-percent increase.

Dr. HORNIG. I think this is probably the largest single percentage increase the President has requested in the budget this year. I am sure of that.

I think I would make two points. One, as for the general responsibilities we have previously assumed, there is what I consider a quite reasonable and modest increase. So the real question is the major part of the increase that lies in the two new jobs. I think I would consider this an investment with a very large leverage on some other expenditures.

I think I could honestly say that we probably save this Government many times the investment in the salaries of my staff in the conduct of the programs. In this particular case, the increase we are requesting is for two new activities, both of which I think can result in large savings, both in the rest of the Federal budget and the public economy.

Mr. EVINS. You are a great American and a valuable man, but percentagewise here the President jumps up this budget 50 percent.

Dr. HORNIG. These are jobs to be done which I think will result in more efficient conduct of the Government. Therefore, one should ask, I think, whether this increase is going to save money elsewhere, either in the Government or in the economy or whether it is not. I think if one took a cost-benefit approach to this, this would prove to be about as high yield money as exists in this country.

Mr. EVINS. That is a very good statement.

Mr. JONAS. I have two questions.

Mr. EVINS. Mr. Jonas.

NUMBER OF POSITIONS FILLED

Mr. JONAS. How many people do you have on board as of January 1, 1967?

Mr. BARLOW. It is on the order of 35 or 36. I will supply that for the record.

Mr. JONAS. How many unfilled jobs? Maybe that is easier.

Mr. BARLOW. On the order of two or three.

(The information requested is inserted below.)

Permanent positions filled as of Jan. 1, 1967	[1] 38
Vacancies	0

[1] Includes 3 members of the staff of the National Adisvory Commission on Health Manpower, for which OST is providing administrative support on a reimbursable basis. The Commission will expire Sept. 30, 1967.

Mr. JONAS. What do you expect to have unobligated as of June 30, 1967?

Dr. HORNIG. We expect zero.

Mr. JONAS. That is all.

Mr. EVINS. Thank you, Dr. Hornig, and your fine staff. Thank you, gentlemen, we wish you good luck.

WEDNESDAY, FEBRUARY 8, 1967.

NATIONAL AERONAUTICS AND SPACE COUNCIL

WITNESSES

DR. EDWARD C. WELSH, EXECUTIVE SECRETARY
RUSSELL W. HALE, ASSISTANT TO EXECUTIVE SECRETARY

SALARIES AND EXPENSES

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Program by activities:			
	Policy coordination (program costs, funded)[1]	494	525	524
	Change in selected resources [2]	4		
10	Total obligations	498	525	524
	Financing:			
25	Unobligated balance lapsing	27		
40	New obligational authority (appropriation)	525	525	524
	Relation of obligations to expenditures:			
71	Total obligations (affecting expenditures)	498	525	524
72	Obligated balance, start of year	32	42	62
74	Obligated balance, end of year	−42	−62	−81
77	Adjustments in expired accounts	2		
90	Expenditures	490	505	505

[1] Includes capital outlay as follows: 1966, $5,000; 1967, $4,000; 1968, $4,000. Excludes adjustment of prior year cost of $2,000.

[2] Selected resources as of June 30, are as follows: Unpaid undelivered orders, 1965, $3,000; 1966, $7,000; 1967, $7,000; 1968, $7,000.

Object classification

[In thousands of dollars]

		1966 actual	1967 estimated	1968 estimated
	Personnel compensation:			
11.1	Permanent positions	414	424	430
11.3	Positions other than permanent	3		
11.5	Other personnel compensation	2	3	3
	Total personnel compensation	419	427	433
12.0	Personnel benefits	29	31	31
21.0	Travel and transportation of persons	8	15	14
23.0	Rent, communications, and utilities	7	7	7
24.0	Printing and reproduction	6	7	7
25.1	Other services	2	3	3
25.2	Services of other agencies	19	28	22
26.0	Supplies and materials	3	3	3
31.0	Equipment	5	4	4
99.0	Total obligations	498	525	524

Personnel summary

	1966 actual	1967 estimated	1968 estimated
Total number of permanent positions	28	28	28
Average number of all employees	27	26	27
Average GS grade	11.5	11.5	11.5
Average GS salary	$13,899	$14,476	$14,650
Average salary of ungraded positions	$22,946	$23,330	$23,330

Mr. EVINS. The committee will come to order.

We have with us this afternoon as we resume our hearings Dr. Edward C. Welsh, Executive Secretary and Director with the National Aeronautics and Space Council. He has with him Mr. Hale, assistant to Dr. Welsh.

GENERAL STATEMENT

Doctor, we have read your statement. It is very impressive. We shall put it in the record and let you tell us what you wish.

(The prepared statement of Dr. Welsh follows:)

Mr. Chairman, and Members of the Committee: The past calendar year has been one of impressive progress in both aeronautics and space, with the space record being an unusually successful one. We are hopeful for comparable evidence this year of the Nation's growing space competence and its retention of its aeronautical leadership.

As you know, the National Aeronautics and Space Council is responsible for advising and assisting the President in the aeronautics and space fields. To meet this responsibility, a numerically small staff has been assembled, and a budget request of $525,000 has been made by the President to pay the staff expenses anticipated for FY 1967.

The amount of this budget request is the same as that requested of and appropriated by the Congress last year. Although it is based on a very tight projection, I have recommended, and the budget request includes, the decision to absorb the full pay increases which have been legislated.

In carrying out the day to day functioning of the Council staff, considerable reliance has been made on reports to the President and to the Vice President, interagency contacts and briefings, exchange of memoranda, and selected visitations to Government and industry facilities. Again this year, I can report the increasing role of the Council staff in its consultations and discussions with members and staffs of Congressional Committees concerned with space matters. Through these contacts, we have maintained a mutual exchange of information and, in so doing, have helped to keep Committee members and staff personnel more current on space developments throughout the year.

As Chairman of the National Aeronautics and Space Council, the Vice President has been energetic and successful in helping to have the space program operate in a coordinated and efficient manner. He has been keeping himself as informed as possible, primarily through meetings with and reports from the Council staff, so that he is in a position to give sound and objective advice to the President.

In the discharge of its responsibilities, the Council directly and through its staff has, during the past year, engaged in a broad range of policy, coordinating, and informational activities. Among these were:

a. supervised the preparation of the President's Annual Report to the Congress on Aeronautics and Space Activities for 1965.

b. submitted regular reports to the President on significant space activities and plans.

c. increased public understanding of the national space program through speeches, articles, correspondence, and other public contacts.

d. participated in the analysis of various aspects of the FY 1967 budget for space and aeronautics.

e. examined the problems and alternative solutions regarding the development of space rescue capabilities.

f. coordinated on behalf of the President the decision to launch nuclear power satellites into space.

g. participated in the formulation and development of communications satellite practices and policies.

h. helped coordinate the necessary actions to make available international high frequency communications channels for Gemini flights and recovery operations.

i. reviewed plans and policies affecting the Manned Orbiting Laboratory project.

j. examined the status and potential of lifting body technology, recoverable and reuseable boosters, maneuverable logistic vehicles, and generally encouraged a closer marriage of aeronautics and astronautics.

k. contributed to the planning for foreign visits of U.S. astronauts.

l. reviewed the status of meteorological satellite planning.

m. examined the impact of the national space program upon our international relations.

n. gave direct consideration to various proposals for improved cooperation with other nations in various aspects of the space program.

o. visited space installations, examined facilities, and engaged in interagency as well as Government-industry meetings and briefings on new developments in aeronautics, space technology, and space benefits.

p. maintained a current record of U.S. and Soviet space launches, developed comparisons between U.S. and U.S.S.R. space activities, and reviewed space accomplishments and potentials of other nations.

It is to permit the effective performance of activities such as those just listed that this budget request is being made.

I hope that I can answer any questions which you may have in mind. If I do not have the answers at hand, I will attempt to obtain them promptly for the record.

Mr. EVINS. Dr. Welsh advises the President on space matters. This morning we had Dr. Hornig, who is the science adviser to the President. He tells us he works with you closely.

We are starting off this year with the President's top advisers.

We notice the doctor has reduced his own budget. Last year it was $525,000. This year it is $524,000. In addition to this thousand dollar cut, he absorbs the pay raises and comes before us with clean hands and pure heart. It is an impressive budget and I don't think we will have too great a problem with him.

Dr. WELSH. Mr. Chairman, I appreciate the comments you have just made. In addition to advising the Vice President, who is the Council Chairman, I have the role of advising the President also. I make weekly reports to the President directly with copies to the Vice President, and I must say that I get excellent leadership and cooperation on space and aeronautics matters from both of them.

ACTIVITIES OF COUNCIL

Mr. EVINS. Doctor, you have an important mission. We notice some 16 activities here. Tell us what you have accomplished and what you propose for next year.

Dr. WELSH. Mr. Chairman and members of the committee, in addition to my brief statement and the list of 16 activities that I indicated here, in which the Council and the Council staff had engaged last year, we do many other things. However, it is very difficult to enumerate or weigh precisely the activities of this Council.

A meeting might be held between the Vice President and, say, the Administrator of NASA, or the Secretary of State on a matter which would produce a decision or conclusion or something we should recommend to the President. This would not call for a formal meeting. We don't always need a formal Council meeting. We don't need to bring the Atomic Energy Commission into that particular session so we don't do so. We have quite a few informal meetings rather than many formal meetings.

Beginning near the top of page 2 and to the bottom, almost, of page 3 of my prepared remarks are illustrations of the activities in which we engaged last year. I submitted this particular list to the President and, as a matter of fact, the President submitted this list also in a report to the Congress to show what had been engaged in by the Council.

I don't want to say this is an exhaustive list, but it is a list indicating that we try to keep busy without interfering with the operational day-to-day activities of the operating agencies like NASA and the Defense Department.

MEMBERS OF SPACE COUNCIL

Mr. EVINS. Who are the other members of the Space Council?

Dr. WELSH. The Chairman of the Council is the Vice President. In addition to the Vice President, there are the Secretary of State, the Secretary of Defense, the Chairman of the Atomic Energy Commission, and the Administrator of NASA.

We do—I might add, Mr. Chairman—call in other members of the Government when a particular problem comes up that we ought to call on them for.

For instance, when we are talking about aeronautics, we invite the Chairman of the FAA to discuss matters of noise, safety, and research and development.

Mr. EVINS. The Council meets on the call of the Chairman.

Dr. WELSH. Yes, Mr. Chairman.

COUNCIL'S RECOMMENDATIONS ON SPACE AND AERONAUTICS BUDGET

Mr. EVINS. I notice that you participated in the analysis and made recommendations concerning the fiscal year 1968 budget for Space and Aeronautics.

We noticed in our analysis of the budget for space that NASA basic research is increased, and also that of the National Science Foundation.

Did you participate in this analysis of these recommendations?

Dr. WELSH. We participated in, not the National Science Foundation activity, but we did participate in the NASA activity. We also participated with the Defense Department and the Atomic Energy Commission budget proposals.

Actually we have an agency justify and explain to us his budget proposals and we often sit in with the Bureau of the Budget on the hearings when agencies make their justifications, Mr. Chairman.

SPACE RESCUE CAPABILITIES

Mr. EVINS. You stated that you discussed problems and alternatives regarding space rescue capabilities. We have had wonderful success in our space program. There have been no losses in rescue operations and this is fine. I guess you have given a lot of suggestions——

Dr. WELSH. Mr. Chairman, we know that this space activity is going to continue. We are concerned that there will be accidents in space and we would like to be prepared for them if we possibly can. We have talked with NASA and the Defense Department people—particularly with NASA—with regard to whether there should be separate launch vehicles that would be all ready to go up if there is a need for rescue; whether there should be separate reentry capsules that they can get out of and come back if something happens to the actual spacecraft in orbit, and so forth.

Also, of course, we have urged—and it has been successful in the Gemini program—that they practice as early as possible rendezvousing and docking with another spacecraft so we would be in a position to take someone off one space capsule and put him into another. This rendezvousing and docking are activities which the Soviets have yet to practice.

SPACE EXHIBITIONS

Mr. EVINS. I note that you have participated in briefing materials including space photographs; you have participated in aeronautical and space exhibits abroad. What about some of these exhibits in our own country. Do you sponsor space and aeronautical exhibits in the United States?

Dr. WELSH. Yes, sir, NASA does, and we urge that more be done in that regard. We think that with the large amount of money which is being spent in space that the people, the taxpayers, the public in this country, deserve to know what benefits will come from the space program.

Mr. EVINS. You examine the need for legislative changes affecting space. What have you recommended by way of changes?

Dr. WELSH. Mr. Chairman, we have recommended no changes but we did contact all of the members of the Space Council; we have checked with them. The Vice President asked them and I quizzed them to see whether they had any significant changes in the basic Space Act that should be presented to the Congress because we would like to have the Congress know as soon as possible of any such change. We got none of major import for this year.

Mr. EVINS. You contribute to the planning of foreign visits of U.S. astronauts. I think our astronauts going abroad is a tremendous boost and asset for our country.

Dr. WELSH. One of the most outstanding things that happened was in the Paris air show. The Russians were active in putting on a show and at the last minute we sent over a couple of astronauts with the Vice President and it went over quite big.

Mr. SHIPLEY. Whose idea was this?

Dr. WELSH. This was the idea of the President of the United States. It was picked up promptly. As a matter of fact, the people who went didn't know until the night before they would go. That is how quickly he acted.

Mr. Chairman, we had gotten reports back from some of our very expert trade press people who were following the Paris air show on how we were losing out there in presentations impact. I made some of these reports available to the President and the Vice President, though I know they had other sources of information.

IMPACT OF SPACE PROGRAM

Mr. EVINS. You analyze the impact of our national space program at home and abroad. That is a big order. What is the impact?

Dr. WELSH. I think the impact here in the United States is something we could go into great detail on. Its effect on education, its effect on new products and so forth. We are very pleased with the effect it has had on our gross national product and increasing our national income and employment.

Abroad, it has been rather difficult to evaluate it and we have tried to trace reports from abroad. We have read both editorials and news items that have been published in papers around the world. We have worked with the State Department and the USIA to find out what they have learned abroad. What should be done? Should we have more exhibits abroad; should we have more astronauts abroad; and are we furnishing enough accurate information?

There has been an impression in many countries that the Soviet Union was ahead of the United States in the space program.

UNITED STATES AND SOVIET SPACE PROGRAMS

Mr. EVINS. You maintain a current record of United States and Soviet space launches. Give us a capsular report as to how we stand. Who is superior? Who is ahead?

We feel that the United States has excelled. We have come a long way. We feel the United States is ahead in space exploration.

Dr. WELSH. This is a debatable point and there are honest differences in view because of the difficulty of weighing, in a complex program, as to who is ahead.

I believe the progress made by the United States in the last few years has been very impressive. We have progressed in manned space flight more rapidly than have the Soviets, to take one point. We have had 16 manned flights, as compared with their eight. We have had almost 2,000 hours of flight of our astronauts compared with their 507.

Mr. EVINS. We have had almost 2,000 hours of manned flights compared with about 500 for the Soviets. We have had 16 manned launchings, all successful.

Dr. WELSH. This is correct, against eight of theirs.

Mr. EVINS. And we don't know how many of theirs are unsuccessful attempt because they are in a closed society and ours is open to the world.

Dr. WELSH. We do not believe, Mr. Chairman, that they have lost any men in flight—men or women. Just as we have not. But it is a closed society, as you say, and it is more difficult to check on it.

Mr. EVINS. On balance we have come a long way. You say it is debatable but it is my impression that we are ahead. Would you want to venture an estimate?

Dr. WELSH. I would make two points on that: One, I believe we are ahead of the Soviets at the present time in overall space activity. That is, we have had many more successful launches, although they have put up more weight. I believe, however, that they are moving so rapidly over there, devoting a bigger percentage of their gross national product to the space program than we are here in the United States by quite a margin, that we can't feel complacent about our position.

JURISDICTION OF COUNCIL

Mr. EVINS. Doctor, the Space Council confines its services, activities, and operations principally to advice on space matters. You don't go into all science like Dr. Hornig, in the overall field. Your field is more limited, though it is broad and big.

Dr. WELSH. Space and aeronautics, Mr. Chairman, and that is our jurisdiction. We cooperate with the Office of Science and Technology, but we do not duplicate with them.

Mr. EVINS. Is this the result of legislation, or is it Executive order?

Dr. WELSH. This is legislation. This is the National Aeronautics and Space Act which set up NASA and the Council.

SPACE PROGRAM LOSSES

Mr. JONAS. It is somewhat ironical that we have had such phenomenal success in space and that our first losses should be on the ground.

Dr. WELSH. It is ironic.

Actually, our first three astronauts were lost in airplane accidents rather than even in a space capsule on the ground.

Mr. JONAS. They were not in spacecraft. They were in civilian activities.

Dr. WELSH. But they were flying on business; yes, sir.

Mr. JONAS. However, in the program itself, the first tragic loss of life occurred on the ground.

Dr. WELSH. That is correct.

Mr. JONAS. What can you tell us about that?

Dr. WELSH. I don't have very much I could tell you that might not be misleading, and I don't want to mislead the committee. There is a Review Board right now working on this tragic accident and they will have a report as soon as they finish. I know that Mr. Webb who is, of course, in overall charge of this investigation—it is a part of his program—he has assured the Congress that he would inform it as soon as this review is completed. I have no inside information. They still do not know what caused the fire.

Mr. JONAS. Investigation is still underway.

Dr. WELSH. Yes, and it is a very serious investigation and the Review Board is not composed of just NASA representatives. They have drawn people in—one from a university, one from private industry, and another from the Air Force, as well as NASA representatives to get a balance group of experts on it.

Mr. EVINS. Doctor, your function is statutory and it is very vital and it is very important. You have submitted a budget for less than last year. We are not going to quarrel with you. It has been approved by the President, approved by the Vice President, approved by the Bureau of the Budget, and we are delighted to have you with us.

Are there further questions?

NATIONAL DEFENSE ASPECT OF SPACE PROGRAM

Mr. MARSH. On our space program, are we devoting sufficient attention to the military, as well as the nonmilitary aspects of the American space program?

Dr. WELSH. The question bothers me a bit because I don't know what the Soviets are going to do and we do want to be No. 1 in this field. We never know whether it is sufficent or not, but there is a very active defense program, as well as a civilian program. Incidentally, the Soviets in regards to another aspect of the whole question have been devoting a larger percentage of their time, attention, and money to the deep space probes than would have been expected relative to the close-in space activity; much more so than we.

Mr. MARSH. Isn't the thrust of their space effort military, principally?

Dr. WELSH. It is difficult to answer that question because even in our case a bigger percentage of our space launches are military than are nonmilitary. Yet, our program overall is peaceful.

Mr. MARSH. Should that come off the record?

Dr. WELSH. I think not. I see no reason why we should try to keep anything secret unless it actually involves the national security, and I don't think it involves the national security to tell the people of this country how we stand.

Mr. MARSH. I thank you.

Mr. EVINS. Are there further questions?

LEVEL OF SPENDING ON SPACE PROGRAM

Mr. JONAS. Doctor, you twice referred to the fact that we are spending less of our gross national product than the Russians are on space. This is repeatedly said by witnesses before various committees. Frankly, I don't see what this has to do with it. We are spending as much as we reasonably can get practical results from. I don't think it matters whether it is one-tenth of 1 percent of the gross national product, or 10 percent. Is that not true? Isn't our space program about as big as it ought to be?

Dr. WELSH. I think it is a very sensibly balanced program. The reason I brought out the business about the percentage of gross national product that the Soviets were spending was to suggest that we not be complacent in relationship to them because they were devoting a big amount of money to it.

Mr. JONAS. What you mean is that they are putting probably a greater amount of their energy into it than we are.

Dr. WELSH. Relatively. You are quite correct, Mr. Jonas.

Mr. JONAS. For example, we are engaged in a war and so far they have not become involved in it actively.

Dr. WELSH. I believe they are devoting a little attention to it too, sir.

Mr. JONAS. I understand a Member of the other body said the other day that we have the biggest Army in the world today, the United States, with more men under arms than anybody. Is that true?

Dr. WELSH. I don't have those figures, so I wouldn't want to comment other than to say it may be that the Soviets have more divisions than we do and we have more men in each division. I just can't tell you.

Mr. JONAS. At any rate, they have managed to avoid becoming involved in either of the last two shooting wars that we became involved in.

Dr. WELSH. That is certainly correct; yes, sir.

Mr. JONAS. I have watched this NASA program from its beginning and I don't believe we could profitably expend any more money than we are spending on it. I think any more money put up would be wasted. You reach a point of no return.

Dr. WELSH. At some point you can get diminishing returns, certainly; yes, sir.

Mr. JONAS. I wouldn't apologize for a $5 billion space program. I think that is a pretty big one.

Dr. WELSH. Mr. Congressman, I certainly wasn't apologizing for it either.

TRAVEL EXPENSES

Mr. JONAS. With respect to your budget I note you are economizing in one of the areas I always am interested in. That is, you are cutting down $1,000 on travel, though you are putting on more people.

Dr. WELSH. No; I haven't put any more people on, sir. It is just that the legislated pay increases account for the additional money. We had 28 last year too.

Mr. JONAS. That is right. The average number will be one up; 27 as against 26.

Dr. WELSH. We are hoping we won't again have some little turnover that we have had this year; yes, sir.

UNOBLIGATED FUNDS

Mr. JONAS. Are you spending all the money that you have?

Dr. WELSH. We are trying not to.

Mr. JONAS. Do you think you will have unobligated funds at the end of the year?

Dr. WELSH. There may be because we have lost two members of our staff I am trying to replace.

Mr. JONAS. What do you carry over into 1968 unobligated at June 30?

Dr. WELSH. I can't give too good a guess on that, sir, but I may be able to supply it for the record from our figures.

Mr. JONAS. Think it over and look at your books and put in a figure.

Dr. WELSH. May I supply that?

Mr. EVINS. You may supply additional information, Dr. Welsh.

(The information follows:)

In response to the question as to how much of our FY 1967 funds would be unobligated and carried over into 1968, the answer is—none. If our plans for FY 1967 work out as previously projected, there will be very little of the Council's FY 1967 budget which will not be spent during that fiscal year. This will, of course, depend in large measure upon whether we will be able to fill staff vacancies with competent personnel and when such replacements would be effected.

Mr. EVINS. I understand you are absorbing the pay raises in your own funds?

Dr. WELSH. Yes, sir. What we came in a few years ago for was $245 million and each year I have found some way to keep it the same or a little less.

Mr. EVINS. Are there further questions?

FEASIBILITY OF PUTTING A MAN ON THE MOON

Mr. WYMAN. It isn't often that the opportunity exists to ask the Executive Secretary of the National Space Council certain questions, but surely you would agree there are few related with space who are in a better position to review the interrelations of Defense and NASA and so forth than the Space Council, isn't that right?

Dr. WELSH. I think that is our job, sir.

Mr. WYMAN. Has there been any question raised within the Council as to the ability, generally speaking, to put a man on the moon?

Dr. WELSH. We have heard nothing at all that would indicate there is a doubt we can do so.

Mr. WYMAN. So you would say if you were asked at the present time, that in all probability almost to the point of certainty, it continues to be a basic postulate of the space program that you can put a human being on the moon and bring him back?

Dr. WELSH. We believe that. The Gemini program this last year was very encouraging with what we could do with manned space flight.

Mr. WYMAN. The whole concept of lunar exploration is on the basis of a lunar orbit, is that not right?

Dr. WELSH. Yes. We have already had two lunar orbiters too, sir, that have had success. We haven't had men in them, but we have developed the mechanism of going around the moon and putting a space craft in lunar orbit, which is also very important.

Mr. WYMAN. I assume you are familiar with some of the articles that have been written by South African and other scientists in U.S. News & World Report and other publications in support of the thesis that it is impossible to put a man on the moon and bring him back via the lunar orbit approach?

Dr. WELSH. I have read some of these. I find them coming from people who have had almost no experience with the space program and I believe we here in the United States would be better informed than they would in South Africa on what could be done with the equipment we are producing.

LUNAR ORBIT

Mr. WYMAN. I am not trying to argue the question now. The entire projected cost and funding in the Apollo program is predicated on the approach of a lunar orbit, is it not? The Gemini program, having shown the capability for rendezvous in fairly close-to-earth areas, will next attempt, will it not, at some stage—not the Gemini program, but the next stage of the space program, the Apollo program, to at least go up and fly around the moon and come back home before trying to put a man down on the Moon, will it not?

Dr. WELSH. It may not. We will test out all the equipment around the earth. Even the equipment of the lunar module, the landing module, and test that out and rendezvous with it—exercise it, so to speak, around the earth. Then if it works so well, since we have already had the success of putting a spacecraft up around the moon in a lunar orbit—we have no question about the ability to do that. The problem, of course, is to take the module, go down from the spacecraft, which is circling the moon, land on the lunar surface, explore there a bit, come back, rendezvous, dock with the main Apollo spacecraft, and then come back to earth.

The really difficult problems on these things are taking off and coming back rather than circling the moon.

POSSIBLE EQUIPMENT ALTERATIONS

Mr. WYMAN. In this connection, if the investigation of the tragedy recently at Cape Kennedy should indicate that there is too great a risk from having a pure oxygen atmosphere within the capsule, would there not have to be a very substantial work-over in the planning for the entire Apollo program in relation to capsule structure and component systems?

Dr. WELSH. On the assumption that we have to make a change—and we cannot come to that assumption yet because we don't yet know, but if there had to be a modification in the spacecraft, then I would again have to say it depends on how much modification before you can judge how much delay. It could be a slight modification—relatively slight—but even if you made it, it would not call for a major change in the Apollo program. It would call for a change in the equipment, but not the program.

Mr. WYMAN. Were that change in equipment to be made—has there been any suggestion as to how much additional funding would be required in round figures to accomplish this?

Dr. WELSH. No, and it would be misleading to guess because we don't know how much modification might be required, sir.

Mr. WYMAN. If you went from pure oxygen to a mix, it would be pretty substantial, would it not?

Dr. WELSH. There would be delay. How much, we don't know.

SOVIET CHALLENGE

Mr. WYMAN. In relation to the Soviet program and the inquiry about it being primarily military, is there any way for us to know whether the Soviet program is military or not, with any degree of certainty?

Dr. WELSH. They are not very open in regard to what they have to say about their program and they control very much whatever is said. We, of course, are not particularly open in regard to what we say about the military side of our program either.

We can say that a fairly big percentage of their program is not military because we know that there is so much of it devoted to interplanetary activity, where nobody pretends there is any real military significance in exploring the planets, but certainly they do have military purposes and missions in a significant part of their space program.

Mr. WYMAN. In connection with this, has there been any talk within the Space Council, to your knowledge, about unidentified flying objects in relation to the Soviet space program?

Dr. WELSH. We haven't really taken the matter sufficiently seriously to devote any attention to it in the Space Council meetings, but we do get a certain amount of mail.

Mr. WYMAN. Has the Council read the report of the National Committee for the Investigation of Aerial Phenomena and its something like 5,000 multiple fixes by commercial and private aircraft pilots of similar unidentified flying objects?

Dr. WELSH. I have read reports from that organization since I was up here in the Congress with Senator Symington on the Senate side and have had to reply to inquiries. I have also read the Air Force investigation reports.

I have attached no significance to reports that would indicate that there have been any objects flying from other planets or from other countries.

Mr. WYMAN. In other words, it does not concern you particularly because if they are objects of this nature, they would be objects that would be understood to the Space Council?

Dr. WELSH. You said it better than I.

Mr. WYMAN. Would we have any way of knowing—other than having an observer in being on the ground—whether the Soviets are arming in any way or attempting to arm or build a weapons system into their capsules that they launch?

Dr. WELSH. We would not be able to detect whether they had a weapon in a capsule, nor would they be able to detect whether we had one in.

Mr. WYMAN. Or an intercept capability in relation to other objects?

Dr. WELSH. Both countries have intercept capability.

Mr. WYMAN. Both countries do?

Dr. WELSH. Yes.

Mr. WYMAN. At the Space Council level is there any emphasis within the military side of our own space operations upon developing a capability of knocking down hostile enemy objects in space?

Dr. WELSH. Yes. As a matter of fact, the President announced almost 18 months ago, two different systems that would knock down other orbiting bodies.

Mr. WYMAN. Suppose the Soviet were to launch, or some other country were to launch something equivalent to Telstar, or Comsat's launches that are in fixed orbits for television purposes or otherwise, and they become of military significance and we felt them to involve a security challenge, do we have the capability to go up and knock that object out of orbit?

Dr. WELSH. We are in a position but would not do so unless aggression was underway; we are in a position to explode nuclear weapons in space and that would destroy other things.

Mr. WYMAN. And we could with a reasonable degree of certainty explode a nuclear weapon sufficiently near an object in orbit to knock it out of orbit?

Dr. WELSH. Mr. Congressman, we are sufficiently accurate that we can send another spacecraft up and dock with a spacecraft in orbit if we want to.

Mr. WYMAN. Of our own origination, but can we send them up and dock with——

Dr. WELSH. The methematics are just about the same, Mr. Congressman.

CONTRACT COMMITMENTS OF APOLLO PROGRAM

Mr. WYMAN. One other thing: The long-range contract commitments in the Apollo program are pretty well set now, are they not?

Dr. WELSH. Yes.

Mr. WYMAN. How much of the money, if you know, sir, that is going to be asked of this subcommittee, to appropriate for fiscal year 1968, is going to be of the general character—if you want to put it that way—of fixed obligations that we are merely rubberstamping?

Dr. WELSH. I can't answer that question. I think it would have to be asked of NASA, sir.

Mr. WYMAN. Thank you.

Mr. EVINS. Mr. Talcott.

BALANCING THE SPACE PROGRAM

Mr. TALCOTT. You characterized the program as being sensibly balanced. May I ask with what is it sensibly balanced?

You referred to the Russian program, comparing GNP's, but have you given thought to having your budget sensibly balanced with other domestic programs?

For instance, it seems to me we spend a great deal more money, and perhaps a little bit out of balance, on "space exploration" as compared with "oceanographic explorations." It seems to me we know more about space 100 miles out than we know about the oceans 100 yards down. Do you try to make any comparison, or try to balance the space research program with our oceanography studies?

Dr. WELSH. We do not, as a specific action of the Council, but we do judge, in evaluating budgets, as to whether or not we can justify the amount that has been requested for the space budget.

Mr. TALCOTT. Then what do you mean when you say it is a sensibly balanced program? What do you mean by "balanced," balanced with what?

Dr. WELSH. I meant balanced as between manned space activity, unmanned space activity, military space activities, weather, communications, navigation, national security generally, and so forth.

Mr. TALCOTT. Of course, we have some larger balancing problems.

Dr. WELSH. And so did the President which he weighed carefully before he sent up the budget.

LEVEL OF FUNDING OF SPACE PROGRAM

Mr. EVINS. Doctor, this is in line with what I wanted to ask you. We made the basic decision to go forward with this program several years ago. The commitment has been made. Contracts have been let. There are some people who want to fund it at an even faster pace. Some have called it almost a crash program. There are others who favor slowing down the program or even stopping it. They believe that these funds could be better employed in other endeavors.

We have had lots of testimony in here that ups and downs, peaks and valleys, bring about unnecessary costs and inefficiency of contracts. With a constant, steady, level of funding, this space program could effectively move forward. This is perhaps the balanced decision, which you referred to, that has been made. The program has been around $5 billion. By the time it goes through the authorizing committee, the Appropriations Committees, the House and the Senate, it has come out around $5 billion. I notice the budget for the space program this year, going into the third phase, is of the same order,

except we find that Defense has about $2 billion in its space effort, making a total in the budget of about $7 billion for the space effort.

The Council, I am sure, has given consideration to all these factors. Do you care to comment on the national defense aspect as against the civilian aspect of space, and the overall amount? If so, it would be beneficial to the committee.

Dr. WELSH. I could comment that the increase on the Defense Department side was largely for their manned space activity, the manned orbiting laboratory. It is the judgment that it needs to be tested out to find out whether it would add substantially to our national security. If they find it will not, that program will probably not continue as currently planned, but they have to test it out to see what can be done. That is the main increase. As a matter of fact, I think it is about the only area of increase that has taken place as far as national security is concerned in the Defense Department's space budget. There has been, of course, an interface through NASA, such as NASA's developments in communications which are now available for use by the Defense Department.

Mr. TALCOTT. Could the total figure be leveled out at approximately $4 billion, civilian and military, without jeopardizing the safety and without being too wasteful in the whole program? Couldn't it be tapered out at that level, as well as $5 billion or $6 billion or $7 billion?

Dr. WELSH. If you ask whether it could be, the answer is "Yes." If you say should it be, I think the answer is "No." We have gone over these requests and estimates on what is needed in the space program in considerable detail; not only the Space Council, but the Bureau of the Budget, and certainly the President. The resultant budget came up with these figures.

COORDINATION OF NASA AND DOD

Mr. EVINS. The information Defense develops and receives complements the information the civilian space agency has. How effective is the coordination of information between these agencies?

Dr. WELSH. The coordination and flow of information between NASA and the Defense Department is improving constantly. Just in the few years that I have been involved in the Space Council activities, I have observed that the flow of information has improved. The duplication of effort has decreased. There are regular interagency meetings of people who are working on space. They exchange information on aeronautics, as well as on space. They are eliminating the possibility of duplication of new facilities. There was always a chance that two facilities would do the same thing and they have been cutting down on that.

I am very encouraged, sir, about the lack of duplication existing in the program. I am also impressed that a serious job has been done to keep the funds down in line with national security and technological advance.

EFFECT OF SPACE PROGRAM CUTBACK

Mr. TALCOTT. Since initiating the space program we have become involved in a major war and started many new domestic programs for helping people who are disadvantaged that we didn't know were disadvantaged before, so some adjustments may now be necessary. Can we make adjustments without jeopardizing the safety of the people who are exploring?

Dr. WELSH. If you cut back on a space program, you will certainly cut back on the size of our gross national product and our national income very substantially.

Mr. TALCOTT. We would spend the money some place else.

Dr. WELSH. No, it won't be created. This is production we are talking about.

Mr. TALCOTT. Give me an example of this.

Dr. WELSH. The whole production effort in the space program is employing people producing goods, increasing and inventing new electronics. Just electronics alone. New metals that are being created. Heat resistant metals that are very important in the development of refrigerators, for example. I could go on at length on the productivity.

Mr. EVINS. Naturally there are many byproducts of our space program. The money is being spent in the United States. A lot in California?

Dr. WELSH. Most of it, sir.

I would say about 50 percent is in California, as far as prime contracts are concerned. Subcontracts go to every State of the Union.

Mr. TALCOTT. That may be one reason why it is so popular.

Dr. WELSH. I think so, and I think it shows good judgment on the part of the Congress to support it.

Mr. EVINS. Doctor, the Space Council evaluates all these matters. Basic decisions have been made. The funding levels have been thoroughly considered. We have had some tragedy recently, but regardless of this, you know of no information in the Space Council or otherwise which should change the direction of the decisions that have been made.

Dr. WELSH. I do not, sir.

Mr. EVINS. Are there further questions?

Doctor, we are glad to have your advice on this program. Your budget is small and has been reduced. We thank you.

Dr. WELSH. I appreciate the opportunity, sir.

THURSDAY, FEBRUARY 9, 1967.

SELECTIVE SERVICE SYSTEM

WITNESSES

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

SALARIES AND EXPENSES

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Program by activities:			
	1. National administration, planning, training, and records management	2,355	2,791	2,597
	2. State administration, planning, training, and records servicing	8,678	8,902	9,048
	3. Registration, classification, and induction	45,390	41,077	45,693
	4. National Advisory Committee on the Selection of Doctors, Dentists, and Allied Specialists	33	39	49
	5. National Selective Service Appeal Board	59	66	68
	Total program costs, funded [1]	56,515	52,875	57,455
	Change in selected resources [2]	98	−3	
10	Total obligations	56,613	52,872	57,455
	Financing:			
14	Receipts and reimbursements from: Non-Federal sources (40 U.S.C. 481(c))	−1		
25	Unobligated balance lapsing	4,499		
	New obligational authority	61,111	52,872	57,455
	New obligational authority:			
40	Appropriation	61,250	51,940	57,455
41	Transferred to "Operating expenses, Public Buildings Service," General Services Administration, 1966 (80 Stat. 674)	−139	−256	
43	Appropriation (adjusted)	61,111	51,684	57,455
44	Proposed supplemental for civilian pay act increases		1,057	
	Proposed supplemental for military pay act increases		131	
	Relation of obligations to expenditures:			
10	Total obligations	56,613	52,872	57,455
70	Receipts and other offsets (items 11-17)	−1		
71	Obligations affecting expenditures	56,612	52,872	57,455
72	Obligated balance, start of year	3,447	5,818	4,067
74	Obligated balance, end of year	−5,818	−4,067	−4,050
77	Adjustments in expired accounts	−11		
90	Expenditures excluding pay increase supplemental	54,230	53,488	57,419
	Expenditures from civilian pay act supplemental		1,004	53
91	Expenditures from military pay act supplemental		131	

[1] Includes capital outlay as follows: 1966, $802,000; 1967, $245,000; 1968, $327,000.
[2] Selected resources as of June 30 are as follows:

	1965	1966	1967	1968
Stores	258	320	320	320
Unpaid undelivered orders	39	75	72	72
Total selected resources	297	395	392	392

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	31,213	31,517	32,449
11.3	Positions other than permanent	4,433	3,717	4,195
11.5	Other personnel compensation	481	61	61
11.7	Military personnel	3,721	4,209	4,210
	Total personnel compensation	39,848	39,504	40,915
12.0	Personnel benefits	2,616	2,666	2,647
21.0	Travel and transportation of persons	8,525	7,338	8,889
22.0	Transportation of things	247	130	225
23.0	Rent, communications, and utilities	2,211	1,933	2,526
24.0	Printing and reproduction	623	330	519
25.1	Other services	1,375	450	1,100
26.0	Supplies and materials	237	279	307
31.0	Equipment	802	245	327
42.0	Insurance claims and indemnities	31		
	Total costs, funded	56,515	52,875	57,455
94.0	Change in selected resources	98	−3	
99.0	Total obligations	56,613	52,872	57,455

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	7,473	6,572	7,058
Full-time equivalent of other positions	998	791	761
Average number of all employees	7,398	6,856	7,078
Average GS grade	6.8	6.8	6.8
Average GS salary	$7,835	$8,153	$8,237
Average salary of ungraded positions	$4,693	$4,872	$4,920

Mr. EVINS. The committee will come to order.

We have with us this morning Lt. Gen. Lewis B. Hershey, Director of the Selective Service System.

Also, Col. William S. Iliff, assistant to the Director, who is an old-timer, too. And we have Col. Bernard T. Franck III, chief legislative and liaison officer for Capitol Hill.

General, we always listen to you with profit. We admire you as a great American. We know you have a large budget here. We have looked it over and it seems, although the number of inductees is going down, the costs and the number of personnel are both going up. I hope you will be able to explain that. At this time, we will be glad to hear whatever statement you think we should have in justification of this budget.

General HERSHEY. I am going to pass initially and try to answer the questions.

Mr. EVINS. You have no prepared statement?

PROJECTED INDUCTION DECLINE

General HERSHEY. Well, it is true that the budget is down; that is, the numbers of people are down, and the costs are going up, but costs are going up because of salaries.

One of the things I am caught in, in a very awkward position, is that we are looking in the face of 340,000-some people inducted, at the same time that we are asking for money for replacing 285,000.

Mr. EVINS. General, in 1966 you inducted 341,708 and in 1967 the information we have indicate you expect to induct 311,000. The estimated total for fiscal year 1968 is 285,000.

In other words, the number of inductees are down some.

General HERSHEY. Well, you see they are down now. That is why I am in a very awkward position, because if I were across the road, across the river and I was setting up an enlistment budget, I would set up the budget so that I was going to fill every vacancy with a recruit because I was in the recruiting business. And then the Budget Bureau subtracts the ones they see they are going to enlist from what the total is and I get caught with 285,000 and I have to replace 340-some thousand, or the strength falls. If the strength falls, that is fine, but, unfortunately, I must be careful about throwing away what few personnel I have.

SUPPLEMENTAL FOR FISCAL YEAR 1967

Mr. EVINS. We notice that the President's budget indicates a supplemental request of $7,308,824 is to be submitted. It has not cleared the White House, it hasn't been sent up, and will be for the current year. As I recall this committee recommended the full amount of your budget and you missed the mark by about $7,300,000.

General HERSHEY. Well, we thought when we asked originally that we were in pretty good shape. But when we came over here we were not in near as good a shape. I am responsible completely for missing the mark because when I came over here I asked for what I was authorized to ask for and therefore I am responsible for it.

Mr. EVINS. In other words, you are telling the committee now that you needed more money. You would have liked to have had more money, but you had to support the administration's budget.

General HERSHEY. Well, I might as well be perfectly honest, we are in the same exact position now, I hope not quite as great, although this $7 million, which there is no use in discussing, because it isn't over here yet, but we cut down setting up anybody for physical examinations in the last month or so. We are running a chance now.

Mr. EVINS. Was this reduction in just one State, two States or more States, or how many areas? Was it general, all over?

General HERSHEY. Cutting down on sending people? It was all over.

Now, there are some places that it will not be reflected until February, instead of January, due to the fact they had already ordered some of the people for preinduction examination and did not want to disturb too many schedules. But by February we are going to be—and we will hear from the recruiters because if we stop examining people, recruiting is bad.

Mr. EVINS. We have seen press reports emanating from the State of Texas during Christmas, which said 15 to 18 selectees were happy and delighted because they had been called up to be shipped to induction centers and the draft board people told them they did not have any money. When I read that, I said, "My goodness, what has General Hershey done?"

I did not say what has the committee done, because we recommended the full amount of your request.

General HERSHEY. Yes, this is the $7 million. It is as big as we thought we would have to have.

On the other hand, if these calls stay down to 11,000, we are all right. The last month I know about is April. And I do not know for certain about that one, because in the last 18 months the capacity to change these calls after they have been placed has been great.

Mr. EVINS. You are telling us that you are rather firm on your projections, but then the Defense Department sends you an increased call which requires an increased appropriation for inductee travel.

General HERSHEY. That is right. Paying our local board clerks and inductee travel are the two big items.

INABILITY TO ACCEPT ENLISTEES

Mr. JONAS. Will you yield for a general question?

Mr. EVINS. Yes.

Mr. JONAS. The thing I cannot understand—and you read the stories about it occasionally in the paper and I have had a few cases come to my individual attention—fellows go to recruiting stations and the recruiter says, "I cannot take you, my quota is filled." Now, what is going on when a guy cannot enlist and he has to go back home and be drafted?

General HERSHEY. In the first place, the recruiting, I do not want to say I do not have anything to do with it because I flatter myself in thinking that I am the main factor in it, but that may be just a human being thinking he is good. One of the problems in these past 18 months, we have produced the number of people they have asked for and a little over. Not only that but by producing them, recruiting never has been consistently as good. The result is that the Armed Forces have filled up their Reserves and their National Guard.

Now, vacancies do develop as people get discharged, but it has been awfully tight getting into the Guard and Reserves. The training centers, I understand—this is hearsay—have been clogged. For that very reason they have had to put even a hold on the recruiting because they had no place to put them, and they have, I understand, resorted to recruiting people into a special kind of Reserve, 120-day Reserve to hold them until they had a slot in the Regulars.

Mr. JONAS. You misunderstood. I am not talking about joining the National Guard or Reserve. I am talking about a man trying to enlist in the regular service.

General HERSHEY. Exactly. They had to create a special Reserve because they had no vacancies at that time, and they wanted to hold them in a reserve status.

Mr. JONAS. What do they do with your draftees, then, if they have no place for recruits?

General HERSHEY. The fact is I should let the Armed Forces answer that, rather than attempt it. But ever since October, when we went up to 50,000 inductions, a little faster than we like, we have been falling off, I think with the calls down around 10,000, they are trying to adjust so they can get space to handle people. Of course, the trouble is, as soon as you cut the calls, the recruiting goes haywire.

I had to talk about soil conservation. I did not answer your question, I am sure.

Mr. JONAS. Where can I find out the answer?

General HERSHEY. Well, the Armed Forces. But whether you get an answer that suits you or them, I do not know.

ENACTMENT OF DRAFT LAW

Mr. EVINS. When was the draft law first enacted?

General HERSHEY. This one is in 1948; 1940 was the first time it was enacted in my lifetime; no, that is not true, 1917 was in my lifetime, but that is longer ago.

Mr. EVINS. The first one in 1917.

Mr. JONAS. You were just a baby, then.

Mr. EVINS. It has worked pretty sucessfully in helping to send into the Armed Forces the manpower needed. Overall it worked very well.

NATIONAL APPEALS BOARD

In this particular Vietnam conflict there is a lot of criticism. I do not know whether it is the draft board or the war situation, but we are having more complaints than ever before. We will talk a little about your views on where it is working and where it needs to be amended. That is legislative, but we need to know, too. Primarily, you operate the Selective Service System. Secondly, you operate the National Advisory Committee on the selection of physicians, dentists and allied specialists. That is another Executive order and law. In addition, you operate the National Selective Service Appeals Board. I imagine that the appeals during this time were increasing and are heavier than normal.

General HERSHEY. Proportionately—they are heavy because we are disturbing more people. But not percentagewise for the number of people distributed. I do want to keep clear on the National Appeals Board. I have to house them and furnish the personnel such as clerks, but they are appointed by the President and completely independent of me.

Mr. EVINS. You pick up all the expenses for them?

General HERSHEY. Yes.

Mr.. EVINS. The housing, travel, salaries?

General HERSHEY. Yes.

Mr. EVINS. I notice over here in your justification you say they come from Ohio, Massachusetts. There are three members on that Board. Can you name the members of the Board?

General HERSHEY. Yes, Judge Henry Gwiazda is the Chairman of the Board, Commissioner Charles N. Collatos from Massachusetts is a member, and Dr. Kenneth W. Clement who is from Ohio.

Mr. EVINS. They are appointed by the President and operate independently?

General HERSHEY. Yes.

Mr. EVINS. This is the court of last resort on the matters of appeal?

General HERSHEY. That is right.

STANDBY RESERVES

Mr. EVINS. Your functions are basically three: registration, classification, and induction. Then you determine the availability of the men for selective callups for the Standby Reserve.

Tell us again how this operates?

General HERSHEY. Well, we were given that responsibility some years ago. It is a little different than any other responsibility we have because the responsibility was not given to the System, it was not given to the President and delegated to the Director of Selective Service. It was given by the Congress to the Director of Selective Service by legislation——

Mr. EVINS. They told you to decide which ones of the Standby Reserves are to be called up?

General HERSHEY. That is right.

Mr. EVINS. How does this operate?

General HERSHEY. The only way I could operate was through the local boards. So the local boards put these people in four categories, available if we should have a callup, not available because of occupational reasons, not available becuse of family or dependency reasons and four, not available because they are not acceptable. The numbers started out about one and a half million or 1,600,000, but they have fallen rather consistently to 400,000 or 500,000.

Mr. EVINS. About how many come in out of this Standby Reserve system annually?

General HERSHEY. None has ever been brought in. Well, maybe I am telling you a fib, because during the Korean business we had a little scuffle with the Air Force over the mobilization of an individual that we thought was—but for all intents and purposes no one has ever been called out of the Standby Reserve.

Mr. EVINS. When he gets into this Standby Reserve, he is just——

General HERSHEY. He is a trained individual; he has served his time and he is only going to be taken in case we run out of everybody else.

Mr. EVINS. Extreme emergency.

General HERSHEY. That is right.

RECORD MANAGEMENT

Mr. EVINS. The third function is record management. This is an important function of the Selective Service System; you have the names, numbers, and records of a lot of servicemen dating way back. Since it is a constant task to keep this information updated, I suppose record management consumes a lot of your personnel.

General HERSHEY. Well, at least some. We do get, strangely enough, more inquiries than you would think. Of course, the people who are trying to qualify for social security, and a great many other things have to come to us to prove how old they are. I cannot furnish it, but the number—thousands, tens of thousands and maybe somewhat over 100,000 or more inquiries a year are a little surprising on individuals in World War II, but we get them.

Mr. EVINS. Is record management kept on a State, local, or other basis?

General HERSHEY. State basis.

Mr. EVINS. Each one?

General HERSHEY. The records in the State are kept there. It is somewhat of a battle, but we thought the Congress in 1947 decided to have an agency that kept the records of these people who had been in the Armed Forces and therefore we rather resisted the takeover by other agencies who keep all other kinds of records, because we did not think the Congress would have legislated——

Mr. EVINS. Are these kept in the headquarters of the State selective service systems?

General HERSHEY. Well, we are establishing depots. We have had some little trouble getting them out of the local board, but they will eventually be in a record depot, probably in the State headquarters, but at least in the State headquarters city.

UNCOMPENSATED OFFICIALS

Mr. EVINS. One of the great things about the Selective Service System is the tremendous number of uncompensated officials, patriots, who work. All the draft boards are local people who are picked by the Governors of the States and are not compensated. There are about 15,000 or 20,000 of these patriots in the System.

General HERSHEY. That is right. The board members are probably nearer 16,000 or 17,000, but all your advisers to registrants, appeals boards and a great many of the scientific committees within the States, all of these are unpaid; not quite all of them are unpaid, because when I was in the State of Tennessee the other night, there were 136 people who came to a dinner, and of that number 80 percent of them were unpaid individuals.

Mr. EVINS. They are patriots down there, they volunteer, they are known as a Volunteer State.

PENDING LEGISLATION

The Selective Service System is operated on a pyramid system, grassroots, local level, boards, advisers, clerks, then the State system, appeals board, and finally, the general and Selective Service is the top of the pyramid. Currently, there is legislation pending to amend the selective service law. This will probably be the first record that is released and it probably will be before you have your hearings. If you want to expound your views on it a little bit, it will be all right. The pending bills say that there is a need for more centralized control rather than control on a local level, that you do not have uniformity, that local boards have too much flexibility, and that you havs discrimination and variance in policies. Your system has worked with a pyramid structure, but the new ones propose more centralized control.

General HERSHEY. I am always happy to say something about that. I call attention to the pyramid, the peak of the pyramid is pretty narrow and the base of it is very, very broad. That is a pretty stable mathematical or geometrical figure. I view with alarm as they say in places, any encroachment to try to move from the local level the

basic decisions that have to do with deciding who shall defend this country. Now, if I must plead guilty to the fact that everything is not the same every place in the United States, I would be very glad to do it. I do not know where liberty ever was when it was completely uniform, but maybe I haven't been told. Therefore, I think the basis of our success, I would also say the basis of some of the fears that we plant in the hearts of our possible enemies is the belief that our people, willingly, unpaid, raise their own forces to fight. And with all the things that we have had in the last year and a half, that have been said—and a lot of people do not like the present war—we have produced more than we were asked for rather than less, and they have been produced by people in those communities deciding that their own people from their communities would go. That to me is the strength of a democracy, because you have participation. Whenever you can get your family, your kids or anyone else to do what you want them to do, you ought to let them do it, as nearly as possible, how they want to do it.

Mr. EVINS. Your people on the local board know whether the man is in college or whether he is farming. They know the situation better than a man far distant.

General HERSHEY. Yes. I would say that ever since 1917 no general has ever gone into battle because he did not want to, because he did not know whether he was going to get any more men or lose some he had. If you go back to American history, back to colonial days, the poor fellows never knew who was going to be there and when. Therefore, success is—it may be a little sordid sort of a thing, but I think it is something that you ought to take into consideration when you are looking at an automobile or a horse or anything else.

I contend that with all of the things we have had, and we have had plenty, it has been quite amusing and very interesting, but nobody has said much about whether we succeed or not. They said we took the wrong road. We got to where we are, we are there on time, but we drove the wrong road.

So, therefore, I have a feeling that whatever this Congress does, don't ever let them move the thing in where some poor devil decides all of them and then when he makes a mistake, it is reflected in 4,000 boards. Now for one thing, when one of our boards makes a mistake, it does not necessarily—it is just one place. But you get it centralized and then every mistake occurs everywhere.

Mr. EVINS. The system has worked with the broad base and a review at the higher level. You have 4,087 boards. We pointed out earlier that the proposal is to induct 285,000 in 1968 as compared with 341,000 in 1966.

MOTOR VEHICLE FLEET

Your automobile fleet, this is headquarters, consists of 28 automobiles, 24 station wagons, nine trucks, you need those all over.

General HERSHEY. They are scattered all over the country; yes, sir.

Mr. EVINS. General, the Bureau of the Budget has drawn regulations to keep them and use them a little longer and you will comply with that.

General HERSHEY. Yes, sir.

SUMMARY OF OBJECT CLASSIFICATION

Mr. EVINS. General, looking through your budget, all the way through, you gave us your 1967 estimates and then you gave us the revised 1967 estimates and the green sheets show pretty well where the increases were. You have about four operations. Project No. 10 is national headquarters, project No. 20 is the State headquarters, project No. 30 is registration, classification, and induction, and project No. 40 is the National Advisory Commission on Physicians and Dentists and allied specialists, and project No. 50 is your appeals board. We talked first about overall policy and your costs of operation of headquarters. In looking at this table on page 5, I see that personnel costs have gone up for civilians; some benefits are up and both travel and transportation have increased.

General, your men figured this out pretty close. Do you think it is right for next year?

General HERSHEY. No; I do not think it is enough.

Mr. EVINS. Not enough?

General HERSHEY. Well, I am afraid. Maybe I always live with my fears, I think old men do. My experience in the last 2 years is that we have always been called on to do a lot more than we were told in the year before.

Mr. TALCOTT. Did you say you lived with your figures or your fears?

General HERSHEY. Fears.

Mr. EVINS. The general is a great American.

We will put these figures on page 5 in the record.

(The page follows:)

Consolidated summary of object classification

		1966 actual	1967 estimate	1968 estimate
11	Personnel compensation:			
	Permanent positions:			
	Civilian	31,213,226	31,516,794	32,448,703
	Military	3,720,666	4,209,567	4,209,567
	Positions other than permanent	4,432,959	3,716,647	4,195,155
	Other personnel compensation	480,570	60,758	60,758
	Total personnel compensation	39,847,421	39,503,766	40,914,183
12	Personnel benefits:			
	Civil service retirement	2,015,660	2,124,891	2,164,025
	Group life insurance	106,642	110,840	108,775
	FICA taxes	163,539	105,885	105,115
	Health benefits	292,707	324,234	269,072
	Cash awards	37,553		
21	Travel and transportation of persons:			
	Administrative travel	850,232	870,000	1,026,500
	Travel of selectees	7,615,105	6,390,000	7,785,000
	Rental of passenger vehicles	60,242	77,500	77,500
22	Transportation of things:			
	Freight, express and drayage	139,697	70,000	114,000
	Rental of trucks	4,015	5,500	5,600
	Parcel post (penalty indicia)	104,000	45,500	105,400
23	Rent, communications and utilities:			
	Communication services	883,699	781,019	1,034,075
	Rents and utilities	141,219	472,000	508,377
	Penalty mail	1,186,000	935,500	984,048
24	Printing and reproduction	622,786	330,200	519,200
25	Other services	1,374,998	450,150	1,100,200
26	Supplies and materials	334,885	276,150	306,600
31	Equipment	801,851	245,100	326,800
42	Claims and indemnities	30,750		
	Total obligations	56,613,001	53,127,235	57,454,470

MILITARY PERSONNEL ATTACHED TO NATIONAL AND STATE HEADQUARTERS

Mr. EVINS. You have more military personnel attached to your State headquarters than national headquarters.

General HERSHEY. Well, I do not know the total.

Colonel ILIFF. We have about 50 in national, including our field officers who are attached to national headquarters, and have about 230 in the State headquarters.

Mr. EVINS. You need 50 military men around the headquarters in Nashville?

Colonel ILIFF. That includes the regional field offices which have 12 officers. Twelve of those are in field offices. We have two of them as fiscal auditors.

Mr. EVINS. What about in North Carolina?

General HERSHEY. No; he didn't say Nashville, he said national.

Mr. EVINS. National, you have 50 men?

General HERSHEY. There is a little difference. I think we ought to say something here about the military officers.

Mr. EVINS. Off the record.

(Discussion off the record.)

Mr. EVINS. On the record.

General HERSHEY. In the first place, I am carried on there as a military person and that is very flattering. I am paid by the Army. Then I have to pay the Army for paying me and these other officers, a couple of them sitting here, no one would ever take them for military officers.

Mr. EVINS. Oh, yes.

General HERSHEY. So the military, we happen to borrow people from the military to carry on civilian functions. So there isn't any difference ——

Mr. EVINS. Looking over the budget I got the impression that you had more in the national headquarters than you did in your State headquarters.

General HERSHEY. About four to one.

Colonel ILIFF. Yes, about four to one in the State headquarters.

General HERSHEY. We have increased some during the last year and a half because business has increased. But I think sometimes our calls were 10 times as large in a month, that isn't fair to take, but you have to take the best figures you can and I do not think we have increased more than 12, 13 percent in our personnel to carry on the additional load. And I don't believe the motor companies, if they increased——

ADMINISTRATIVE TRAVEL

Mr. EVINS. In 1966 your administrative travel, this is your officers and your top people, was $850,232. For fiscal year 1968, it is estimated to be $1,026,500. Are you going to do a lot more travel?

General HERSHEY. Colonel?

Colonel ILIFF. Yes. One of the factors here is in the local board travel. Out of this, administrative travel, if a board member travels a distance to go to a board meeting, he is reimbursed for that travel. That is the only pay he gets, but he is permitted to put in a voucher for travel. A lot of them don't put them in. But actually this is one

of the places where we have had a rather substantial increase. That you will find under Project 30.

Mr. EVINS. Yes.

Colonel ILIFF. There is a $150,000 increase in Project 30 on that.

Mr. EVINS. You have this selectee travel pretty thoroughly reviewed and computed. You have had a lot of experience in this area. You ought to know how much it costs. It goes up from $6,390,000 to $7,785,000 for next year. Then what about your rental of passenger vehicles; $77,500, where do you rent these?

Colonel ILIFF. From GSA motor pool.

Mr. EVINS. This is paying GSA?

Colonel ILIFF. Yes, sir

General HERSHEY. But we have no vehicles except maybe a truck in the national headquarters that isn't rented.

Colonel ILIFF. No, sir; we own one truck, one truck of our own.

INCREASE IN FREIGHT EXPENSES

Mr. EVINS. I notice a couple of other items here have gone up. Freight express from $70,000 to $114,000.

Colonel ILIFF. Of course the column 1967 you are looking at in every case is based upon 160,000 inductions rather than the 311,000, which is the revised estimate, that is one of the reasons we put in the table that follows which gives us the revised estimate, because we have already inducted through December 204,000. So the 160,000——

Mr. EVINS. What do you haul on this freight, trunks?

Colonel ILIFF. No, it is distribution of supplies.

General HERSHEY. Forms.

Colonel ILIFF. As much forms probably as anything else.

General HERSHEY. I am afraid, paper.

Mr. EVINS. Paperwork.

General HERSHEY. Paper.

Mr. EVINS. All right, a couple of other items, printing and reproduction goes up from $330,200 to $519,200. This reflects more printing and more paper. In addition, other services has increased from $450,150 to $1,100,200.

Do you have any money left over in these accounts?

Colonel ILIFF. You can see what we spent in 1966 was $1.3 million. This is considerably less for 1968. Of course, our present estimate of inductions is somewhat less than it was in 1966.

GENERAL STATEMENT

Mr. EVINS. Let's insert all the text of the general statement.

(The statement follows:)

There is presented herewith justification for the request of $57,455,000 with which to operate the Selective Service System, the National Advisory Committee on the Selection of Physicians, Dentists and Allied Specialists and the National Selective Service Appeal Board during the Fiscal Year 1968.

The Selective Service System is organized to carry out the primary functions of registration, classification, selection and presentation for induction in the armed forces of the men necessary for maintenance of those forces at the determined strength and by means of deferment, urges men into those occupations

and activities necessary to the maintenance of the national health, safety or interest. It also determines the availability of men for a selective call-up from the Standby Reserve. The collateral functions of administration, planning, training and records management are also performed by this agency.

The use by the Selective Service System of the services of over 48,000 uncompensated officials is unique in Government. These patriotic citizens will become less enthusiastic in their giving of service unless adequate clerical personnel is provided. The request for Fiscal Year 1968 includes the provision for such services in Project 30, except for 2.7% uncompensated clerical time.

The Selective Service System, which is decentralized, is organized on a pyramidal structure, the broad base of which is the local and appeal board element where the contact is maintained with over 33½ million registrants by the uncompensated members of the System and the local and appeal board clerks who staff the 4,087 local boards and the 94 appeal boards. The next largest group is composed of the 56 State Headquarters; the relatively small group which comprises the National Headquarters is the apex.

The strength of the Selective Service System lies in the fact that classification is the responsibility of those uncompensated civilians living in the communities with the registrants. They have no pecuniary interest in their position but perform their tasks as a patriotic service.

The size of the calls or the number of inductions in any given period directly affects only one cost factor—namely Selectee Travel. This estimate for Fiscal Year 1968 is based on the induction of 285,000 registrants, compared with 341,708 actually inducted in 1966. For 1967, in this Justification, only the appropriated amounts are shown which were based on 160,000 inductions although the calls for the first eight months total over 230,000 and the induction load is estimated at 311,000 for the year. However, at several points in the presentation we have included tables which show 1967 in two columns, the second is the revised amount column which includes the supplemental.

Executive Orders Nos. 10166 and 10185 created the National Advisory Committee on the Selection of Physicians, Dentists and Allied Specialists. Pursuant to these orders, the Selective Service System is required to furnish funds for its operation and provision is included herein.

Executive Order No. 9988 created the National Selective Service Appeal Board. The Selective Service System is required to pay the members of the board and "to furnish suitable office space and other necessary facilities and service". This requires more personnel in National Headquarters to the extent necessary to meet this requirement. This budget includes a request for funds to accomplish this purpose.

The principal factors in this request for an increase in 1968 over 1967 are: (1) The small increase in the number to be inducted over the number planned in the 1967 appropriation and (2) an increase in the number to be registered during the year.

The following fourteen-year table shows the experience and projection of the number of new registrations in future years:

Fiscal year	Age 18, year of birth	Census estimate (in (thousands)	Selective Service registration
1962	1944	1,402	[1] 1,512,980
1963	1945	1,397	[1] 1,506,857
1964	1946	1,414	[1] 1,491,907
1965	1947	1,955	[1] 1,972,638
1966	1948	1,811	[1] 1,999,981
1967	1949	1,813	[2] 1,928,000
1968	1950	1,857	[2] 1,975,000
1969	1951	1,902	[2] 2,022,000
1970	1952	1,768	[2] 1,880,000
1971	1953	1,850	[2] 1,967,000
1972	1954	1,917	[2] 2,038,000
1973	1955	2,128	[2] 2,263,000
1974	1956	2,162	[2] 2,299,000
1975	1957	2,197	[2] 2,336,000

[1] Actual.
[2] Estimated.

A request is included for the replacement of motor vehicles. In F.Y. 1967, nine vehicles will be replaced. For 1968, thirteen are being requested for the amount of $19,600. These are (1) seven automobiles to replace those which have passed both the age and mileage requirements and (2) six station wagons to replace those which have met the age and mileage requirements, even the current more stringent requirements.

Our fleet consists of 28 automobiles, 24 station wagons and 9 trucks; one of which is 1½ tons, the balance one ton or less. The equipment is in areas where there are no General Services Motor Pools available. They are principally used by State Directors and the officials of State Headquarters for contact with local boards within their respective states. The station wagons are used to deliver light equipment and supplies to local boards.

In support of this request, we have shown following each objective classification sheet a breakdown into four columns showing 1966 Obligated, 1967 Appropriated, 1967 Revised to include supplemental and the 1968 Request. We have shown similar information on the Detail of Personnel Compensation following the green sheets on the consolidated as well as the project sheets.

This information was requested by the Committee last year when we were also in a deficiency situation because of our greatly increased workload over that used in the appropriation request.

National Administration, Planning, Training, and Records Management

Mr. Evins. Turn over to Project 10, this is your national headquarters. We have already talked about that.

Let's place in the record pages 37 through 42 of your budget justification.

(The pages follow:)

National Administration, Planning, Training and Records Management

PROJECT 10

The National Headquarters is charged with the overall administration of the Act, with preparation of plans for future emergencies, with the designing and putting into effect of a training program and with the management of records required to be kept. To perform these functions the National Headquarters has been organized into offices and divisions, each subdivision being charged with certain responsibilities. Included in the followng costs are those of the six Regional Field Offices and the fiscal auditors operating in the field.

11 Personnel compensation

	1966 actual	1967 estimate	1968 estimate
Permanent positions:			
Civilian	$1,066,259	$1,274,424	$1,274,424
Military	869,858	915,482	915,482
Positions other than permanent	16,812	2,711	3,714
Other personnel compensation	16,919	6,380	6,380
Total personnel compensation	1,969,848	2,198,997	2,200,000

No additional personnel are requested for F.Y. 1968 over F.Y. 1967.

12 Personnel benefits

	1966 actual	1967 estimate	1968 estimate
Civil service retirement contributions	$65,145	$78,783	$74,900
Group life insurance contributions	3,386	3,700	3,700
Federal Insurance Contribution Act taxes	686	309	400
Health benefits contributions	6,077	8,000	8,000
Employee suggestion awards	25		
Total	75,319	90,792	87,000

These benefits are largely tied to civilian payrolls. Most items are based on actual payroll.

21 Transportation of persons

	1966 actual	1967 estimate	1968 estimate
Administrative travel	$80,349	$103,000	$103,500
Travel of selectees			
Rental of passenger motor vehicles	3,575	4,500	4,500
Total	83,924	107,500	108,000

The principal use of Administrative Travel is by our Fiscal Auditors and Regional Field Officers.

We have augmented our aduiting staff to increase our audits. This will increase the travel required in 1967 and 1968 over 1966. We have shown the full amount of the limitation for 1967 and are not requesting additional in the supplemental.

The rental of passenger motor vehicles (except as noted below) is from G.S.A. The principal use is in the Washington, D.C. area. However, our regional field officers also use them on occasion. The Director is using a leased medium sedan in lieu of the purchase authorized in 1964. This is leased from the manufacturer at an annual cost of $600.

22 Transportation of things

	1966 actual	1967 estimate	1968 estimate
Freight, express, and drayage	$10,635	$1,000	$11,000
Rental of trucks	486	500	600
Parcel post (penalty indicia)	1,892	1,000	2,400
Total	13,013	2,500	14,000

1967 is as appropriated—the Supplemental includes an additional $10,000.

Rental of trucks is from G.S.A. Motor Pools in Washington, D.C.

We reimburse the Post Office Department for this amount for parcel post (penalty indicia). Our Supplemental request will bring the figures shown for 1967 up to those requested for 1968 which is in line with the current requirements.

	1966 actual	1967 estimate	1968 estimate
Communication services	$36,619	$35,000	$42,000
Rents and utilities	7,693	9,000	9,700
Penalty mail	48,844	38,000	50,300
Total	93,156	82,000	102,000

Communication services is largely telephones for National Headquarters and the six Regional Field Offices. The increases reflect the soaring costs of F.T.S.

Rents are rental of I.B.M. equipment in National Headquarters.

Penalty mail charge is the amount we reimburse the Post Office Department for carrying our penalty indicia mail.

24 Printing and reproduction

	1966 actual	1967 estimate	1968 estimate
Printing and reproduction	$30,452	$5,000	$10,000

The principal constant item in this expense is the Annual Report of the Director to Congress. The Supplemental includes an additional $5,000 to bring 1967 up with 1968. The substantially larger amount required in 1966 was due to a $24,000 charge to publish Monograph No. 18, the last of the historical series on Selective Service under the 1940 Act.

25 Other services

	1966 actual	1967 estimate	1968 estimate
Other services	$39,150	$275,000	$40,000

A substantial part of this cost is normally for repairs and services on equipment. In 1967 we have included funds to prepare the sample inventory for information for the Department of Defense in justification of an extension of the general authority to induct which expires July 1, 1967. The Supplemental does not include any additional for 1967.

26 Supplies and materials

	1965 actual	1966 actual	1967 estimate	1968 estimate
Supplies and materials	$24,967	$22,195	$21,000	$26,000

The Supplemental includes $5,000 to bring 1967 up with the 1968 figure. 1965 included some of the sample inventory costs. The other years reflect the increased activity.

31 Equipment

	1966 actual	1967 estimate	1968 estimate
Equipment	$30,109	$5,000	$10,000

Equipment replacement has been scheduled at a minimum in 1967 and in 1968. The Supplemental includes $5,000 additional for 1967.

NATIONAL HEADQUARTERS

Mr. EVINS. This table on page 30 shows what has gone up. The 1967 appropriation and the 1967 revised is shown. The items "Military personnel," "Civilian personnel," "Transportation," and "Rents and communications" have all increased. Printing has gone up from $5,000 to $10,000, it doubles. Equipment has also doubled, increasing from $5,000 to $10,000. You revised your figure; you were substantically off in your original estimate for fiscal year 1967.

Mr. TALCOTT. One hundred percent five to 10 is 100 percent.

Mr. EVINS. Your appropriation for total obligations, revised, is $2,836,000.

The General is telling the committee that this is due to the military sending them over revised estimates of the numbers of inductees. They cannot control this because the military asks for more callups, which takes more money.

General, where is the bulk of your personnel in your headquarters, in what group, category, or classification?

General HERSHEY. Well, the bulk of them in numbers are civilians.

Colonel ILIFF. Fours, fives, sixes, and seven is the high spot for all of them; it is figure 23 in the national headquarters—17 sixes, fourteen fives, and 18 fours.

Mr. EVINS. Tell us about your six regional field offices, besides your 50 State headquarters. You have 50.

General HERSHEY. Fifty-six headquarters.

REGIONAL HEADQUARTERS

Mr. EVINS. Then you have six regional headquarters?

General HERSHEY. Yes.

Mr. EVINS. Where are they located?

General HERSHEY. In Lebanon, N.H. Originally it was in Boston, and when we started moving out in case of disaster, we just moved out there and stayed. So they are in Lebanon.

The next group is in Hagerstown, Md., which was another moveout. Atlanta, we haven't moved out. Dallas, we haven't moved out. Chicago, we haven't moved out, and in San Francisco we haven't moved out. We are in town.

Now these headquarters are projections of national headquarters and are charged against national headquarters and they have two officers and one clerk in each one of them. They are not administrative officers. They do handle the training of all of our Reserves, but the papers from the State headquarters do not go through a region. The Director of Selective Service organizationally looks at the director in the State as the next man. The region is not a part of the chain of command. It is an inspection system, coordinating system, training system, because it trains all our reservists and helps train the National Guard, as a cooperative function. But they do not command—a State director knows who he works for, the Director of Selective Service.

The region, he knows them but he is not under them, administratively.

Mr. EVINS. Is this another layer that could be eliminated?

General HERSHEY. No, it isn't a layer. We could have people in here who are field men and send them twice as far to visit our State headquarters. They are the people that policywise audit——

REVIEW OF STATE HEADQUARTERS

Mr. EVINS. In other words, if you wanted to check California State headquarters, instead of going out from Washington, you have a man from Chicago go?

General HERSHEY. No; a man from San Francisco.

Mr. EVINS. San Francisco.

Mr. GIAIMO. Does that mean he is checking that area all year long?

General HERSHEY. He lives out there. We have them in here twice a year to try to keep them fully informed. Which aids toward uniformity which some seem to worship but which we allegedly do not accomplish. But he is the officer that tries to see that the States are all moving somewhere along the same line. But when you take the fellow in San Francisco, two of those boys have Guam and Alaska and all those Western States including Hawaii. So you see they don't get around too often to each one of the States.

Mr. SHIPLEY. Would you yield?

Mr. EVINS. Yes.

Mr. SHIPLEY. For example, what are the levels in that office?

General HERSHEY. In rank?

Mr. SHIPLEY. Yes.

General HERSHEY. Theoretically they are two colonels. Practically they are not always quite that high, because sometimes we put in majors and lieutenant colonels. Eventually if they stay long enough they get to colonel. The billets are two colonels and one clerk.

Mr. SHIPLEY. They are military personnel?

General HERSHEY. Yes; without exception at the present time. That has been more or less our policy, but still we might send a civilian out there if we happen to feel like it, because there is no distinction in our organization between a fellow that is chief of a division here as a civilian or chief of a division as an Armed Forces man. We have a few people who retired.

Mr. SHIPLEY. How are these people paid? By the Army?

General HERSHEY. Yes. The Army pays the Army, the Navy pays the Navy and we reimburse both of them.

RESERVE TRAINING SCHOOL

Mr. JONAS. Don't they run a training school for Reserves?

General HERSHEY. Yes. We have 1,500 Reserves and National Guardsmen, and that is their primary function, not only running the conferences and other times that we have them on active duty, but we run extension courses all the time because we hammer these poor people over the head with correspondence courses.

Mr. GIAIMO. I don't understand this training of reservists. Is this a function of your regional office?

General HERSHEY. As far as we are concerned, but let me get straight on the Reserves. We think 1,500 is a lot of people but practically they are pretty small. We have always had the privilege of getting the Armed Forces to be willing to pay for training periods for people who are not on active duty to the number of about 1,500. Now we haven't got quite that many now because we have ordered some of them to active duty in the last year and a half, because that is what they are for. They are in our Reserve for the purpose that at any time we have to expand, we have people already trained to expand with and therefore we do not have to bring in green people.

The Armed Forces pay for the training of these individuals. We pay for the training of the trainers. And with the Reserves, the Re-

serves of the Army, Navy, Air Force, Marine Corps, and Coast Guard, because we have some of all of them. The Coast Guard has now moved over into another department, but they are with us——

Mr. GIAIMO. These are reservists?

General HERSHEY. Yes.

Mr. GIAIMO. Reservists that work for the Selective Service System when you need them?

General HERSHEY. That is right, and trained during the time we do not need them, so they can work for us when we do need them. We have worked it out with the Armed Forces to take out of their training funds the money that goes for these 1,500. Now about 500 of them are National Guardsmen. That is a little different because the responsibility for training is on the adjutant general of each State and we work with him and are his agent to train his people for our purpose. It is cooperative.

Mr. EVINS. If you would induct, select, and take trainees to the station, that is, if this were your primary function, would your operations be streamlined?

General HERSHEY. If we did what?

Mr. EVINS. If you registered, classified, and inducted, this would be your primary purpose. Of course, you have to keep your records.

General HERSHEY. Yes. Of course, we don't induct them now. Sometimes we thought probably we could. But there are some practical difficulties because the Armed Forces have always had the privilege of rejecting anybody they want, and as soon as you have anybody carrying out that function for them, you are going to have objections by them later on.

Our problem is to count them and sort them and send them. And we have got to have more when we have general mobilization than when we have less mobilization. And 1,500 is what we have. The Armed Forces furnished them so they would be trained. In the last 18 months we have called 25 or 30 to extended active duty. They sign up when they come to us that they will come on active duty when they are told to. You cannot call a Reserve officer except under certain circumstances. That does not apply to us. They sign up when they come to us that they will volunteer when we want them.

CONSCIENTIOUS OBJECTORS

Mr. EVINS. The military are giving you more and more duties and responsibilities, are they not?

General HERSHEY. When we get into the conscientious objectors, I would say "Yes." Sometimes I think they give us more responsibility than they do power. I do not blame them. We are just a service station.

Mr. GIAIMO. Would you explain briefly about conscientious objectors at this point? I know it is a tough one, but I am getting many letters on it.

Mr. EVINS. We are going into that.

General HERSHEY. The Congress has legislated that a person must by religious training and belief—and the belief causes a lot of the discussion. Congress put that in so that a johnny-come-lately did not claim that he suddenly believed. They have got to by religious train-

ing and belief be opposed to war in any form. That is what the Congress said and what I still believe.

We have had some encroachment by the courts that has tended to figure, first of all, you could defend yourself, and second, that you could have religion without getting too much involved.

Mr. EVINS. In depth?

General HERSHEY. Yes. It is with alarm that we view those things because I have always felt—and I know what the Congress told me because I have lived through the legislation with them, and they did not want philosophy, or economy, or sociology, or something else, they wanted religion. So we have pretty much stuck to that and at the present time a person has got to be opposed to war in any form and it has to be for religious reasons, and there should be evidence that he has the belief and he can be withdrawn if it shows rather than his just accumulating it lately.

Mr. EVINS. Can you give the committee any round figures as to the number of conscientious objectors you have?

General HERSHEY. I think we have about 3,300 or so.

Mr. EVINS. Currently before the draft boards all over the country?

General HERSHEY. There is a little more than that before them. We have 3,300 actually performing work of national importance.

Mr. MINSHALL. I think the notorious one you have is Cassius Clay. How does this apply to him?

General HERSHEY. Cassius Clay at the present time has been decided by our agency as not a conscientious objector. I do not know whether we have convinced him or not, but he is now claiming to be a preacher, and I think you will hear quite soon what the reaction of the Appeal Board to that is. I do not know what it will be because I have not seen the record, but I could suspect what it will be.

Mr. EVINS. The Board said he was an objector, but not a conscientious objector.

General HERSHEY. That is right, although I am in a little peculiar position because he and I were starred together last night.

Mr. EVINS. I know that.

General HERSHEY. I do not know if I have the right to say much about people who are working with me.

Mr. EVINS. He is the world champion boxer, but the cartoon in the press had him coming up against another champion.

General HERSHEY. And a big one.

Mr. TALCOTT. What is the difference in exemption criterion between a conscientious objector and a minister or preacher?

General HERSHEY. There is quite a bit of difference.

In the first place, the Congress has always said that a person that is established as a minister is exempt. The conscientious objector is not exempt. A conscientious objector was merely permitted to perform duties of various kinds. First of all, if his conscience was such that he could wear a uniform and not kill anybody, he could go into the Armed Forces as 1A–O. If, however, he refused to be associated with something that was primarily engaged in killing people, they permitted him, if he was found to be a conscientious objector, to do work of national importance. We have 3,300 such.

Mr. EVINS. An ordained minister is exempt by statute, but a conscientious objector is a matter of determination?

General HERSHEY. And not only that, he is not exempt; he is allowed to do alternate duty.

Mr. TALCOTT. Is not Mohammed Ali going to Islam or some place and get himself ordained so that all of these questions will be moot?

General HERSHEY. I have heard rumors of it. We go through all sorts of things, and if he gets into something new it will be interesting. We have seen most of these tricks. I do not mean to say he would not go.

In the first place, if we put him in I–A and send him to the induction station, then he will be there and whether he steps forward—if he refuses to step forward there is nothing we can do then except to report him to the Department of Justice.

Mr. EVINS. I will have to comment, as I have before, about the greatest hero of World War I, Alvin C. York, who came from the hills of Tennessee, and initially he was a conscientious objector. He did not believe in fighting or going to war, but they persuaded him that the Scripture said to fight on the side of righteousness. So Alvin York decided to go in and he became the greatest hero of World War I. He was a great soldier.

General HERSHEY. And when he started killing he went professional about it.

Mr. TALCOTT. Do these conscientious objectors cost your administration an appreciable amount of extra money?

General HERSHEY. The CO per individual will be more expensive to us than anything else we do. And maybe it is not worth it, but as long as we are a rich country I think that we can give some consideration. I tell my friends—and I have a great many of them who are conscientious objectors—that they are a luxury, and if we ever get in the lifeboat where everybody has to pull an oar, they will have to pull an oar or we will have to throw them overboard.

Mr. JONAS. What are the 3,300 doing?

General HERSHEY. They are mostly in hospitals working.

Mr. JONAS. In military hospitals?

General HERSHEY. No.

Mr. JONAS. Civilian hospitals?

General HERSHEY. Yes.

Mr. JONAS. How do you assign them?

General HERSHEY. Like we do everything else. The State finds places where these people can work, and you have to find a place that does not pay too much because you cannot be paying these people more than they would get as a private in the Armed Forces, when you count their food and so forth. And you have to be careful you do not run into organized labor having people around that are working.

It is somewhat of a problem, but this problem is like all problems—we let the people down the line, under certain supervision, do it, and in the absence of an appeal from these men, they will find a place for these people to work where the community will accept them and where their pay is low enough that we do not get criticized.

Mr. EVINS. The decisions are made at the local level?

General HERSHEY. That is where we do everything we can. I do not let anything come up here if I can help it.

AGRICULTURAL DEFERMENTS

Mr. EVINS. We have talked about the conscientious objector. Do you want to talk about the agricultural deferments? We represent a lot of rural areas and are now told by the draft boards there is no exemption for agriculture. It is no longer an essential occupation, now that we have surplus food. We have a lot of these who produce food for the military, they produce food in excess of the amount they consume. What is the policy on farm deferments?

General HERSHEY. The same as it is anywhere else. If a fellow is engaged in doing something that has got to be done and nobody can take his place, and if they did not do it there would be a loss to the country, he is entitled to deferment.

I want to be perfectly honest about it. I do not suppose we have at the present time 25,000 that we have deferred for agriculture. One of the reasons why, of course, that it has not been pressing is because our calls have been low and there have been a lot of people available for a lot of reasons.

Agriculture has been going through a very great revolution because the agriculture that I grew up in has disappeared. I took a couple of horses out to encourage them around the field for 10 to 12 hours a day and that is not done any more. Not only that, when I was a kid the fellow who had just a little intention of working could generally find some way to get started. I do not know what I would do if I had to face a $200,000 investment to get started.

Mr. EVINS. The theory is if he produces an abundance and more than the family consumes, he is then producing for the military or for other civilians.

General HERSHEY. If he was just producing enough to eat, taking him out of production and feeding him would not stop anybody from eating.

Mr. EVINS. Of course, if you have two or three in the farm business and a couple of them are drafted, you would probably let the third one stay and run the farm. This all depends upon the facts and circumstances in the individual case?

General HERSHEY. And the power to do or not do is vested in the local boards, and even if they are not very smart they know more about the situation than I.

LOCAL BOARD AUTHORITY

Mr. EVINS. Some of them get farm deferments and some of them do not, and the decision is made on the local level?

General HERSHEY. Yes, and there are different approaches to a great many questions. I would be the last one to say that these different States have the same ideals. They do not. Some of them are tougher and some of them are not as tough. Some are tough on one thing and some on another, but they run their business as they live it.

Personally, I would rather be wrong and have them being as they want to be than to make them. In Indiana, of course, there is no question about our excellence, but on the other hand, we do not want to go around and impose it on everybody else.

Mr. JONAS. I do not think we are in disagreement on this side of the aisle with that concept. It is better to have everything handled by local boards where they take the gaff, where they are subject to the criticism and where they cannot discriminate grossly without coming in for public censure. That is a far better system than to have some bureaucrat in a State capital or in Washington deciding who shall go and who shall not go, in my opinion.

But the main criticism, or at least one that I hear my colleagues mention, is that many of the local boards are leaving too much of the authority to the clerks and they do not have the time to devote to making the kind of thorough examination or investigation that the case should receive. And the end result is that in many cases the chief clerk makes all of the decisions and they just come in and ratify them.

Would you speak to that?

General HERSHEY. I will be glad to.

In the first place, obviously there are some places where it may be true. I would like to point out something that a great many people miss. Probably 60 or 70 percent of these classifications are automatic.

For instance, when a fellow is inducted he goes to I–C and it does not make any difference who puts him in I–C, whether the clerk puts him there or not. When a person comes out of the Armed Forces he goes into IV–A, and it does not make any difference who does it. When he gets the papers back on a rejection, then he is either in I–Y or IV–F, and it does not make any difference. So you have got a lot of things where it is perfectly true, but——

Mr. EVINS. It does not take the full quorum of the board to decide?

General HERSHEY. He comes into the pile and the clerk says they have all been rejected in the induction station.

Mr. JONAS. I am not talking about those. I am talking about I–A's.

General HERSHEY. That is what a lot of people accuse. I do not think there is any question about the board's going to ask the clerk first of all what is the regulation, because that is what she is for and she ought to bring them and spread them out in front of them. They may well say these people have been giving you a bad time and a lot of other things.

I was among some very fine people the other day and they pointed out that we had some clerks that are little tyrants and I do not doubt it.

In the first place, when they get to be efficient it is a little hard. Of course when you hire with the wages of about a grade 4, and that is where we are getting them mostly, we think they do pretty well for 4's. On the other hand, do not misunderstand. The people can get industrious. It is one of those things. But we have the greatest appeals system in the world. If anybody does not like what he gets at the local board, he can appeal. He is out of that board and up into the other board. And if he can get one vote in the appeal board, he is up to the Presidential Board automatically if he requests it. Or if the State director, or the national director, if he cannot, will appeal for him, he is up to the Presidential Board anyhow. I have had around 74,000 cases before the Presidential Board in my 26 years.

Mr. EVINS. The efficient ones ought to be commended rather than condemned?

General HERSHEY. Not only that, I wish we could get the kids to understand the appeals system better. I had a youngster call me from St. Louis the other night. He is a high school graduate but I could tell by talking to him there were several things he might not know. And he said he did not like the decision and his mother is dependent upon him.

I said, "Did you appeal?" and he said "Yes" and gave me the name he appealed to, and it was his Congressman.

Mr. GIAIMO. I would like to get back to what Mr. Jonas said because I think he has a point there. As a good administrator and person in charge, you are defending the people working for you and it is admirable that you do. I think the local boards are doing a good job and I think the clerks are.

However, I do think there is a danger which I have seen, on occasion, when we get a tyrannical clerk. You have to bear in mind what happens when the family and boy go to Selective Service and they are having a traumatic experience because the boy is going to be taken away from home and drafted, and when they meet this tyrannical clerk, which has happened time and again in one of the boards in my area—at least arbitrary if not tyrannical, they are not as ready to be a little more gentle than other clerks—it creates problems, and I think it creates problems to the board members.

General HERSHEY. I agree with you wholly. When I look at the alternative, I know some people who are getting quite a lot more money than my clerks are getting that are out not dealing with life, they are just dealing with money. I happen to be on the OEO Board, and I know something about some of the things they have been up against and they have not been noted for paying low salaries particularly.

Mr. JONAS. You should not have to pay people to be courteous. They should be courteous whether low paid or highly paid. It is the way some of them talk to people that brings about criticism.

General HERSHEY. You are tearing the scabs off the wound. I am chairman of the Red Cross in Montgomery County and I have been going through hell for the last 6 weeks over one of the most efficient executive directors in the world, who is just in a row with about every woman I have in the council. What do I do? This girl is the top of efficiency, but she does not make people happy.

Mr. EVINS. In working with individuals, you get this in all walks of life.

General HERSHEY. I agree with you.

Mr. TALCOTT. This is a tougher job than working as hospital receptionist, for instance.

EMPLOYEE TURNOVER RATE

Mr. BOLAND. What is the turnover? How many GS–5's quit in the course of a year?

General HERSHEY. Not very many. We had a study the other day that one of your other committees asked us to do and we found a rather strange thing.

In our cities where we pay our highest salaries and come nearer to meeting the other agencies, our turnover is greater than it is out where we pay less but where people apparently maybe have more devotion, or maybe there is not the same chance to work, but the turn-

over of both local boards and clerks is remarkably small, first for the people who do it for nothing and also the people who get paid. We get 10 percent turnover I think.

Mr. BOLAND. What is the average of the Federal employment, around 15?

General HERSHEY. I am quite sure it is greater.

APPEALS TO STATE DIRECTORS

Mr. BOLAND. What about the number of appeals from local service boards to State directors of the Selective Service System? How many appeals did you have in the United States last year?

Mr. EVINS. Appeal boards is the last section.

Colonel ILIFF. That is the National Appeal Boards. This is the appeals to the State boards.

In 1966 we handled 50,562 cases.

Mr. BOLAND. How many inductees did you handle?

Colonel ILIFF. Last year we inducted 342,000, approximately.

Mr. BOLAND. In how many instances were the local boards sustained in the 50,000 appeals?

Colonel ILIFF. That record I do not have.

LOCAL BOARD CLERKS

Mr. EVINS. The clerks are not under civil service, I believe.

General HERSHEY. They are not paid on civil service scale.

Mr. EVINS. They have the fringe benefits and other benefits, do they not?

General HERSHEY. Yes, and not only that, we have to hire them off the civil service rosters.

Mr. EVINS. We have talked about this before. There is always a clamor to put them under civil service.

General HERSHEY. I did not agree, although there are several people, very fine people, that do not agree with me. But one of the things about it, we are able to pay the person who is good more than the person that is not good, because the State directors have some discretion about it. If they were all 4's——

Mr. EVINS. Under civil service you could not remove an inefficient one?

General HERSHEY. We have a problem of removing them now. In fact, I think I will write an editorial for our house sheet this month on this question of getting along with people. I have to go at it from the other side and views on how we are getting along, and say unfortunately a few are not. It is not easy because their status is civil service people and they have about the same rights anyone else has.

Mr. EVINS. Do they take retirement contributions out of their pay?

General HERSHEY. Yes.

Mr. EVINS. The clerks?

General HERSHEY. Yes.

Mr. EVINS. Do they have national group life insurance and other benefits?

General HERSHEY. Yes

Colonel ILIFF. There are a few clerks which first came under FICA rather than the other.

Mr. EVINS. In other words, they are getting the benefits of retirement and insurance and other benefits. Some of them get more money than they would otherwise, and some get less. You are always going to have that.

EDUCATIONAL DEFERMENTS

We have talked about the conscientious objectors, we have talked about the farm deferment. Will you comment a bit about educational deferments? Does this apply uniformly? What is the problem there?

General HERSHEY. Let's just sketch historically. During World War II, as it progressed, we deferred almost nobody because we were taking almost everybody. By 1945–46 we had taken about everybody among the students, and had only left some physicians and dentists and a few engineers who were seniors and getting ready to graduate. Immediately after World War II there was a great hullabaloo that we had set trips to the moon by man and a lot of other things back by drafting scientific people. We appointed this board in 1948 to advise us, and it sat about 2 years, and I thought did a good job.

There were 30 of them. Dr. Triton was head of it. We had educators, business people, and scientists and that sort of thing, and they came to the conclusion that you could not anticipate ahead of time what segments of education are the ones that were going to be prominent 5 years from now. The old wornout example is, atomic scientists in 1936 were a dime a dozen; in 1940 were suddenly priceless. So in even 4 years we had no realization of where we were going.

On that basis, they said the thing we ought to do was to send everybody that had the capacity to go through college because college is good. It is good. They said at that time the only answer to how do you find out whether a fellow is capable or not is two ways: first, by an examination which has been used as long ago as Methuselah. I have no illusions about examinations, but that is the way they are still letting them in college and out of college.

The other thing is the standing in class, how he had performed among his fellows.

When the President issued his Executive order, we began to get ready and came over to talk to some people on the Hill, and we ran into two unusual things: The committee we had had put the word "and" between examination and standing in class. When we got over to the Hill, the people who represented good schools said, "Do you mean to say you are going to chop off the lower half of the freshman class of XYZ schools? They are Phi Beta Kappas or they would not let them in."

The other schools not quite so good said, "We will not get any students because they cannot get 70."

It changed the word "and" to "or" and said to the boys who had good schools to let them take the examination because if they can pass the examination they can get out. And they said to the other fellows, no matter how bad it is there is a good upper half. So that seemed like a fair compromise.

However, the Congress I think very wisely did two things: first, extended the liability to 35 so that there would not be any chance of a fellow being denied the privilege of getting in by being overage. The next thing they did was say no local board shall be compelled to defer anybody because of any test, any standing in class, or any other evaluation made by the contractors or schools or the Government, which was all right in my book.

I said to the local boards, "Here are guides, here are things to use, but you do not have to swallow them."

Mr. EVINS. They are not compelled to?

General HERSHEY. You think about them. Therefore, we find ourselves with a system in which we set up guides, we set up 70——

Mr. EVINS. We like the word "standards" rather than "guidelines."

General HERSHEY. Well, standards. We set up standards of 70 and the upper half of the freshmen class and the upper two-thirds of the sophomore class and the upper three-fourths of the junior class. And if they were going to graduate school they had to make 80 instead of 70 and had to be in the upper quarter of the class instead of some of these other areas.

Of course, there is still the local board. The thing the local board heard from Congress was just one thing, and it was in a little different situation. Congress said if I am in school and I am satisfactory and a full-time student at the time I am ordered to induction I may apply to have my induction postponed until the end of the year. But by saying full time and satisfactory they did set a standard in that particular instance, not applicable necessarily for deferment, but still we have something.

Mr. EVINS. At the end of the school year?

General HERSHEY. For his school year, yes.

Mr. EVINS. Then at the beginning of the next school year could they reconsider them for another school year?

General HERSHEY. Not this, but if he was in the upper half of his class or the upper two-thirds or whatever he had to be in, then he could be considered for a II–S, and that is one thing that worried us a little bit because the history was that back in 1940 it was only meant for that year, but it is like other things, you kind of get so it is for every year. There is no question about the fact that we have a lack of uniformity because there is no uniformity in the educational world. And I say this with all kindness. When I graduated I majored in education, but you cannot find one institution like another and you cannot even find the departments within the institution alike. And then you get into what is full time——

Mr. EVINS. These are matters of judgment, again by the local board?

General HERSHEY. And they start out by being judgments. Some institutions will certify to me that a fellow taking 10 hours is full time and others would not certify him unless he is taking 16 hours. That is quite a spread and is where we get caught, in efforts of uniformity.

I read in the paper last night we are going to have standards throughout the United States, and I am a little curious what we are going to do about our standards of education.

Mr. EVINS. They are not uniform?

General HERSHEY. There we are. On the other hand, I am perfectly willing to say that there may be local boards that know an honest, hard-working kid that somehow or other made a grade of 68 instead of 70, and maybe he is just above the half or not quite, but he has been everlastingly at it, and when they hire him he always does what he is supposed to. And I will bet about as much on that kid as on one of these brilliant, erratic, emotionally upset lads.

Mr. TALCOTT. The University of Santa Cruz at California is experimenting with a new concept in education grading. They do not give "report cards"; they do not have 70 percent or the "upper two-thirds." How do you handle a school with this kind of "grading" system?

General HERSHEY. Unfortunately, the student gets the end of the stick there because if he does not bring in that he is in school, the board cannot defer him for being in school. If he is in school and they will not even tell us——

Mr. TALCOTT. This student is in school.

General HERSHEY. How do you know?

Mr. TALCOTT. The university will certify he is in school and a full-time student, but they do not give conventional report cards.

General HERSHEY. Will they certify him as being satisfactory?

Mr. TALCOTT. Yes, I believe so.

General HERSHEY. Will they certify what subjects he is taking? You see, sometimes boards see somebody who is writing a lot of these easy subjects and they kind of figure——

Mr. JONAS. Like bird watching.

Mr. BOLAND. Could that student not take the examination?

General HERSHEY. Yes.

Mr. BOLAND. Why would he not do that, Mr. Talcott?

Mr. TALCOTT. Pardon me?

Mr. BOLAND. Why would he not take the examination? In addition to getting deferments because of your rank in class, you can get a deferment by taking and passing the selective service examination. Why would he not take that?

Mr. TALCOTT. I think he would.

General HERSHEY. We recommend it because they have some kids at times that do very, very well, and then they get sick and lose quite a lot and slip down a bit in their class standing. It is pretty handy if they have 72 or something to come up with to support the fact he says, "I was sick and lost." So he was. The more evidence you get, the better off you are.

Mr. JONAS. What do you feel about a young fellow who drops out a semester because he gets pneumonia?

General HERSHEY. It would have to be a pretty mean local board who would jerk him out because he was not a student because he was sick.

Mr. JONAS. Have you not had cases like that?

General HERSHEY. Maybe so. I do not remember. I had one case I remember quite well, but this boy did not have pneumonia, he fell

out of the top bunk, and the first year or two he did pretty well, but the third year he had fallen out of the bunk and had a little trouble, getting in other schools, and the board got harder to handle.

Mr. BOLAND. They would not want him in the service anyhow—he must be allergic to bunks.

General HERSHEY. He was in better physical condition than he thought.

EFFECT OF CURRENT PROCESSING ON EDUCATION

Mr. WYMAN. Faculty members of some universities like our Dartmouth in New Hampshire have suggested the process of the draft boards in deferring for grades is demoralizing education on campus and creates an atmosphere that is largely one of grades instead of valid educational incentives, and so forth.

Do you have any comments?

General HERSHEY. In the first place, I had a very pleasant evening at Dartmouth and so probably am a little prejudiced in their favor. I did not hear that while I was up there. I think you are going to always have people who say you demoralize the child if you make him wash dishes or something of that kind. Of course I am old fashioned, but I have a little trouble in the fact that you have to cater and baby a kid. And I happen to have four kids and 13 grandchildren and have had just a little experience. I do not think you have to baby them to get them to go through school. If you have to baby them too much to go through college, you had better let them do something else.

I have in my pocket a speech written by a kid out at Maryland, and he went quite a lot into this question of grades, and he said the people who think the kids are worrying about their grades are not one of the kids. It is quite an article. He made a speech day before yesterday in the Diamond Back. I have not finished it, but it is quite an interesting feature.

Mr. EVINS. What did they worry about?

General HERSHEY. He started out and said the first worry was damn poor instruction that they had. He probably should not have said that, but that is what he said first. I think a kid trying to be educated who is going out into life, if he is going to escape any stresses I do not know what they are. In fact, I suppose in the Armed Forces we are old fashioned enough to give people artificial stresses so that they get accustomed to living in a world of stresses.

I do not want in any way to debate with Dartmouth. I have a very high regard for them. But I doubt if the majority up at Dartmouth—the boys I saw I did not hear much of this. Of course they would not be asking me about that anyway, but it was a very gracious audience, they had a whole room filled, and for an hour or so they asked me questions. I do not know if I answered them.

Mr. WYMAN. Some of these sources contemplate the alternative of drawing by lots, which they think would have a more salutary effect on the educational process. I just brought this up because no doubt you have this question always.

General HERSHEY. I would comment, if they happen to be drawn first on the lottery, they will have some change of heart.

Mr. BOLAND. These meetings you have with the students are really enlightening. I note in this article in Newsweek that a student is quoted as saying that your concept of a student is, "Arbitrary, pragmatic, and inadequate." The many visits you have made to college campuses and the students' general reaction do not bear this out.

General HERSHEY. I have seen somewhat over 20,000 students in the last 6 or 8 months. They have had some queers just the same as any place except in Congress. But they have got some kids that do other things. But the great majority of these kids are just as good as you possibly could have.

I talked to General Johnson night before last and maybe he was trying to fan me—and he does not have to get along with me if he does not want to. Somebody said to him, "Why is the morale so high now in Vietnam?" and he said a lot of kids had been looking out for themselves when they have been lost in great groups and were not sure of themselves and now they belong to a platoon or a squadron, and not only that, they feel they are really doing something.

Of course everybody I see, including some religious people who have gone there that have no responsibility and do not have to get along with the Army, told me they had never seen such morale. LDS, the Mormon fellow, has about 2,000 kids out there and he saw most of them. He was out there about 6 weeks. When he comes back and tells me the morale is high—in the first place he does not have to tell me anything if he does not want to and it is a little different than General Johnson telling me. I would expect that.

LOTTERY SYSTEM

Mr. MINSHALL. General, the lottery system has been referred to. If I remember correctly, we had a lottery system during World War II, and I did not hear all of this complaint then. Why would not a lottery system now with very limited and selective deferments be in order?

General HERSHEY. I had better not say too much because about everybody except the people seem to be for it. Most of the services have shown, some as high as 4 or 6 or even 12 percent were in favor of it. There are a lot of people. The Armed Forces have come out in favor of it. And I would not be surprised although I know nothing about it. I think the New York Times said yesterday the President's Board was coming out for it.

So I guess probably I had better be careful what I say.

On the other hand, you did not hear much in the Armed Forces by the boys down in Vietnam. They are not paying much attention to what is being said about the draft, not as much as the people back here.

We had a lottery. In 1936 I started being educated in the lottery and we had to give it up in 1943 or 1944 because it just—for instance, when you think you are going to have a drawing but the day you draw there are 5,000 boys the next day who should have been in the lottery and were not because they were not old enough. What are you going to do—let them wait a year until you get around to them. That is not what worries me mostly. I worry mostly because we are promising kids something that is not so. We promise if you get low we will not

take you and then we go and take you. If we had a lottery in 1964 when we only took 78,000 that year and told the kids who were low they were all safe and then in 1963 we took them, they would have been, to say the least, a little unhappy.

Mr. MINSHALL. We took in, if I remember, over 10 million people during World War II.

General HERSHEY. 16 million. When you are going to take everybody, the lottery is much better.

Mr. MINSHALL. Why would not a selective system like that be worthwhile now? The people back home, 70 percent at least in my district—and I think it fairly represents the country as a whole—70 percent of them, according to an opinion poll I took, feel the present draft law and regulations are unfair and should be changed.

General HERSHEY. I know, but do they want a lottery or what? What they ought to do is change the law so we would not have to take anybody.

4–F DEFERMENTS

Mr. MINSHALL. They do not understand why, for example, you can take a spindly bank clerk and then you do not draft a professional football player. The difference for 4–F's, for example, is 1.9 deferments in Michigan, nearly 8 percent in Mr. Boland's State of Massachusetts, and Ohio is 5 percent. Why should not these standards be closer together?

General HERSHEY. In the first place, you were a little fast with me on the mathematics. I would like to get one thing at a time.

You talked about football players. The lottery will have nothing to do with them because even if you drew him high and the Armed Forces turned him down, he is not in. One of the problems we have is acceptability. I am not sure about your figures.

Mr. MINSHALL. I recounted these same figures before the Armed Services Committee last June and you did not dispute them.

General HERSHEY. You know it is like it is this morning. You give me enough figures there to take me in my slow wit probably about 3 days to argue with each one of them.

Mr. MINSHALL. I will give you these figures and I would like to have you analyze them and put your comments in the record.

General HERSHEY. I will be glad to. Is the percentage different on people deferred for education or is it for rejection rate, or what?

Mr. MINSHALL. I was referring to 4–F deferments. For Michigan it was 1.7 as compared to 8.9, nearly 9 percent, in Massachusetts, and 3.9 in Illinois, 5.8 in Pennsylvania, and 5.2 in Ohio. That is quite a spread.

General HERSHEY. It certainly is. If they were 4–F's they were all made 4–F's by the Armed Forces in their examination and I do not want to lose anybody's vote because I have to have everything I need here in this committee, but on the other hand, I can point to some States that had a rejection rate that runs as high as 70 percent, and that is not because of the standards being different, it is because the people that come up there are different.

Mr. MINSHALL. I am talking about the 4–F's now; 9 percent versus nearly 2 percent in Michigan.

Mr. JONAS. He does not put them in 4–F.

General HERSHEY. We have nothing to do with it.

Mr. MINSHALL. They are part of the draft?

General HERSHEY. This is the rejection rate.

Mr. MINSHALL. It is part of the whole system as far as the people back home are concerned, whether they are in or out. It is the draft.

General HERSHEY. I will grant that one of the things I wish we could tell the public when there is a football player playing—and I have had him up two or three or four times and they would not take him and they put him in component parts during the week and assemble him on Saturday. I do not know about that. I have my doubts about that too.

On the other hand, at the present time there are 2¼ million individuals in 4–F and I–Y because of educational reasons and they were rejected by the Armed Forces. There are 2¾ million in 4–F and I–Y for physical reasons. And there are a growing number, not too high and I hope it never gets very high, that are turned down for moral reasons.

What you have in 4–F and I–Y is something that the Armed Forces completely controls.

EDUCATIONAL STANDARDS

Mr. EVINS. This educational standard set by the military has grown increasingly over the years. It is my view we are taking the flower of our youth. High school graduates is what they want. But a lot of fellows, sort of beatniks or law violators, who are unemployed could be taken into the armed services and given a little discipline and made a good soldier. This has been accomplished in the past. However, the military does not want that type of man. They want at least a high school graduate.

General HERSHEY. They are taking down their standards. This is something I have unsuccessfully fought for a long time because I have felt—some of my own experience was with the soldiers who were not high school graduates. I guess I had one once. I am not sure. But this was a long time ago and it was a little different world.

On the other hand, I had some little hope because Mr. McNamara has promised to take 40,000 of I–Y's from October to October of this present year and 100,000 out of the I–Y's in the next time around.

Mr. GIAIMO. Are I–Y's college students?

General HERSHEY. They are people rejected as not up to present standards, but are up to standards we would accept in an emergency. They are both rejection classifications, that is I–Y and IV–F. The IV–F has gotten to be—when we started him out we seriously doubted we could ever use him. I do not buy that. If we were fighting for our existence, we are not going to be too choosy.

Mr. WYMAN. Is there not something perhaps to be said for the fact that the lottery would at least establish a common denominator as between all boards?

Mr. EVINS. That is arbitrary.

General HERSHEY. Arbitrary or capricious. But on the other hand, I do not believe it. I happen to believe if our intelligence is not better than blind chance—now that is where I am. Of course in the lottery, in the first place nobody knows what it is. It cannot be applied 100 percent.

Mr. EVINS. It is a good phrase that intelligence is better than blind chance.

QUESTION OF INDUCTIONS DISCRIMINATING AGAINST LOWER INCOME AND NONCOLLEGE MEN

Mr. GIAIMO. The thing that disturbs me, General, and I think disturbs a lot of people, is this. Is there any validity to the charge that without a lottery we are discriminating against those who do not have the advantages or the opportunities of going to school or those who perhaps are not smart enough to be in the higher categories in school, and that we are discriminating against the less fortunate, those with less opportunities and in the lower economic levels? Is that not the problem facing us?

General HERSHEY. That is the problem. Part of it is education. The fellow who goes into college is not exempted. At the present time 56 percent of the people who have gone to college in the last 10 years have gone into service and 46 percent of the people who didn't go to college have gone into service so the people who have gone to college are carrying 10 percent more of the load now.

For instance, if a boy wants to be a surgeon and graduates in 1967 from high school, he will not be a surgeon until 1980 if he misses not a day. It takes 13 years to make a surgeon nowadays. It takes 9 years to make an intern, and with a scientist, if he is going to the Ph. D. level, it is 9 years.

You can't eat your seed wheat and plant it.

Mr. GIAIMO. That is the argument in favor of not taking college students because they are a national asset and we need their talents, but let's go to the other side.

General HERSHEY. There is one of the most horrible things that can happen, when 5 million of our people are escaping service because they either didn't pass the mental—and they were deprived and I don't like it any better than anybody else, because they are deprived and when we get around 2¼ million turned down for educational reasons alone—and how many are we deferring for college, 1.6 million, and we have twice as many who are getting out of service because they don't know enough to get in.

There again I am hounding the Department of Defense to try to get people to take them. We have an awful time getting a kid unless he has been through junior high school, at the very best. I have 70,000 right now who are high school graduates. Who is carrying the load? It is the little guy. It is like the fellow who can't afford to go to a good hospital and he isn't poor enough to go to anything else.

I think the middleman is catching it. The boy who goes to high school and doesn't go to college is probably the fellow who is carrying more of the weight than he should, but the fellow who doesn't get through high school and has been deprived isn't doing what he ought to do because they won't take him.

Mr. EVINS. Everybody has their views. I think this is a group that should be more considered for induction.

Mr. TALCOTT. I represent a bright area, but we have more young men rejected from the service for lack of mental qualifications than bright guys.

Mr. MINSHALL. General, of course, as you well know, the present draft law expires June 30.

General HERSHEY. I don't like to stop you there, but that isn't the fact.

Mr. MINSHALL. Do you have any recommendations for the changing of the draft law as of now?

General HERSHEY No; I have not made any recommendations.

Mr. MINSHALL. You think it is perfectly satisfactory?

General HERSHEY. Oh, no; not at all. In the first place, there are so many things that can be done by Executive order if somebody will do it.

Mr. MINSHALL. What is your recommendation for Executive orders?

General HERSHEY. I have been trying for a long time to get orders issued saying that the President can issue his calls on the basis of age; that is, he can ask for 5,000 above 26; he can ask for 20,000 of age 19, and he can ask for something else.

One reason I want to get above 26 is that we have people up there who have gone through school and they have done very well. They probably started out while they were under 26, working where they ought to work, and sometimes you have some skills that are rather high skills and when they get to be 26 they start tending bar or something else. If you take a few people 26 and above, there will be a lot of folks hunting jobs where you want them and you won't have to take out very many.

The Armed Forces don't want people who are old. I don't want to fill them up with old people, but they could handle 5,000 or 10,000 every once in a while. There are plenty of places in the law to handle that. There is no use in legislating that.

We have a very flexible law. I don't see much that anybody has recommended that would take much change in the law.

Mr. MINSHALL. What are your recommendations, aside from that?

General HERSHEY. I have refrained because in the first place, I don't know what the President's Board is coming out with—and this can go on the record or any place else, but I am interested as an executive who is just working for his living and if we should have an executive study of that committee over there, and if the recommendations were made from the executive thing, then I would have to come over and stall you about three times when you ask me "What do you think?" I would say, "Well, this is what has been decided," and you eventually would say, "I didn't ask you that." I asked you what you thought and then I would tell you and I wouldn't be——

Mr. EVINS. General, you always take care of yourself well. There has been quite a bit in the papers about the inequities in the draft and there is sentiment in the Congress at this time for some amendments and change. I have seen you quoted in the press as saying you think the system is working, that it is working at the local level and you see no need for a basic change.

I think I know the general's view. I think I have heard it and read it, but still there appears to be a desire for change and you are going to be belabored during this session of Congress.

General HERSHEY. I will be there.

Mr. EVINS. You always equip yourself well.

Mr. JONAS. You are aware of the fact that there is a graduate student in one of the universities here in Washington who is writing a book entitled "How General Hershey Brainwashes Congress." Have you heard about that?

General HERSHEY. No.

Mr. JONAS. He has interviewed me and others. You ought to know that you are the subject of a full, in depth study.

General HERSHEY. I appreciate it.

Mr. JONAS. I asked if he was writing a graduate thesis about selective service. He said, "No, this is going to be a book on General Hershey and Congress."

General HERSHEY. I think it has been vice versa. I am not trying to bid for anything, but I do happen to know who is supposed to represent the United States legislatively, and that is the Congress.

Mr. JONAS. I told him you were a vigorous advocate of your point of view, and we didn't have any quarrels that amounted to anything, no bloodletting in the committee at least, but I thought you ought to know.

General HERSHEY. I certainly appreciate it. I never heard of that.

Mr. EVINS. Show for the record that the general has respect for the Congress, and the Congress has a high respect for General Hershey.

Mr. WYMAN. General, is there any legislative solution or recommendation that you might have to deal with the situations illustrated by Bishop Pike's incitement yesterday, his encouragement of young people to, en masse, to use the pretext of conscientious objection as a means of avoiding military service, even if they have to go to prison and stay there?

General HERSHEY. I don't believe you can do it by legislation. I happen to have enough faith that he will not get very many who will be willing to follow him. I have been hearing for a year and a half that they are going to get everybody to be conscientious objectors. These kids are not that dumb. After all, they know they have got more in the future than I have. What this country is to me for a little while is of little consequence, but the kid who is 20 years old has a big investment and he knows his best interest is found in collective action because we are living in a civilization—Robinson Crusoe made it pretty well out there on the island but we have to somehow get people to act straight to do the things we want them to do in order to get them to help us and we have to help them to do it.

Mr. EVINS. This one man represents one point of view and the general is saying that the great majority of Americans are still patriots.

Mr. BOLAND. I think one of the interesting things is that the general has been in his business longer than any man in the United States—that is, constantly and continually—30-some-odd years; is that right?

General HERSHEY. I started in 1936.

Mr. BOLAND. So nobody is more familiar with the System than he and no one has seen better than he its good parts, bad parts, inequities and discriminations, and yet you are still willing to say at this point, despite all of the criticism, that this system, as it is now constituted—with some changes which can come through Executive order—is as good as you can get for the objectives that a selective service system must meet.

General HERSHEY. And look at the last 18 months of our accomplishments.

Mr. TALCOTT. Mr. Chairman, General Hershey is a very disarming man. I think everything he has said has been very sage. I am favorably impressed with his splendid administration under the most sensitive and difficult circumstances.

I believe he has done a great job, but this is not the committee that he must sell during this Congress.

ABSENCE OF SCANDALS IN SELECTIVE SERVICE

Mr. JONAS. You have been dealing with this for all these years, with the most sensitive subject that exists in the United States. That is, sending boys to war who may be killed. I haven't heard of a major scandal involving Selective Service in any State. Have we had one?

General HERSHEY. No. One thing about it, as long as we can make the top news with any little thing, thank heavens, because as long as we are news they haven't decided, "Don't put it in, everybody knows it."

Mr. JONAS. That is the greatest tribute that can be paid to the local board members. I have heard of no charges of fraud or bribery or gross discrimination. You haven't had a major scandal in the whole Selective Service System.

Mr. EVINS. The general feels very deeply that decisions on the local level—the State level by the local people—is, despite a few minor inequities, better than one bureaucrat in Washington in a directive telling how it will be done.

Mr. JONAS. I agree.

Mr. EVINS. The system has worked.

QUESTION OF A VOLUNTARY ARMY

Mr. BOLAND. There has been a lot of talk about a voluntary army. Can a voluntary army work? There are a lot of people now saying if you have a completely voluntary arrangement that it can work and we can do away with Selective Service.

General HERSHEY. I have to take issue and say, since 1939, we have had no voluntary success in this country that was not supported by compulsion. That doesn't mean to say if you pay everybody $3,000 a month you won't be able to get them. I have 13 grandchildren and I don't want them defended by a guy you got completely by money. You have to give him a little money to let him know your interest in him, but I want somebody who goes out to defend this country for a reason other than that he got the most money.

He will go where he can get the most money and if I were on the other side, I would hire him.

Mr. EVINS. We don't need an army of mercenaries.

PERCENTAGE OF APPEALS

Mr. SHIPLEY. I would like to ask the Chairman to put in the record what we talked about a few moments ago, something about the percentage of appeals and how often they go, on numbers, and so forth.

General HERSHEY. I think that the President's Commission spent some little time on this and they may have a little better record on that.

Mr. SHIPLEY. Give us the best you can.

Mr. EVINS. Well, we will give you permission to extend your remarks, elaborate on these remarks, and put some tables in the record.

(The information supplied follows:)

The proportion of appeals in Fiscal Year 1966 in which the State Appeal Board gave a classification other than that given by the Local Board of jurisdiction is 31.7% of the total.

STATE ADMINISTRATION, PLANNING, TRAINING, AND RECORDS SERVICING

Mr. EVINS. We turn to project 20. We have talked about the State headquarters. Place in the record pages 43 through 47.

(The pages follow:)

Summary of object classification, project 20

		1966 actual	1967 estimate	1968 estimate
11	Personnel compensation:			
	Permanent positions:			
	Civilian	4,652,497	4,485,974	4,485,974
	Military	2,850,808	3,294,085	3,294,085
	Positions other than permanent	105,386	76,753	72,945
	Other personnel compensation	43,583	23,996	23,996
	Total personnel compensation	7,652,274	7,880,808	7,877,000
12	Personnel benefits:			
	Civil service retirement	288,455	293,162	301,917
	Group life insurance	14,753	15,000	16,000
	FICA taxes	6,600	3,190	3,083
	Health benefits	32,773	35,000	36,000
	Cash awards	7,494		
21	Travel and transportation of persons:			
	Administrative travel	116,315	160,000	160,000
	Travel of selectees			
	Rental of passenger vehicles	23,845	30,000	30,000
22	Transportation of things:			
	Freight, express and drayage	6,977	4,000	7,700
	Rental of trucks	1,278	2,000	2,800
	Parcel post (penalty indicia)	6,664	3,500	7,500
23	Rent, communications and utilities:			
	Communication services	139,008	120,000	174,000
	Rents and utilities	21,289	25,000	37,000
	Penalty mail	147,720	115,000	124,000
24	Printing and reproduction	17,822	25,000	36,000
25	Other services	44,097	45,000	90,000
26	Supplies and materials	77,059	55,000	55,000
31	Equipment	81,196	90,000	90,000
42	Claims and indemnities	367		
	Total obligations	8,685,986	8,901,660	9,048,000

	1966 actual	1967 appropriated	1967 revised estimate	1968 estimate
11 Personnel compensation:				
Permanent positions:				
Civilian	4,652,497	4,359,547	4,485,974	4,485,974
Military	2,850,808	3,191,943	3,294,085	3,294,085
Positions other than permanent	105,386	74,590	285,945	72,945
Other personnel compensation	43,583	23,320	23,996	23,996
Total personnel compensation	7,652,274	7,649,400	8,090,000	7,877,000
12 Personnel benefits:				
Civil service retirement	288,455	284,900	296,900	301,917
Group life insurance	14,753	15,000	15,560	16,000
FICA taxes	6,600	3,100	3,190	3,083
Health benefits	32,773	35,000	36,350	36,000
Cash awards	7,494			
21 Travel and transportation of persons:				
Administrative travel	116,315	160,000	160,000	160,000
Travel of selectees				
Rental of passenger vehicles	23,845	30,000	30,000	30,000
22 Transportation of things:				
Freight, express and drayage	6,977	4,000	7,715	7,700
Rental of trucks	1,278	2,000	2,700	2,800
Parcel post (penalty indicia)	6,664	3,500	7,585	7,500
23 Rent, communications and utilities:				
Communication services	139,008	120,000	188,702	174,000
Rents and utilities	21,289	25,000	37,033	37,000
Penalty mail	147,720	115,000	109,265	124,000
24 Printing and reproduction	17,822	25,000	36,000	36,000
25 Other services	44,097	45,000	45,000	90,000
26 Supplies and materials	77,059	55,000	55,000	55,000
31 Equipment	81,196	90,000	90,000	90,000
42 Claims and indemnities	367			
Total obligations	8,685,986	8,661,900	9,211,000	9,048,000

State Administration, Planning, Training and Records Servicing

PROJECT 20

The Universal Military Training and Service Act of 1951, as amended, in Section 10(a)(2) requires the establishment of at least one State Headquarters in each state, territory and possession of the United States. There have been established 56 such Headquarters. The functions of State Headquarters is to administer the Act within the respective states in compliance with the law, regulations and directives of National Headquarters. In general, the primary administration and responsibilities of each State Headquarters are as follows:

1. To establish and maintain local boards and appeal boards including arranging for office space, office equipment, securing competent personnel, and the selection for recommendation by the Governor of potential local board and appeal board members for either original appointment or as replacements for members lost.

2. To inform and instruct new local and appeal board members and clerks in the existing regulations, policies and administrative procedures; then to continually inform and instruct local and appeal board members and clerks concerning local manpower situations and changes in regulations, policies and administrative procedures.

3. To allocate calls to the local boards within the state on the basis of availability and quotas established from records of manpower available for service and those already in the service. To do this records must be maintained of men available for service, men already delivered for service, men deferred in all classes and credits to the various communities for men in the armed services. Records must also be maintained to insure the deferment of men needed in agriculture, industry and the national health, safety or interest. Such problems vary in the several states. To know the needs of agriculture, industry, etc., it is necessary that close liaison be maintained between the State Headquarters and these various fields of employment.

4. To allocate funds received and operate within the fiscal limitations so established. To pay all liabilities incurred by both State Headquarters and the local boards within the state. To process all personnel appointment papers. To arrange for the most economical method of transportation of registrants and arrange for delivery of men to the examining and induction stations in numbers not exceeding the daily capacity of the station. This may only be accomplished by the proper coordinating of schedules with the armed forces and the assigning of delivery rates to the various local boards.

5. To act as custodian and servicing agent of records. There are 54 Federal Record Depots in which are housed the remaining records of all registrants of World War II operations. The work of the depot consists of (1) answering requests for information; (2) the servicing of records and (3) the destruction of records when authorized.

6. To receive from the several services the notification of transfers of personnel to the Standby Reserve; to locate the local board of jurisdiction within the state; to assign the reservist to the appropriate local board and to maintain a record of the availability for selective call-up of reservists as established by the local board pursuant to Public Law 305, 84th Congress.

7. To plan for manpower procurement in general conformity with the National program as adapted to the unique problems within the state.

8. To maintain and keep current a plan for the operation of the State Headquarters and local and appeal boards in event of a catastrophe, including cooperative planning with adjoining states. Also to maintain a plan for an all-out emergency expansion. The number and location of the additional local boards, which would be required under such an emergency, have been established, lists of potential local board members are maintained, records of present registrants are so numbered that should expansion become necessary the records to be transferred to any particular local board are readily identifiable.

9. To develop and maintain a fully adequate program of training to provide a reserve of officers and civilians who will be able and willing to fill a position in the System should it become necessary to expand.

Mr. EVINS. You have mentioned there is one in each State, there are 56 State headquarters, and you outline the functions.

They act as custodians and service agents for the record. They have 54 Federal record depots in which are housed the records of all World War II registrants and all operations. There are 54 of those around the country.

General HERSHEY. I think we have two more. Panama doesn't have as much to worry about, or Guam.

Mr. EVINS. If you consolidated the State headquarters and the record centers into one, you would have a gigantic and mammoth center at one place.

STAFFING IN STATE HEADQUARTERS

Looking over your green sheet on page 50; you show that the number of grade 6 personnel have increased from 67 to 72, and grade 4 from 170 to 183. This is revised; that is, 1967 appropriation is revised.

Grade 2 personnel is up from 61 to 86—you are having to "beef up" the State headquarters. This is where some of the increase in personnel is occurring.

General HERSHEY. Inevitably because they are the people—anything we have to do in uniformity has to be done there.

Mr. EVINS. Place in the record pages 50 and 51 and information about State headquarters staffing for the last 5 years.

(The pages follow:)

State headquarters—5-year staffing pattern

	1964 actual	1965 actual	1966 actual	1967 revised	1968 estimate
GS–15	18	18.0	18.0	18.0	18.0
GS–14	48	48.0	48.0	48.0	48.0
GS–13	83	104.0	104.0	104.0	104.0
GS–12	69	87.0	87.0	88.0	87.0
GS–11	27	26.0	22.0	21.0	22.0
GS–10	5	6.0	5.0	6.0	6.0
GS–9	11	13.0	13.0	14.0	14.0
GS–8	7	11.0	11.0	11.0	11.0
GS–7	54	55.0	53.0	54.0	54.0
GS–6	66	63.0	71.0	72.0	72.0
GS–5	138	142.0	139.0	139.0	139.0
GS–4	151	159.0	177.0	183.0	184.0
GS–3	181	178.0	224.0	225.0	224.0
GS–2	49	45.0	97.0	86.0	86.0
GS–1	5	3.0	7.0	7.0	7.0
Ungraded	7	7.0	8.0	8.0	8.0
Total count	919	965.0	1,084.0	1,084.0	1,084.0
Lapses	51	45.2	71.2	114.4	116.4
Net permanent	868	919.8	1,012.8	969.6	967.6
Positions filled by military	230	229.0	228.0	228.0	226.0
Net civilians	638	690.8	784.8	741.6	741.6

SALARIES AND EXPENSES, PROJECT 20

Detail of personnel compensation

	1966 actual		1967 appropriated		1967 revised estimate		1968 estimate	
	Number	Total salary	Number	Total salary	Number	Total salary	Number	Total salary
Grades and ranges:								
GS-15. $17,550 to $23,013: State director	18	$338,260	18	$342,975	18	$352,320	18	$355,355
GS-14. $15,106 to $19,813: Administrative officer	13	216,240	13	218,767	13	225,143	13	226,189
Deputy State director	16	259,264	16	259,264	16	266,800	16	266,800
State director	19	307,876	19	307,876	19	316,825	19	316,825
GS-13. $12,873 to $16,905	104	1,439,370	104	1,445,898	104	1,483,048	104	1,484,840
GS-12. $10,927 to $14,338	87	1,022,109	87	1,029,086	88	1,066,113	87	1,057,527
GS-11. $9,221 to $12,056	22	219,174	26	261,227	21	217,266	22	229,007
GS-10. $8,421 to $11,013	5	47,080	6	60,015	6	60,318	6	60,606
GS-9. $7,696 to $10,045	13	113,737	14	121,045	14	125,973	14	127,766
GS-8. $7,068 to $9,183	11	89,011	11	89,459	11	92,788	11	94,198
GS-7. $6,451 to $8,368	53	404,293	57	438,091	54	425,673	54	429,081
GS-6. $5,867 to $7,649	71	489,287	67	462,871	72	514,485	72	518,652
GS-5. $5,331 to $6,915	139	855,920	144	900,920	139	890,434	139	898,529
GS-4. $4,776 to $6,216	177	950,489	170	934,310	183	1,015,647	184	1,035,463
GS-3. $4,269 to $5,565	224	1,030,237	251	1,168,877	225	1,085,016	224	1,099,483
GS-2. $3,925 to $5,122	97	382,832	61	252,696	86	360,027	86	369,593
GS-1. $3,609 to $4,707	7	25,144	4	15,695	7	26,361	7	27,215
Ungraded positions at rates equivalent to less than $15,106	8	33,356	8	33,386	8	33,386	8	34,233
Total permanent	1,084	8,223,679	1,076	8,342,458	1,084	8,557,623	1,084	8,631,362
Pay above the stated annual rate	------	19,619	------	20,119	------	20,702	------	----------
Lapses	71.2	453,177	114	925,390	114.4	913,053	116.4	999,440
Positions filled by military personnel	228	3,089,448	228	3,077,640	228	3,179,298	226	3,145,948
Net savings due to lower pay scales for part of the year	------	48,176	------	----------	------	----------	------	----------
Net permanent (average number, net salary)	784.8	4,652,497	734	4,359,547	741.6	4,485,974	741.6	4,485,974
Positions other than permanent: Part-time employment	------	105,386	------	74,590	------	285,945	------	72,945
Special personal service payments: Payments to other agencies for reimbursable details	------	2,850,808	------	3,191,943	------	3,294,085	------	3,294,085
Other personnel compensation: Overtime and holiday pay	------	21,637	------	2,600	------	2,675	------	2,675
Post differentials and cost of living allowance	------	16,590	------	20,720	------	21,321	------	21,321
Additional pay for employees compensation fund, Department of Labor, and for special and miscellaneous services	------	5,356	------	----------	------	----------	------	----------
Total, personnel compensation	------	7,652,274	------	7,649,400	------	8,090,000	------	7,877,000

SUMMARY OF OPERATIONS IN STATE HEADQUARTERS

Mr. EVINS. Place in the record pages 52 through 56.
(The pages follow:)

STATE ADMINISTRATION, PLANNING, TRAINING AND RECORDS SERVICING

11 Personnel compensation

	1966 actual	1967 estimate	1968 estimate
Permanent positions:			
Civilian	$4,652,497	$4,485,974	$4,485,974
Military	2,850,808	3,294,085	3,294,085
Positions other than permanent	105,386	76,753	72,945
Other personnel compensation	43,583	23,996	23,996
Total personnel compensation	7,652,274	7,880,808	7,877,000

No increases are requested in the number of personnel. The supplemental does include approximately $200,000 more in the amount available for positions other than permanent. This was due to the extra expense at State Headquarters to respond to some of the elaborate information requested by the National Advisory Commission on Selective Service.

12 Personnel benefits

	1966 actual	1967 estimate	1968 estimate
Civil service retirement contributions	$288,455	$293,162	$301,917
Group life insurance contributions	14,753	15,000	16,000
Federal insurance contribution act taxes	6,600	3,190	3,083
Health benefits contributions	32,773	35,000	36,000
Employee suggestion awards	7,494		
Total	350,075	346,352	357,000

These benefits are largely tied to civilian payrolls. All items projected are based on estimated payroll, except Group Life Insurance which is projected on experience. The supplemental request provides for some $5,600 additional for 1967. The reduction in FICA in 1967 and 1968 over 1966 is because of a change from FICA to Civil Service retirement.

21 Travel and transportation of persons

	1966 actual	1967 estimate	1968 estimate
Administrative travel	$116,315	$160,000	$160,000
Travel of selectees			
Rental of passenger motor vehicles	23,845	30,000	30,000
Total	140,160	190,000	190,000

Administrative Travel allotment for 1967 and 1968 reflects the increased workload.

The rental of passenger vehicles is all from G.S.A. motor pools and as pools increase in number more is required for their use.

22 Transportation of things

	1966 actual	1967 estimate	1968 estimate
Freight, express and drayage	$6,977	$4,000	$7,700
Rental of trucks	1,278	2,000	2,800
Parcel post (penalty indicia)	6,664	3,500	7,500
Total	14,919	9,500	18,000

Rental of trucks covers G.S.A. rentals and not many offices require this truck service.

Penalty indicia parcel post for small packages is set at the amount we remit to the Post Office Department to reimburse them.

23 Rent, communications, and utilities

	1966 actual	1967 estimate	1968 estimate
Communication services	$139,008	$120,000	$174,000
Rents and utilities	21,289	25,000	37,000
Penalty mail	147,720	115,000	124,000
Total	308,017	260,000	335,000

95% of Communication services is telephone cost. Telephone rates continue to increase. The 1967 Supplemental includes $69,000.

Rents and utilities are included to cover those areas where G.S.A. does not handle rents such as Puerto Rico. It also includes rental of equipment. The 1967 Supplemental includes $12,000.

The penalty mail is the amount for the Post Office and varies to some extent with the workload.

24 Printing and reproduction

	1966 actual	1967 estimate	1968 estimate
Printing and reproduction	$17,822	$25,000	$36,000

Printing for State Headquarters is a relatively small item. It includes franked envelopes purchased in the field. Although a small item, it does reflect the workload increase. The 1967 Supplemental carries an $11,000 increase.

25 Other services

	1966 actual	1967 estimate	1968 estimate
Other services	$44,097	$45,000	$90,000

This item has been largely miscellaneous repairs on equipment. However, now the Civil Service Commission is billing us for recruiting so for 1968 we have doubled our request.

26 Supplies and materials

	1966 actual	1967 estimate	1968 estimate
Supplies and materials	$77,059	$55,000	$55,000

No increase has been allowed for 1968 or the supplemental for 1967.

31 Equipment

	1966 actual	1967 estimate	1968 estimate
Equipment	$81,196	$90,000	$90,000

The principal item requirements for 1968 are 135 filing units (five-drawer filing cabinets and card files) ($5,263); 39 adding machines ($11,634); 97 typewriters ($29,951); 16 duplicating machines ($18,300); 160 units of furniture ($14,352); shelving (for file transfer cases) ($10,500).

Registration, Classification, and Induction

Mr. Evins. Project 30 is registration, classification, and induction. Selection for delivery for induction.

We have talked about the uncompensated civilians, the advisers and registrars. There are 48,000 of those. Place in the record pages 57 and 58.

(The pages follow:)

Summary of object classification, project 30

		1966 actual	1967 estimate	1968 estimate
11	Personnel compensation:			
	Permanent positions:			
	Civilian	$25,435,458	$25,692,135	$26,620,833
	Military			
	Positions other than permanent	4,298,525	3,624,550	4,105,768
	Other personnel compensation	420,068	30,382	30,382
	Total personnel compensation	30,154,051	29,347,067	30,756,983
12	Personnel benefits:			
	Civil service retirement	1,660,646	1,750,836	1,786,507
	Group life insurance	88,432	92,000	89,000
	FICA taxes	154,652	101,274	99,258
	Health benefits	253,752	281,000	224,922
	Cash awards	30,034		
21	Travel and transportation of persons:			
	Administrative travel	640,664	585,000	735,000
	Travel of selectees	7,615,105	6,390,000	7,785,000
	Rental of passenger vehicles	32,822	43,000	43,000
22	Transportation of things:			
	Freight, express and drayage	122,085	65,000	95,300
	Rental of trucks	2,251	3,000	2,200
	Parcel post (penalty indicia)	95,444	50,000	95,500
23	Rent, communications and utilities:			
	Communication services	706,671	625,000	816,500
	Rents and utilities	112,237	438,000	461,677
	Penalty mail	988,636	781,700	808,823
24	Printing and reproduction	573,632	300,000	473,000
25	Other services	1,291,587	130,000	970,000
26	Supplies and materials	235,328	200,000	225,000
31	Equipment	689,127	150,000	225,000
42	Claims and indemnities	30,383		
	Total obligations	45,477,539	41,332,877	45,692,670

		1966 actual	1967 appropriated	1967 revised estimate	1968 estimate
11	Personnel compensation:				
	Permanent positions:				
	Civilian	25,435,458	24,968,061	27,010,680	26,620,833
	Military				
	Positions other than permanent	4,298,525	3,522,400	3,470,938	4,105,768
	Other personnel compensation	420,068	29,526	30,382	30,382
	Total personnel compensation	30,154,051	28,519,987	31,512,000	30,756,983
12	Personnel benefits:				
	Civil service retirement	1,660,646	1,701,493	1,769,125	1,786,507
	Group life insurance	88,432	92,000	93,000	89,000
	FICA taxes	154,652	98,420	101,652	99,258
	Health benefits	253,752	281,000	238,223	224,922
	Cash awards	30,034			
21	Travel and transportation of persons:				
	Administrative travel	640,664	585,000	735,000	735,000
	Travel of selectees	7,615,105	6,390,000	8,419,000	7,785,000
	Rental of passenger vehicles	32,822	43,000	43,000	43,000
22	Transportation of things:				
	Freight express and drayage	122,085	65,000	95,300	95,300
	Rental of trucks	2,251	3,000	2,200	2,200
	Parcel post (penalty indicia)	95,444	50,000	95,500	95,500
23	Rent, communications and utilities:				
	Communication services	706,671	625,000	825,323	816,500
	Rents and utilities	112,237	438,000	461,677	461,677
	Penalty mail	988,636	781,700	800,000	808,823
24	Printing and reproduction	573,632	300,000	473,000	473,000
25	Other services	1,291,587	130,000	970,000	970,000
26	Supplies and materials	235,328	200,000	225,000	225,000
31	Equipment	689,127	150,000	225,000	225,000
42	Claims and indemnities	30,383			
	Total obligations	45,477,539	40,453,600	47,084,000	45,692,670

LOCAL BOARD CLERKS

Mr. EVINS. In May 1966, a carefully supervised work measurement study was conducted in many States. How about that work study?

Colonel ILIFF. That is the basis on which we build the requirements for local board clerks.

Mr. EVINS. There is a big chart on 66. Put that in the record.

(The page follows:)

Comparative summary statement, by function, project 30—Local board clerks

	1966 actual		1967 authorized		1968 estimate	
	Man-years	Cost	Man-years	Cost	Man-years	Cost
Registering	798	$3,731,965	755	$3,738,392	773	$3,867,050
Classification	2,681	12,537,832	2,390	11,832,868	2,541	12,704,406
Appeals	58	269,200	51	253,978	55	272,625
Physical examination (L.B.)	71	332,340	55	272,623	66	330,713
Physical examination (A.F.E.E.S.)	554	2,589,897	432	2,136,369	516	2,577,775
Inductions	136	637,981	72	355,366	112	558,596
Civilian work assignments	6	28,048	3	15,623	5	24,555
Delinquents	44	204,460	39	192,927	41	207,116
Initial processing Standby Reserve	123	574,006	131	646,800	120	602,316
Categorizing Standby Reserve	248	1,160,031	240	1,187,460	228	1,140,370
Removal from Standby Reserve	24	112,841	65	319,550	60	297,609
Answering inquiries	773	3,615,200	690	3,416,536	733	3,667,052
Administrative time	1,112	5,197,451	1,006	4,978,575	1,072	5,360,287
Subtotal	6,628	30,991,252	5,929	29,347,067	6,322	31,610,470
Less uncompensated man-years	−179	−837,201			−171	−853,487
Total	6,449	30,154,051	5,929	29,347,067	6,151	30,756,983

Mr. EVINS. You show the classification, appeals, inductions, delinquents, standby reserves, and the answering of inquiries. This gives a tabulation of the work of the local board clerks.

Colonel ILIFF. That is correct.

Mr. EVINS. On this basis you felt you needed more staff?

Colonel ILIFF. Yes, sir. It is always good to have facts and knowledge, but it resulted in more costs and more personnel. That was the end result.

General HERSHEY. Unfortunately, and we don't think we pay as much as some agencies to find out how we have got to pay more.

Mr. EVINS. Why are the employees up so much in the last 5 years? In 1960 it is 4,600 and now it is about 6,000.

General HERSHEY. If you start back at the close of the Korean war, which was about 1954 or 1955, we began to go into 3,000 to 5,000 to 6,000 to 7,000 maximum inductions and starting back in the latter part of 1965 we began—as the President said, "We are going to double," and we are more than averaged since 2 years ago and it has been reflected. Another thing, the pay raises have gone up along with it.

Mr. EVINS. In peacetime there is less activity also.

General HERSHEY. Yes.

Mr. EVINS. Place page 60 in the record, along with pages 67 through 70.

(The pages follow:)

REGISTRATION, CLASSIFICATION AND INDUCTION

In studying the fund requirements for Project 30, it is most necessary that full realization be secured of the unique use by the Selective Service System of the services of some 48,000 uncompensated citizens who under the law make the classification and selection of those who are to serve in the armed forces and select those whose military obligation is to be postponed in support of the national health, safety, or interest. There are 4,181 local and appeal boards, including appeal board panels, at which these people serve giving the necessary part of their time to serve the Nation with realization of such service being their only reward. To retain that service, it is a fundamental precept that adequate clerical assistance must be furnished.

In May 1966, a carefully supervised work measurement study, developed with the assistance of the Bureau of the Budget staff, was conducted in fifty-two states. A similar study was made in thirty-seven states in May of 1964. The results of these studies serve as a basis for the following estimate of work units, man years required to process them, and the personnel costs for local boards of the entire Selective Service System.

On the basis of this study, it will be seen that in order to meet the workload requirements, it was necessary to secure in 1966 from local board clerks, 179 man years of time for which they could not be compensated because the supplemental appropriation was not immediately available and personnel ceilings hampered our flexibility. In 1967 the present appropriation is based on the 160,000 induction workload and a supplemental will be required to take care of the additional workload created by an increase to 311,000, the current estimate. Through December 31st over 200,000 had already been inducted.

Registering

	1966	1967	1968
Work units	1,999,981	1,928,000	1,975,000
Man-years	798	755	773
Cost	$3,731,965	$3,738,392	$3,867,050
Unit cost	$1.866	$1.939	$1.958

All male citizens of the United States (and alien males in the United States) who are over 18 years of age are required by law to register with the Selective Service System for possible military service. The registration is conducted by local board clerks who normally interview each registrant as part of the preparation of several forms, assign Selective Service numbers and prepare necessary file documents. The function also includes issuance of duplicate replacement registration certificates and the work involved in the cancellation of a registration when necessary.

Estimates of work units to be processed are based on census estimates of the number of men who will turn 18. These estimates are adjusted on the basis of actual numbers registered.

Classification

	1966	1967	1968
Work units	8,264,886	7,503,404	7,975,145
Man-years	2,681	2,390	2,541
Cost	$12,537,832	$11,832,868	$12,704,406
Unit cost	$1.517	$1.577	$1.593

Classification is the act of declaring a registrant either available for military service or not available for service for any of several prescribed reasons, including dependency and employment in vital industry. The procedure is necessary to comply with a provision of the law which requires a selection system which is fair and just and which is consistent with the maintenance of an effective national economy.

Registrants must be reclassified as changes occur in their family, employment, or health status. Classification determinations are made by uncompensated members of the Local Board but substantial clerical work is also involved.

This item covers the work of the local board clerk in preparing and mailing the classification questionnaire and associated documents, reviewing them when they are returned, securing such additional information as may be required, attending Board meetings, and preparing various post-meeting forms. Estimates of the number of classification actions are made by correlation of the new registration figure and the induction requirement.

Appeals

	1966	1967	1968
Work units	50,516	45,861	48,744
Man-years	58	51	55
Cost	$269,200	$253,978	$272,625
Unit cost	$5.329	$5.538	$5.593

A registrant, his dependent, or any person who has filed a request for his deferment may appeal any classification actions except those placing the registrant in Classes I–C, I–W, IV–F, or V–A. These appeals go first to appeal boards in the states but may, under certain circumstances, ultimately be carried to the National Selective Service Appeal Board which is located in Washington, D.C.

This item covers the work of the local board clerks and the appeal board clerks in processing these appeals. It includes the making of necessary notations in various records, preparation of necessary forms and notification to interested persons that an appeal has been taken and informing them of the result of the appeal.

Appeals under the heavier workload of increased inductions have increased five fold and under the greater volume, the unit cost has been reduced by almost one-half.

The estimated volume of appeals for 1967 and 1968 is calculated as a portion of the number of classifications.

Physical examination (local board)

	1966	1967	1968
Work units	192,215	152,559	182,211
Man-years	71	56	66
Cost	$332,340	$274,149	$330,713
Unit cost	$1.729	$1.797	$1.815

While most physical examinations are conducted by the medical staff at Armed Forces Examining Stations, medical interviews are conducted at the local boards to screen out registrants who may have obviously disqualifying physical or mental conditions. This interview is usually conducted by a medical advisor to the local board. Its purpose is to save the cost of transportation to an examining station of the men concerned.

The local board clerk is involved in these examinations in arranging a suitable time, preparing notices for registrants to report for medical interview, completing pertinent forms, making necessary notations on records, etc.

The work measurement study shows that the percentage of registrants who are handled in this manner is 11.14% of the total who undergo armed forces physical examinations. On the basis of 1,635,644 forwarded for armed forces physical examinations in 1968, it is anticipated that there will be 182,211 local board physical examinations.

National Advisory Committee on Selection of Doctors, Dentists, and Allied Specialists

Mr. Evins. Refer to pages 81 and 82. This is the benefits to the local people.

Project 40 is the National Advisory Committee on the Selection of Doctors, Dentists, and Allied Specialists. Place in the record pages 90 and 91.

(The pages follow:)

Summary of object classification, project 40

		1966 actual	1967 estimate	1968 estimate
11	Personnel compensation:			
	Permanent positions:			
	Civilian	10,053	9,037	13,272
	Military			
	Positions other than permanent	12,236	12,633	12,728
	Other personnel compensation			
	Total personnel compensation	22,289	21,670	26,000
12	Personnel benefits:			
	Civil service retirement	654	515	701
	Group life insurance	32	50	75
	FICA taxes	491	206	374
	Health benefits	47	54	150
21	Travel and transportation of persons:			
	Administrative travel	7,424	16,000	20,000
	Travel of selectees			
	Rental of passenger vehicles			
22	Transportation of things:			
	Freight, express and drayage			
	Rental of trucks			
	Parcel post (penalty indicia)			
32	Rent, communications, and utilities:			
	Communication services	670	519	775
	Rents and utilities			
	Penalty mail	150	150	225
24	Printing and reproduction	880	100	100
25	Other services	119	50	100
26	Supplies and materials	145	50	200
31	Equipment	446		300
	Total obligations	33,347	39,364	49,000

		1966 actual	1967 appropriated	1967 revised estimate	1968 estimate
11	Personnel compensation:				
	Permanent positions:				
	Civilian	10,053	8,782	13,272	13,272
	Military				
	Positions other than permanent	12,236	12,277	12,728	12,728
	Other personnel compensation				
	Total personnel compensation	22,289	21,059	26,000	26,000
12	Personnel benefits:				
	Civil service retirement	654	500	701	701
	Group life insurance	32	50	75	75
	FICA taxes	491	200	374	374
	Health benefits	47	54	150	150
	Cash awards				
21	Travel and transportation of persons:				
	Administrative travel	7,424	16,000	20,000	20,000
	Travel of selectees				
	Rental of passenger vehicles				
22	Transportation of things:				
	Freight, express and drayage				
	Rental of trucks				
	Parcel post (penalty indicia)				
23	Rent, communications and utilities:				
	Communication services	670	519	775	775
	Rents and utilities				
	Penalty mail	150	150	225	225
24	Printing and reproduction	880	100	100	100
25	Other services	119	50	100	100
26	Supplies and materials	145	50	200	200
31	Equipment	446		300	300
	Total obligations	33,347	38,732	49,000	49,000

Mr. EVINS. The President, by Executive order, established a National Advisory Committee on Selection of Physicians and Dentists and Allied Specialists. The Committee is composed of 11 members. There is a national office and 51 field offices.

The Armed Forces attempts to get doctors by commissioning them, but you find it difficult to secure enough doctors and dentists.

General HERSHEY. They will commission them after we get them by "incentive" to accept the commissions.

Mr. EVINS. In 1966 you had a call for 1,529 physicians. In 1967 there are 1,713 physicians, and in 1968 you project there may be a call for 2,000.

General HERSHEY. We placed it. It was 2,200 and some.

Mr. EVINS. This commissioning process doesn't get enough doctors, dentists, and allied specialists. After this doesn't work, how are you enabled to get enough doctors to look after our men in the Armed Forces? Tell us about it. How do you go about it?

General HERSHEY. In the first place, a boy is in medical school and then he goes into internship. The hospital tries to bring to his attention the fact that the services are going to commission people the next summer, and in the autumn we order him in for physical examination, which sort of alerts him to the fact and quite a few of them volunteer after that, but lots of them do not.

After we find they are acceptable, of course, about the only thing we have left is to order them for induction, which is kind of a silly proceeding because we know that we are not going to induct them as privates, but so far enough have volunteered after they found out they were going to be inducted so that we got the numbers and, of course, we waited until next year and started after them again.

It is an impossible project to diagram but that is the way we do it.

Mr. EVINS. You try to encourage all the commissions you can through the colleges and through the medical schools.

General HERSHEY. And through the examination, and then through the induction order.

Mr. EVINS. How far have you fallen short in the last 2 or 3 years of your needs and requirements?

General HERSHEY. Well, that is a good argument. We say we haven't. You will find some people from the Armed Forces who will say they have, but we get into quite a go-around because, remember, they take 2,200 or 2,300 out of each class for the so-called Berry plan and it is a little hard for us sometimes. When we get a Berry plan man and they order him for induction, we figure we have him.

BERRY PLAN

Mr. BOLAND. Will you put into the record an explanation of the Berry plan?

General HERSHEY. I can tell you what it is.

Mr. BOLAND. Fine; go ahead.

General HERSHEY. When we first went to getting doctors by compulsion, which was in Korean wartimes, you had the law extended particularly to doctors and it extended to 50 years of age and whenever you started getting specialists you found yourself in the 30's or the 40's and it is very difficult to pull people out. So, therefore, Dr. Berry, who was at that time Assistant Secretary of Defense, had an idea: Why don't we train our specialists? So, starting in one of the years 1952 and 1953, we pulled out 300 doctors we wanted to induct, but we didn't. We let them take a Reserve commission and go to hospitals and start the residency business. Well, now, that residency business has grown from 300 to about 2,300, and not only that, Public Health gets away with 500 or 600 in the corps plan, which is the same idea. They are made reservists, sent to civilian hospitals to finish residency, which is normally 4 years, but we have a few that are 5 or 6 or 7. The idea originally was that we might take them at 2 but as soon as they got 2 years they said we were cutting the grain before it was ripe.

Mr. EVINS. When these young doctors sign up under the Berry plan, when do they anticipate or expect under their contract agreement that they will go into the service?

General HERSHEY. At the end of 4 years, and the only thing we keep complaining to the Armed Forces about is, whether they are not letting some people——

Mr. EVINS. Escape?

General HERSHEY. Yes.

SELECTED RESERVE CALLUPS

Mr. MINSHALL. Would you care to comment on your attitude toward calling up Selected Reserves to help you in certain situations?

General HERSHEY. For instance, in our work.

Mr. MINSHALL. Yes. Specialists, for example, like engineer groups and even doctors.

General HERSHEY. You see, if I ran the induction stations, then I would be very much in favor, but I don't have anything to do with the induction stations. The only reason I use a doctor is to do some auditing to see whether some of these doctors, their reasons for being out are not good, so we do have quite a few Reserve units that actually help our local boards——

Mr. MINSHALL. I mean calling up Reserve Active units to the Army or to the other services.

General HERSHEY. Do you mean to help me?

Mr. MINSHALL. No, for increases when you get calls for different kinds of specialists, for example.

General HERSHEY. Doctors, veterinarians, dentists, osteopaths, and ophthalmalogists are about the only specialists we have called and we don't have authority to call any kind of specialists except health specialists.

Mr. MINSHALL. I am talking about Reserve units. People in the Reserves. They have been trained, for example, for engineering outfits——

General HERSHEY. If the Armed Forces need them, that is their problem, but we only take people as individuals. There is a good debate about whether the Reserves and the National Guard should be called or not. I don't think my opinion would be worth very much.

Mr. MINSHALL. I wouldn't ask you if I didn't think it was worth very much.

General HERSHEY. For instance, you get into a lot of things. Talk to the Governors. I talk to them some because actually they are the head of Selective Service in each of our States. I think they would have quite a lot of concern if somebody would order their Guard out because they would have to form another Guard because with the world as it is—and let's not get into anything except floods and storms and things of that kind—nobody likes to see the country denuded of its military strength, and our Regular Forces are pretty well out of this country.

Mr. MINSHALL. The point is, you wouldn't have had to call up so many people in the draft if the Army had called up logistics units and engineering units which were in very short supply in Vietnam.

General HERSHEY. There is no question about it. If they called out 50,000 or a 100,000 Reserve or National Guard, that would tend to reduce our calls by that much. There is no question about that. On the other hand, you don't call them out but once. As some men have vainly said, they have told their wives, "You can't spend the savings but once."

When to commit your Reserves is always a delicate question with the military commanders because when he commits his Reserves he is through with the fight as far as he is concerned.

When you get into the overall policy of the Government and the number of possibilities of commitments around this world, I am not in a shape to say I criticize people on holding out Reserves. As an old Army man, I probably don't like to see somebody—at the first time somebody fires a shot—say, "Everybody get out there." The world has a lot of trouble spots in it.

Mr. MINSHALL. You think we need a little protection on the home level too?

General HERSHEY. I haven't had any pickets bother me, but some folks have.

Mr. EVINS. We will turn to pages 94 and 95. You have to pick up the tab for all Selective Service consultant fees and for the National Advisory Committee on Physicians. This is set up by Executive order, but Selective Service pays all the bills?

General HERSHEY. That is true. We paid the money. I should point out the Doctor's Commitee as implemented by Executive order was set up by Congress. The Presidential Appeals Board wasn't. That was set up by Executive order, and we do service both of them because they were attached to us——

Mr. EVINS. The chairman of this committee has requested it be included in the supplemental.

NATIONAL SELECTIVE SERVICE APPEAL BOARD

One other subject: Your Project 50 is the Appeals Board. We have discussed their operations. Place in the record pages 96 and 97.

(The pages follow:)

Summary of object classification, Project 50

		1966 actual	1967 estimate	1968 estimate
11	Personnel compensation:			
	Permanent positions:			
	Civilian	48,959	55,224	54,200
	Military			
	Positions other than permanent			
	Other personnel compensation			
	Total personnel compensation	48,959	55,224	54,200
12	Personnel benefits:			
	Civil service retirement	760	1,595	
	Group life insurance	39	90	
	FICA taxes	1,110	906	2,000
	Health benefits	58	180	
21	Travel and transportation of persons:			
	Administrative travel	5,480	6,000	8,000
	Travel of selectees			
	Rental of passenger vehicles			
22	Transportation of things:			
	Freight, express and drayage			
	Rental of trucks			
	Parcel post (penalty indicia)			
23	Rent, communications and utilities:			
	Communication services	731	500	800
	Rents and utilities			
	Penalty mail	650	650	700
24	Printing and reproduction		100	100
25	Other services	45	100	100
26	Supplies and materials	158	100	400
31	Equipment	973	100	1,500
	Total obligations	58,963	65,545	67,800

		1966 actual	1967 appropriated	1967 revised estimate	1968 estimate
11	Personnel compensation:				
	Permanent positions:				
	Civilian	48,959	53,668	54,200	54,200
	Military				
	Positions other than permanent				
	Other personnel compensation				
	Total personnel compensation	48,959	53,668	54,200	54,200
12	Personnel benefits:				
	Civil service retirment	760	1,550		
	Group life insurance	39	90		
	FICA taxes	1,110	880	2,000	2,000
	Health benefits	58	180		
	Cash awards				
21	Travel and transportation of persons:				
	Administrative travel	5,480	6,000	8,000	8,000
	Travel of selectees				
	Rental of passenger vehicles				
22	Transportation of things:				
	Freight, express, and drayage				
	Rental of trucks				
	Parcel post (penalty indicia)				
23	Rent, communications, and utilities:				
	Communication services	731	500	800	800
	Rents and utilities				
	Penalty mail	650	650	700	700
24	Printing and reproduction		100	100	100
25	Other services	45	100	100	100
26	Supplies and materials	158	100	400	400
31	Equipment	973	100	1,500	1,500
	Total obligations	58,963	63,918	67,800	67,800

Mr. EVINS. The Board is composed of three members. You have told us who they are.

There can be an appeal to the President by the Director of Selective Service. It can be done by a State director of selective service, by a State board decision if one or more members dissented, or the National Board may take over jurisdiction of any case upon its own motion.

General HERSHEY. They never have.

Mr. EVINS. Even though you have no dissent, the board can take a look at it.

General HERSHEY. But as a matter of policy they never have. The State directors appeal a number of cases and the National Director—I am not saying it in defense of lack of uniformity, but we take a great many appeals.

Mr. EVINS. Who selects the members of this Board?

General HERSHEY. The President of the United States, unless he talks to somebody else. It has always come from that Office. I have never been consulted. At times some people have flattered me; they have asked me to help them get on the Board, but I tell them the truth, that nobody has even asked my opinion, and that is the truth.

SUPPLEMENTAL ESTIMATES

Mr. EVINS. General, I for one think you are a great American, and I think the whole committee feels that way, and we think you do great work. We don't quarrel with you about your problems and your work; we commend you. We do complain a little bit about your missing your estimates and coming up with supplementals. We gave you last year all the money you requested, and here you are back with a supplemental again.

We think that your men have had so much experience, they are so precise and so accurate that they should be able to do a better job in calculating this and put it all in one budget.

You come up here and say you have a supplemental pending, and you can't make any reductions.

General HERSHEY. The officers under me are in no way responsible. I am in no way responsible either, although I am completely responsible. I am not the last word on what we put in a budget. I know all of the things about it and therefore I am wholly responsible for underestimating, but we had some other ideas a year ago too.

DRAFTING PEACE CORPS VOLUNTEERS

Mr. EVINS. What is your policy on drafting Peace Corps volunteers?

General HERSHEY. They are deferred while they are out and they are drafted when they are back. There has been a little noise in the papers in the last 2 or 3 months. I don't know the facts because I am not familiar with the records of these two people, but they were drafted out of the Peace Corps and they were drafted because there was an appeal to the Presidential Appeals Board and the Presidential Appeals Board said they should be drafted and we drafted them.

Mr. EVINS. How many have been drafted after leaving the Peace Corps?

General HERSHEY. We will have to try to hunt for it because there have been a great many.

Mr. EVINS. Have any been drafted while in service in the Corps?

General HERSHEY. Two.

TEN-DAY LIMIT ON APPEALS

Mr. EVINS. Another criticism is that the 10-day limit on appeals after 1–A classification doesn't give them enough time to effect their appeal and that this limit should be extended.

General HERSHEY. I am not quite ready to say the last word on that, but I think that is correct. We have talked about 15, 20, and as high as 30 days. A lot of things get involved in it. There is the question of the mails, and I don't want to criticize the mails, but when a boy is on the west coast and his board is in New England and they send it out there, 10 days can be pretty short.

RECORDS ON WORLD WAR II CLASSIFICATIONS

Mr. WYMAN. General, if you want to find out today what record a man had in World War II—why a draft board deferred him—is this possible?

General HERSHEY. It would depend. In the first place, if he gave permission, we could give you some of the information. We do not have his complete records. The only people who have the complete records for World War II are the aliens and we held them because Immigration didn't want them destroyed.

We have the book with his classification in it. We can tell you what his classifications are. We can't tell you probably all the reasons that the Board had for going into them because that never was a matter of record.

Mr. WYMAN. Weren't the records destroyed except for classification in 1955?

General HERSHEY. Well, yes. Except the classification book and the registration card. We can tell you whether he was in or not, what his classifications were. Anything that happens to be secret or confidential, we request that the man permit the information.

Mr. WYMAN. If a man is in a deferred classification and in an essential industry, going back to those days——

General HERSHEY. He would be a II–B instead of II–A.

Mr. WYMAN. Would there be any way of finding out whether this was at his request or with his approval, at this time?

General HERSHEY. No, and not only that, you might not find out—if he walked in and told the board, they might not even put it in then.

ADEQUACY OF BUDGET REQUEST

Mr. EVINS. General, have you sent out any instructions directly, or implied, to any of the local draft boards to shut down operations because appropriated funds weren't available?

General HERSHEY. No. I have only told the State directors that we are going to issue money on a 1-month basis instead of 3, and that their travel money would have to be justified.

Mr. EVINS. This is considered to be an economy-minded Congress, more conservative. We want to make reductions wherever possible. However, we want essential services continued.

General HERSHEY. If the calls should go to 25,000 or 30,000, I am going to be forced to either get more money than is in the supplemental or go to the Department of Defense and tell them "Do you want the men? If you do, give me the money to bring them in."

There is no law that says they can't pay. A recruit gets sent in, but there has been a gentleman's agreement for 25 years that Selective Service sends the fellow up for preinduction examination and pays his way back. Send him up for induction and we pay that and if he is rejected, the Armed Forces pays it.

Therefore, if I got to the point where I can't handle it, I have to get it.

Mr. EVINS. Selective Service pays the bill to the induction station and at this place the Army takes over.

General HERSHEY. That is right.

Mr. EVINS. General, again we thank you for your great work and for your coming. We thank you very much.

Mr. JONAS. You didn't answer Mr. Evins' question. I was going to ask whether in the 1968 budget you think now, in the light of the information you have, is it sufficient?

General HERSHEY. My information may be scarce, but I can't see how they are going to replace 342,000 with 285,000. That would indicate they have to do a better job of recruiting next time than they did this time and I don't believe they can.

Mr. JONAS. Did you ask the Bureau of the Budget for more money than they allowed you?

General HERSHEY. Yes, considerably.

Mr. JONAS. And that was your best estimate?

General HERSHEY. Let me say for the benefit of the Bureau of the Budget—I don't want to make them out bad all the time—but at the time I was asking for money last fall, I was meeting calls of 50,000 and I had no idea that we were going to have in January 10,000 or 11,000 and in February 10,000 and in March—if you had told me that in the fall, I would have said "You don't know what you are talking about."

Mr. JONAS. Conceivably you may be asking for even more money than you need.

General HERSHEY. There is no doubt about it. I don't know what the call is going to be until I get it, and I don't know then because——

Mr. JONAS. This is the sort of a budget that I don't see how you can make up with any kind of certainty 18 months ahead of the time you spend it and this is the kind of situation that I think would lend itself to supplementals.

General HERSHEY. The boys in the Pentagon have to have their money to recruit. They have to say they are going to recruit more men than they know they will get. I don't blame them. The budget subtracts that from the total and I get stuck.

Mr. JONAS. You do have the right to apportion this out—the President does—this money?

General HERSHEY. Oh, yes.

Mr. JONAS. Irrespective of the Deficiency Act?

General HERSHEY. Oh, yes. We are on a deficiency basis now.

I have more faith in Congress than a lot of folks. I got caught in 1950 and I violated a lot of things because I had to hire people when I didn't have any money, but Congress took care of it. I am not trying to gyp anybody and I figure you will bail me out.

Mr. EVINS. General, we thank you again.

MONDAY, FEBRUARY 20, 1967.

RENEGOTIATION BOARD

SALARIES AND EXPENSES

WITNESSES

LAWRENCE E. HARTWIG, CHAIRMAN
HERSCHEL C. LOVELESS, BOARD MEMBER
THOMAS D'ALESANDRO, JR., BOARD MEMBER
WILLIAM M. BURKHALTER, BOARD MEMBER
JACK BEATY, BOARD MEMBER
HOWARD W. FENSTERSTOCK, GENERAL COUNSEL
PAUL T. SEMPLE, DIRECTOR OF ASSIGNMENTS
HAROLD E. STONE, DIRECTOR OF ADMINISTRATION
MISS ELFRIEDA EGBERT, CHIEF, BUDGET AND FISCAL ACCOUNTING STAFF

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Program by activities:			
	1. Executive direction	565	589	587
	2. Staff operations	847	847	845
	3. Renegotiation operations (field)	1,057	1,101	1,168
	Total program costs, funded	2,469	2,537	2,600
	Change in selected resources [1]	1		
10	Total obligations	2,470	2,537	2,600
	Financing:			
25	Unobligated balance lapsing	57		
	New obligational authority	2,530	2,537	2,600
	New obligational authority:			
40	Appropriation	2,530	2,477	2,600
44	Proposed supplemental for civilian pay act increases		60	
	Relation of obligations to expenditures:			
71	Total obligations (affecting expenditures)	2,470	2,537	2,600
72	Obligated balance, start of year	109	127	141
74	Obligated balance, end of year	−127	−143	−148
77	Adjustments in expired accounts	−4		
90	Expenditures excluding pay increase supplemental	2,450	2,463	2,593
91	Expenditures from civilian pay act supplemental		58	2

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1965, $5 thousand; 1966, $6 thousand; 1967, $6 thousand; 1968, $6 thousand.

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	2,170	2,210	2,265
11.3	Positions other than permanent	7	8	8
11.4	Special personal service payments	3	6	6
11.5	Other personnel compensation	1	1	1
	Total personnel compensation	2,181	2,225	2,280
12.0	Personnel benefits	156	160	164
21.0	Travel and transportation of persons	26	29	29
22.0	Transportation of things	2	4	5
23.0	Rent, communications, and utilities	44	47	48
24.0	Printing and reproduction	9	11	11
25.1	Other services	10	10	10
25.2	Services of other agencies	25	25	25
26.0	Supplies and materials	11	14	14
31.0	Equipment	5	12	14
	Total costs, funded	2,469	2,537	2,600
94.0	Change in selected resources	1		
99.0	Total obligations	2,470	2,537	2,600

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	178	173	185
Full-time equivalent of other positions	1	1	1
Average number of all employees	175	172	178
Average GS grade	9.9	10.0	10.0
Average GS salary	$12,061	$12,520	$12,390

Mr. EVINS. The committee will come to order.

We have with us our friends this morning of the Renegotiation Board: Mr. Lawrence E. Hartwig, Chairman; Gov. Herschel C. Loveless, Board member; Mr. Thomas D'Alesandro, Jr., Board member and former colleague; and Mr. William M. Burkhalter, from Tennessee; Mr. Jack Beaty; Mr. Howard W. Fensterstock, General Counsel; Mr. Paul T. Semple, Director of Assignments—he is the one that does the work over there; and Mr. Harold E. Stone, Director of Administration; and Miss Elfrieda Egbert, chief budget and fiscal accounting officer.

Mr. Chairman, it is always good to see you. We have great respect for your Board and the work it does. The committee will be pleased to hear you. You may proceed as you wish.

GENERAL STATEMENT

Mr. HARTWIG. It is a pleasure to appear before this subcommittee in support of our appropriation request.

The Board's appropriation for 1967 is $2,477,000. This total will become $2,537,000 if Congress approves our request for a supplemental appropriation of $60,000 to cover pay raises.

The Board's request for fiscal 1968 is $2,600,000, an increase of $63,000. This will cover the cost of personnel needed to handle an increase in workload which will result from accelerated procurement for

Vietnam. We ask for 12 additional positions and estimate that average full-time employment will increase from 172 in fiscal 1967 to 178 in fiscal 1968.

As you know, military prime contract awards totaled $38.2 billion in fiscal 1966. This volume, which is $10 billion greater than the total for fiscal 1965, has been exceeded only once since World War II. Moreover, during the early months of fiscal 1967, the trend was still upward. The effect of this expanded procurement activity, and the related increase in subcontracting, will begin to be reflected in the Board's workload during 1968.

Every contractor having renegotiable business in excess of the statutory minimum must file a report with the headquarters of the Board. For budgeting purposes, the number of such reports assigned to regional boards for detailed processing is of crucial importance. We estimate that, in fiscal 1968, 600 filings will be assigned, as against an estimated 500 in the current fiscal year. Such a sizable increase makes it imperative that we augment the regional staff.

The record shows that the Board has voluntarily reduced its staff as the workload has declined. At the end of 1963, we had 223 employees; today there are 172, a reduction of 22 percent in less than 4 years. We have achieved this record by exercising tight control over employment and improving our operating efficiency. We shall continue to enforce the President's economy directives. Nevertheless, the dramatic increase in military procurement will require that we have more employees next year.

Permit me to conclude by reciting some of the Board's accomplishments.

RECOVERIES ATTRIBUTABLE TO RENEGOTIATION ACT

In fiscal 1966, the Board reviewed renegotiable sales in the volume of $31.8 billion. It screened 3,372 filings of contractors. Of this number, 2,928, or 87 percent, were cleared at headquarters in an average of 38 days, and only 444 were assigned to the regional boards for detailed processing.

In fiscal 1966, the Board made 21 final determinations of excessive profits totaling $24,513,962. At the end of the year, additional refund determinations in the amount of $1,902,393 were in process. Also, in the same period, contractors reported voluntary refunds and voluntary price reductions in the amount of $23,248,982. Since the Board's inception, the determinations of excessive profits have totaled $936,455,823 before adjustment for Federal taxes; and voluntary refunds and voluntary price reductions have totaled $1,269,802,673. Thus the purpose of the Renegotiation Act is accomplished not only by Board proceedings, but also by the voluntary actions of contractors.

Through June 30, 1966, the Board determined that excessive profits were realized in 3,737 cases. It is most significant that in 3,361 cases, almost 90 percent, contractors agreed with the Board's determinations.

Mr. EVINS. Thank you, Mr. Chairman. That is a very impressive statement. It is to the point, it tells us your needs and it tells us your accomplishments.

We looked over your justification, and I think it is well to note that the Congress has extended the life of this Board eight different times

since 1951, when it was originally enacted. This shows we recognize the Board's importance and its justification.

From a strictly monetary point of view you spend about $2½ million a year, and you return to the Government about $47 million. That is about a $45 million profit operation. From that purely monetary viewpoint alone this is one agency that returns to the Government are more than its expenditures.

I think your statement is rather impressive. You had 21 determinations of excessive profits last year, for $24.5 million. And there were additional refunds of about $2 million more, $1,902,393 to be exact.

One of the salutary things about your Board, I think, Mr. Chairman, is the fact that you are, to use a popular phrase, sort of a policeman on the beat; they know you are there to keep an eye on them. And there is a significant amount of voluntary refunds. You say that 90 percent of the contractors agreed with the Board's determination.

RECORD IN TAX COURT

I note that your tax court record is not as impressive as the contractors themselves, who have agreed with you in 90 percent of the cases. This is shown on page 8. Out of a total of 101 cases the court upheld you in 59 instances, modified downward in 37 instances and upward in only five instances.

This indicates that your most impressive work is before you get into court.

Mr. HARTWIG. When you realize that only 140 determinations out of 3,737 went to the court—I think you have to start from that point, that out of 3,737, only 140 appeals were taken to the court.

Mr. EVINS. You had 140 appeals to the courts, the Tax Court, in the lifetime of the Board?

Mr. HARTWIG. In the lifetime of the Board. Out of 140, 101 had been settled on June 30 of 1966. And in that 101 that had been settled, we were upheld in 59 cases, and the determinations of the Board were modified upward in only 5, and downward in 37. It seems to me that that is a pretty good record in court, when you relate it to the total number of determinations made by the Board.

Mr. EVINS. Mr. Chairman, you had an appropriation last year of $2,477,000. Has that been about the level that you have been operating at for several years?

Mr. HARTWIG. Yes sir.

NEED FOR SUPPLEMENTAL FUNDS

Mr. EVINS. And then you have submitted to the Budget Bureau a supplemental request for $60,000 more?

Mr. HARTWIG. Yes.

Mr. EVINS. Couldn't you have absorbed that $60,000 instead of requesting a supplemental? We like to handle this in the regular bill, and we are trying to discourage all agencies from repeatedly sending up supplementals.

Mr. HARTWIG. Not very well, sir. As a matter of fact, we are just about going to break even with the supplemental. The pay raise came along, as you understand. And that made a difference.

Mr. EVINS. That brings you up to $2,537,000.

Mr. HARTWIG. That is right.

Mr. EVINS. For 1968 you are proposing a further increase of $63,000 to $2,600,000?

Mr. HARTWIG. Yes.

Mr. EVINS. This will be an increase of 12 jobs.

Mr. HARTWIG. Twelve positions.

Mr. EVINS. Where are you going to put them?

ANTICIPATED WORKLOAD

Mr. HARTWIG. In the regional boards, in the field. According to the figures that I gave you concerning the increase in procurement, we are forecasting that there will be an increase in the number of filings to the Board from an estimated 3,750 this year to 4,500 next year. The increased number of filings will include, in our opinion, more profit cases than we have seen in the recent past, with the result that out of the 4,500 filings, 600 will be sent to the regional boards as against an estimated 500 this year. Hence the impact of this new workload will be felt first in the regions.

Mr. EVINS. This is an estimate—you estimate that there are going to be 600 cases?

Mr. HARTWIG. Yes sir.

Mr. EVINS. How many have you been handling on an average, now, for the last 3 or 4 years?

Mr. HARTWIG. The figures are here; 502 were assigned in 1964, 355 in 1965, and 445——

Mr. EVINS. In other words, in 3 years you expect to jump up almost 100 percent, from 300 to 600? You have been handling about 300 cases, and you anticipate that next year it will be 600 cases?

Mr. HARTWIG. Not quite double. From 355 to 600, yes.

Mr. EVINS. We anticipated earlier that with the Vietnam buildup, and larger Federal budgets, larger defense expenditures, and more contracting, there would be more work for the Board. And I for one have encouraged the Board, or tried to stimulate the Board, to be more aggressive and more active. I think there is a big field. However, you are limited by statute as to areas in which you can look into and investigate.

Mr. HARTWIG. Well, as an indication of the workload, the renegotiable sales we reviewed last year were $31.8 billion. We estimate that that could well be $42 billion in 1968.

Mr. EVINS. Nearly $32 billion last year.

Mr. HARTWIG. And we estimate the renegotiable sales to be reviewed in 1968 could be in the neighborhood of $42 billion.

Mr. EVINS. About a $10 billion increase, because of the defense contracts, the buildup in Vietnam.

PRIME CONTRACT AWARDS

Mr. HARTWIG. That is right. And of course the figures show that the prime contract awards for 1966 were $38.2 billion, as compared with $27.9 billion in 1965. That is a $10 billion increase in military prime contract awards in 1 year.

Mr. EVINS. You get your information from the military procurement authorities, and you get your information from the filings of the Internal Revenue Service?

Mr. HARTWIG. We get this information on awards from the procurement agencies.

Mr. EVINS. We will place that material in the record.

(The material referred to follows:)

Prime contract awards

[Dollars in millions]

Department of Defense		NASA	
Fiscal year	Amount	Fiscal year	Amount
1962	$29,254	1962	$1,551
1963	29,379	1963	3,231
1964	28,796	1964	4,594
1965	27,997	1965	5,187
1966	38,243	1966	5,032

Subcontracting by large military prime contractors by fiscal years

	Millions
1962	$10,560
1963	11,411
1964	9,278
1965	8,518
1966	12,163

AMENDMENTS TO ENABLING ACT TO BROADEN COVERAGE

Mr. EVINS. It is indicated that the act has been extended several times as shown on pages 2 and 3, and that in the renegotiation process you determine and eliminate excess profits from prime and subcontractors in defense programs.

Then you set out in your justification that the act relates to prime contracts for defense, Army, Navy, Air Force, the Maritime Administration, the Federal Maritime Commission, the General Services Administration, the National Aeronautics and Space Administration, the Atomic Energy Commission, and the Federal Aviation Agency. At various times have not other agencies been covered in the act but subsequently have been excluded? Has the Board made an attempt to broaden its jurisdiction? What is the situation?

Mr. FENSTERSTOCK. In 1956, Mr. Chairman, on the recommendation of the Board a number of so-called fringe agencies, that is, those agencies on what was termed the fringe of the defense effort, were eliminated from the coverage of the act.

Mr. EVINS. The concept is, defense effort—it can't be exclusively defense effort, because you have the General Services Administration, which is a civilian procurement agency. I suppose NASA, in the field of aviation, is allied with defense and certainly Atomic Energy in certain of its aspects is.

Mr. FENSTERSTOCK. That is true. But the agencies that were eliminated at that time were the Reconstruction Finance Corporation, the Canal Zone Government, the Panama Canal Company, the Housing and Home Finance Agency, the Federal Civil Defense Administration, the TVA, and one or two others.

Mr. EVINS. Well, the TVA has enormous contracts with General Electric and Westinghouse, in 1 year they went into court because of price fixing and a conspiracy in identical biddings. I don't know why you shouldn't look into the enormous high cost biddings for generator equipment. It wouldn't be harmful, it would be helpful to the public interest.

Mr. HARTWIG. Mr. Chairman, the act is not limited to contracts that are immediately connected with defense. Obviously many activities of the Space Administration could not be called military. And yet they are covered by the renegotiation act.

Mr. EVINS. The Housing and Home Finance Agency, now the Department of Housing and Urban Development, has a heavy budget in construction and building.

The Panama Canal, they are talking about a sea level canal down there. There are going to be enormous expenditures if we build such a canal. Things might get out of hand if the Board doesn't review the contracts. I would think when you come up for amendment next time you should point out those facts to the legislative committees.

MEANING OF EXCESSIVE PROFITS

Mr. WYMAN. What constitutes excess profits, Mr. Chairman?

Mr. HARTWIG. Those profits which the Board determines are excessive in a particular case, upon application of the factors which are set forth in the statute. The factors are reasonableness of cost and profits, with particular regard to volume of production, and normal earnings; second, net worth with particular regard to the amount and source of public and private capital employed; third, extent of risk assumed, including the risk incident to reasonable pricing policies; fourth, nature and extent of contribution to the defense effort, including inventive and developmental contribution and cooperation with the Government and other contractors in supplying technical assistance; fifth, character of business, including source and nature of materials, complexity of manufacturing technique, character and extent of subcontracting, and rate of turnover.

Mr. FENSTERSTOCK. And efficiency.

Mr. HARTWIG. Yes, and efficiency.

Mr. WYMAN. I note in the justifications, page 6, you say that "it is apparent that no formula or preestablished rate can be used to determine whether profits are or are not excessive in any given case." Let me just put a hypothetical case to you. Suppose a reputable small company at arm's length negotiates a contract with the Government for the production of x number of thousands of machines, small machines. It exceeds the amount that invokes your jurisdiction. The company finds out after they have been in the contract for perhaps 6 months that they can make these by stamping them instead of having to handcraft them. So instead of making them as contracted for at a set price of say $2,200 a unit they can make them for $400. Does the statute as it now is set up and as you operate allow you to go into that company and say, "You may have contracted for what was a reasonable price when you started, but the way this thing turned out what you are making is unreasonable profit from the Government, and

so you should give back half of it, or else we will have to put you through the renegotiation procedure;" is that it?

Mr. HARTWIG. The Board has the authority to examine the renegotiable profit realized by that company. But in determining whether the profit is excessive the Board of course is going to consider factors of efficiency, reasonableness of cost, investment, and so forth.

Mr. WYMAN. Do you have any percentage yardstick at all?

Mr. HARTWIG. No sir. In fact, the very purpose of this act is to avoid percentage yardsticks.

Mr. EVINS. Each individual case has to be determined by considering the facts and circumstances applicable to it.

VINSON-TRAMMELL ACT

Mr. HARTWIG. That is right. The Vinson-Trammell Act had a flat percentage, and the Congress considered that that type of profit limitation was too repressive, because it penalized the efficient producer. For that reason the Vinson-Trammell Act has been suspended by the Renegotiation Act, which is purposely broad, in order that the Board may evaluate each case so that the contractor will be rewarded for his efficiency, the reasonableness of his costs, and so on. Actually the object of this act is an equitable one.

Mr. WYMAN. Yes, I understand that. But you don't reevaluate upward.

Mr. HARTWIG. We have no authority to refund money to a contractor who has lost money, no. But there is another equitable feature here. In fiscal year renegotiation, if a contractor has a loss contract running alongside an excessive profit contract, the profit on one is offset against the loss on the other in that fiscal year. We look only at the overall result. We don't look at the result under each contract separately.

Mr. EVINS. The Board looks at the net worth of the company, the capital employed by the company, the character and nature of its business, the extent of the risk assumed, the reasonableness of its costs and profit, its efficiency, and moreover, its contribution to the defense effort. You have a lot of factors to consider in your determinations.

Mr. HARTWIG. Yes sir.

TAX COURT DECISIONS

Mr. EVINS. What has been, in line with Mr. Wyman's questions, the line of decisions of the court on what is reasonable and what is excess profit? Could the counsel give us a little information on the court's interpretations of the act?

Mr. FENSTERSTOCK. Well, the tax court, Mr. Chairman, has not seen fit to establish any fixed percentage any more than the Board has, because the court operates under the same act as the Board. The proceedings in the tax court are conducted under the Renegotiation Act of 1951.

Mr. EVINS. There are some areas in which the courts have affirmed the Board, and there are some in which they have overruled the Board And in interpreting these decisions you have to find out what percentage the court has been concerned with, about what level.

Mr. HARTWIG. May I say here, Mr. Chairman, there have been relatively few cases in which the Board determination was modified downward. And if we were to generalize I would say that in some of the cases the court changed the figures. We do not audit, we don't have enough people to conduct audits in the first place. But when a contractor goes to the tax court, and the FBI audits, the FBI sometimes will uncover figures which result in a change in the profits.

Sometimes, then, adjustments in the tax court result from adjustments in the accounting.

POWER TO RENEGOTIATE

Mr. WYMAN. What I was interested in was more at this stage—that of the whole concept—in other words, under the law, the Renegotiation Act of 1951, as you say, you have the power, do you not, to go in and say, that a profit that a company, a private company, has made as a result of a contract with the Government is unreasonable, even though it is the profit that was called for by the contract?

Mr. HARTWIG. That is right.

RENEGOTIATION CLAUSE IN CONTRACTS

Mr. WYMAN. In the $40-odd million that was reported, I think, in fiscal 1966 to have been the result of voluntary refund or determinations of excessive profits by you, this involved reviewing renegotiable sales—that you say—in the amount of $31.8 billion. What is a renegotiable sale for that purpose?

Mr. HARTWIG. All contracts with certain named agencies of the Government are subject to renegotiation unless some exemption in the act applies. Receipts and accruals under those contracts, are subject to renegotiation.

Mr. WYMAN. Does the contract say, when you enter into it with these companies, that they shall be subject to renegotiation pursuant to this act?

Mr. HARTWIG. Yes.

Mr. WYMAN. In other words, the company, even though it bargains for a certain price, knows that you have the power when it enters into the contract with the Government to cut the price down if you think it is unreasonable?

Mr. HARTWIG. A renegotiation clause is a standard clause in contracts with the military.

VOLUNTARY REFUNDS

Mr. PRYOR. In what instances or in what situations will a contractor make a voluntary refund on a contract, or else voluntarily reduce his price? Do contractors make a practice of showing this type of good faith with the U.S. Government?

Mr. HARTWIG. These are reported to us in contractors' filings. For example, it occurs when a contractor realizes that the price he charged was too high. He voluntarily makes a refund, realizing perhaps that if he didn't he would be subject to renegotiation.

Mr. EVINS. The Board issues an order determining excess profit only if an agreement is not made. The Board endeavors in an informal way

to arrive at what is fair and just, and in many cases the contractors will voluntarily make submittals. But you only issue an order when they fail to agree.

WORKLOAD

Mr. HARTWIG. That has been in 10 percent of the cases.

Mr. EVINS. You have told us about the voluntary refund and the amounts, and the appeals to the tax court. The workload is shown on page 9. We will place this in the record.

(The material referred to follows:)

WORKLOAD

The number of contractors' filings above the "floor" and the number and complexity of such filings assigned to the Regional Boards are major factors in the Board's workload.

Filings below the "floor" are also a factor. During fiscal 1966, 2,610 such below the "floor" filings were received at the Headquarters Office and reviewed for acceptability. It is estimated that approximately 2,700 of below the "floor" filings will be received in each of the fiscal years 1967 and 1968.

In addition, administration of the exemption of commercial articles and services contributes to the Board's workload. In fiscal 1966, the Board acted on 264 applications of which the total amount of exemptions claimed was $545,733,000.

The following table shows the actual number of above the "floor" filings received and processed at the Headquarters Office in fiscal years 1964–1966, and the estimates for 1967–1970.

	Government fiscal year						
	Actual			Estimated			
	1964	1965	1966	1967	1968	1969	1970
Above floor filings received	4,007	3,673	3,387	3,750	4,500	4,500	4,500
Screening process:							
Completed as clearances [1]	3,881	3,336	2,928	3,250	3,900	3,850	3,850
Assigned to regional boards [1]	502	355	444	500	600	650	650

[1] The sum of the clearances and assignments to regional boards does not equal filings received due to the difference between beginning and ending inventory.

Mr. EVINS. I think this is probably excessive on page 10, but it estimates the effect of a cessation of the hostilities in Vietnam on the workload of the Board?

Mr. HARTWIG. It wouldn't have any effect on the 1968 budget, because the contracts have already been awarded.

DELEGATION TO REGIONAL BOARDS

Mr. EVINS. You show the average employment by each activity. These are executive direction, staff operations, and renegotiations in the field. This is the largest amount of your work. Cases come in and you refer them to the field where most of them are settled. I believe they have authority to settle cases $800,000, or less than a million dollars—give us the line of distinction there where the field makes the settlement as against cases that are referred to the Board.

Mr. HARTWIG. The Board has delegated to the regional boards final authority to determine excessive profits by agreement in cases where the renegotiable profit is $800,000 or less.

Mr. EVINS. Where the profit is $800,000 or less?

Mr. HARTWIG. Yes. And if regional board and contractor agree on settlement, that is final. If, however, the contractor disagrees with the regional board's determination in such case, the regional board issues an order, and the contractor has a right of appeal to the statutory board.

FIELD WORKLOAD

Mr. EVINS. How much of the workload is assigned to the field, percentagewise, the two regional boards?

Mr. HARTWIG. Assignments to the regional boards, I would say, are 2 to the East for 1 to the West; it is 2 to 1.

Mr. EVINS. Well, cases come in and you assign them to the eastern or the western board, and a large part of your work is assigned in the eastern field, is that it?

Mr. HARTWIG. In 1966, 13 percent of the total number of filings were assigned to the regional boards.

Mr. EVINS. I had the impression that the greater bulk of the workload was assigned to the field initially.

Mr. HARTWIG. No sir. As I pointed out in my opening statement, in 1966 we screened 3,372 filings of contractors. Of this number 2,928, or 87 percent, were cleared at headquarters without further proceedings.

Mr. EVINS. They were just screened and cleared?

Mr. HARTWIG. Screened and disposed of at headquarters.

Mr. EVINS. Eighty percent.

Mr. HARTWIG. Eighty-seven percent.

Mr. EVINS. Eighty-seven percent were settled right here in Washington?

Mr. HARTWIG. That was the case in 1966. But if the profit picture improves, if there are new loss cases——

Mr. EVINS. If 87 percent of your workload is here in Washington, why do you need to beef up your field office?

Mr. HARTWIG. Because we anticipate that as a result of the increased procurement for Vietnam there will be substantially more cases that will require detailed proceedings in the field.

Mr. EVINS. They will still all be sent to Washington, won't they?

Mr. HARTWIG. Yes, but not disposed of in Washington. There will be fewer cases disposed of at headquarters. That was my point, 444 cases were assigned to regional boards in 1966. But in 1968 we estimate that assignments to the field will increase to 600, because of more profits, because of the increase in procurement for Vietnam.

Mr. EVINS. You estimate you need 12 more jobs, and you are going to put 6 of them in the eastern board, and 6 of them in western board?

Mr. HARTWIG. It is about that. Twelve positions——

Mr. EVINS. And would any of those be in headquarters?

Mr. HARTWIG. Only one in headquarters.

TRAVEL

Mr. EVINS. A large part of the increase is for travel and employee benefits, and a sizable increase for shipping household furniture of employees. This increase is mostly all in benefits. Why does this go up so much?

Mr. HARTWIG. This is 22, transportation of things, that increase results in large part——

Mr. EVINS. From $1,900 to $5,000 in 2 years?

Mr. HARTWIG. Well, there is a new statute, as you know, which is much more generous than the old statute with respect to transportation of household goods. For example, I am informed that an employee now is fully reimbursed for transporting 11,000 pounds as against 7,000.

Mr. WYMAN. Mr. Chairman.

Mr. EVINS. Mr. Wyman.

Mr. WYMAN. On travel, I notice you get your cars from GSA, right?

Mr. HARTWIG. Right.

Mr. WYMAN. None of this travel is for renting automobiles, except as it might be involved in a U-Drive it at the connection or the end of an airline trip?

Mr. HARTWIG. Right.

Mr. WYMAN. So that this 29,000 that you want is for what essentially of your staff?

Mr. HARTWIG. Plant visits and transportation between headquarters and the Los Angeles board.

Mr. WYMAN. And most of that is by air?

Mr. HARTWIG. Yes.

Mr. WYMAN. Thank you.

OFFICE OF ASSIGNMENTS

Mr. EVINS. The Office of Assignments develops and maintains a mailing list of contractors and subcontractors who may have renegotiated business above the floor. You have the list of the big ones. The names of the contractors are obtained through lists, through answers supplied to the Federal income tax service. This list includes the names of companies and persons to whom the Board annually sends instructions and reporting forms.

AFFILIATED OR CONTROLLED COMPANIES

And then this next paragraph interested me: The contractors' reports are received, they are examined, and checked for affiliated or controlled companies. Now, what about affiliated or controlled companies?

Mr. HARTWIG. Well, this is a very important policing function of the Office of Assignments. As you know, we have a million dollar floor. If a contractor has renegotiable receipts or accurals of less than $1 million in his fiscal year, he is not required to file with the Board. But if the contractor, is owned by another company, and each company, let's say, has $700,000 of renegotiable business, standing alone they wouldn't have to file, but because they are under common control both must file. And for this reason the Office of Assignments has quite a job to check into the filings where companies——

Mr. EVINS. If they are a corporation they are a separate legal entity, but some of the board of directors may also be on the board of directors of an associated or affiliated company. You have common directorships, then they are subject to renegotiation?

Mr. HARTWIG. Common control, for the purpose of applying the million dollar floor. Congress put this in the act to prevent circumvention, otherwise an individual could organize four or five companies, each with less than a million dollars renegotiable business, and escape renegotiation. That is the purpose of the common control provision.

Mr. EVINS. Do you check with Justice on this, or can you make your own determination?

Mr. HARTWIG. We get our information from contractor filings, from procurement lists, and from other sources, and we do the best we can. The test is common control.

Mr. EVINS. Very good.

Now you talk about the statutory boards and the other boards. These are in the regional offices that were just set up with delegated powers from the statutory board?

Mr. HARTWIG. That is right.

Mr. EVINS. The office of accounting.

The office of review.

PERSONNEL TURNOVER

What is the percentage of turnover of personnel in the renegotiation board?

Mr. STONE. It varies from year to year, Mr. Chairman. My guess is that in the last 5 years it has been running somewhere between 10 and 15 percent.

Mr. EVINS. Would you consider that a heavy turnover?

Mr. STONE. I would consider that average in comparison to other Government agencies, although we feel the effects more, since we are small.

Mr. WYMAN. Mr. Chairman.

Mr. EVINS. Mr. Wyman.

Mr. WYMAN. It would save time if I could ask a question now which related to staff operations.

SIZE OF HEADQUARTERS STAFF

I note that your figures show that you have approximately 60 percent of your staff at headquarters, and 81 positions out in the field, and yet you say you do only about 12 percent of the actual caseload at headquarters, and 80 percent in the field.

How come?

Mr. HARTWIG. I think you have to understand more fully the work which is done at headquarters. The Office of Assignments—I have alluded to the policing work that they do. They have to locate the names of contractors who have received contracts, which in itself is quite a job; add these names to the mailing list; send out booklets to those we have reason to believe should be filing with the Board; and then follow up on those contractors who perhaps don't understand their obligations under the renegotiation statute. In conjunction with that, is this very difficult policing matter of common control. As you can see, chasing down affiliates and subsidiaries is not an easy task, and certainly requires the staff we have. We are down to the bare bones with only 22 people in that office.

So much for the Office of Assignments. We can't compare just numbers, since we have the headquarters operation.

COMMERCIAL EXEMPTION

There is another headquarters function which the region does not have at all. It occupies a good deal of the time of personnel in the Office of Review. This has to do with the exemption of standard commercial articles and services. In 1966, for example, there were 264

applications for commercial exemption. These are rather elaborate applications, with detailed listings of products, and so on. This work requires a staff of six persons.

Mr. WYMAN. What kind of exemption did they ask for? What do you mean exemption, exemption from the provisions of the renegotiation?

Mr. HARTWIG. Right. The statute provides for the exemption of so-called standard commercial articles and classes of articles. It is a rather complicated and technical exemption. For that reason the administration of this exemption is centered at headquarters.

Mr. WYMAN. Generally speaking your staffs have to be much more intelligent and better trained than perhaps most staffs in Government employment in order to be able to comprehend and explain these things, do they not?

Mr. HARTWIG. We need the very best people we can get.

Now, that is an operation that has no counterpart in the field.

In addition to that, of course, the headquarters staff assists the Board in the formulation of policy, and is concerned with the issuance of regulations, bulletins, rulings, and supervision of the operation.

So when you examine the operation in detail you will see that we are not topheavy at headquarters.

INCENTIVE-TYPE CONTRACTS

Mr. EVINS. Mr. Chairman, the Department of Defense and NASA are putting increased emphasis on incentive-type contracts. What effect have these had on your job? From your observations, what benefit has resulted to the Government from incentive-type contracts, if any? Give us the benefit of your experience and observations. You must review cost-plus contracts or incentive-type contracts, all kinds of them.

Mr. HARTWIG. We do.

Mr. EVINS. Give us the benefit of your experience.

Mr. HARTWIG. As you know, in recent years more stress has been placed upon incentive contracts and less upon cost-plus-fixed-fee contracts, on the assumption that a CPFF contract is wasteful, because it offers no inducement to reduce cost. In theory the objective of the incentive contract is salutary. And to the extent that the target is realistic, the contract is a good one.

Of course, you always have a question whether the parties have had enough cost or other experience to negotiate a realistic target. When the target is unrealistic, excessive profits may be realized.

The Defense Department has striven to improve procurement techniques in recent years, not only the incentive contracts, but various procedures which have been devised to support the incentive contract program.

Mr. EVINS. But the idea is, if you will do a good job and do it on time, we will give you a special incentive bonus?

Mr. HARTWIG. Yes.

Mr. EVINS. This is done instead of just contracting on the cost plus a certain percentage, which might be very wasteful.

Mr. HARTWIG. It might be.

Mr. EVINS. You think there are benefits to the Government from this part of the contract?

Mr. HARTWIG. Yes.

Mr. WYMAN. As I understand it, you can't take away the incentive bonus, if they meet performance, you can't renegotiate that.

RENEGOTIATIONS ON OVERALL FISCAL YEAR BASIS

Mr. HARTWIG. We renegotiate the entire profit.

Again I would like to emphasize that renegotiation is on an overall fiscal year basis. You realize that a company might have 200 contracts running contemporaneously, some of them CPFF, some of them incentive, some firm fixed price, and some price redeterminable. We review the totality of the profit realized from those contracts within the company's fiscal year. We don't renegotiate contracts individually, or any part of the profit realized.

Mr. WYMAN. In determining that totality you would add an incentive bonus on a contract that was——

Mr. HARTWIG. No, the totality already includes whatever bonus may have been realized.

Mr. EVINS. Do you look at the net figure or the gross figure?

Mr. HARTWIG. We look at the net figure. We look at the profit before taxes.

Mr. EVINS. Do you look at the salaries and other items of expense?

Mr. HARTWIG. Yes, we look at salaries, advertising, research and development, et cetera.

Mr. WYMAN. But you don't step in and tell somebody you are paying Joe Smith $175,000 a year, and that is $60,000 too much, you don't go into it that closely?

Mr. HARTWIG. There have been instances where the Board has found salaries unreasonable. Our statute ties in with the Internal Revenue Code. We must allow those costs which are good tax deductions. Internal Revenue, of course, can disallow excessive salaries. And so we have on occasion disallowed salaries.

Mr. EVINS. What is the difference between your class A assignment and your class B assignments to the areas?

Mr. HARTWIG. The difference is in the amount of profit involved. The class B assignment involves $800,000 profit or less.

Mr. EVINS. In class B they can make the determination?

Mr. HARTWIG. Yes.

PENALTIES FOR FAILING TO FILE WITH BOARD

Mr. EVINS. What does your statute provide by way of penalties for failure to comply? Are there any penal clauses?

Mr. FENSTERSTOCK. There is a provision in the act——

Mr. EVINS. Read it into the record.

Mr. FENSTERSTOCK (continuing). Which reads as follows:

> Any person who willfully fails or refuses to furnish any statement, information, record or data required of him under this subsection, or who knowingly furnishes any statement, information, records or data pursuant to this subsection containing information which is false or misleading in any material respect, shall upon conviction be punished by a fine of not more than $10,000, or imprisonment for not more than 1 year or both.

Mr. EVINS. In the history of the Commission has this subpena provision ever been invoked?

Mr. FENSTERSTOCK. We have occasion once in a while, not often, fortunately, to refer to the Department of Justice the problem of a contractor who we believe is required to make a filing with us and who does not. After repeated efforts on our part, if we are unable to obtain

that filing—which is, to use the language of the statute, "a failure to furnish information required"—we refer that matter to Justice. There have been several prosecutions by Justice in cases of that sort. One resulted, as I recall, in a conviction.

Mr. EVINS. And thereafter, filing with the Board?

Mr. FENSTERSTOCK. That is right.

Mr. EVINS. This is to compel filings?

Mr. FENSTERSTOCK. That is right.

RENEGOTIATION CLAUSE IN CONTRACTS

Mr. EVINS You say this renegotiation standard phrase is put in all defense contracts. How many does it go into on an annual basis, let's say?

Mr. HARTWIG. I don't know how many contracts the military awards annually.

Mr. EVINS. The Board should know that.

Mr. HARTWIG. It must be tens of thousands of contracts.

Mr. EVINS. Tens of thousands of contracts. It goes into all of them. Percentagewise how many of the tens of thousands of contracts report to the Board? This is in the contract. The Board should have that data, it should have those figures just for their own knowledge.

Mr. HARTWIG. Of course, it may go into a contract for less than a million dollars. This simply alerts the contractor to the fact that the contract could be renegotiated if that contract, together with others, exceeds a million dollars in a fiscal year.

NUMBER OF FILINGS

Mr. EVINS. I have been trying to find out, of these tens of thousands of contracts how many report to the Board. We know that those under a million don't.

Mr. HARTWIG. The figures are right here on page 9, 4,007 in 1964; in 1965, 3,673; in 1966, 3,387——

Mr. EVINS. This is all types of filing, this is not Defense exclusively?

Mr. HARTWIG. It includes other agencies, yes.

TAX CREDIT

Mr. WYMAN. When you determine that a profit has been excessive, and the stage is reached where the employer then has to determine whether or not to go along and fight it, is the effect of your determination, in cooperation with Internal Revenue, one in which if persisted in would result in serious tax disadvantages to the employer?

Mr. HARTWIG. Well, the determination that we make is in a gross amount. The contractor is entitled to a tax credit against that determination. That tax credit is computed by Internal Revenue after the determination is made final.

Mr. WYMAN. And all of these figures that we talk about or that you talk about generally, these are coming off the top in terms of percentages of the tax obligations of the contractors?

Mr. HARTWIG. Yes. Roughly speaking, the net to the Government is 50 percent of the gross, because the tax rate is about 50 percent, except that in the Korean years there was an excess profits tax credit which exceeded 50 percent.

TIME RENEGOTIATIONS ARE MADE

Mr. PRYOR. In what stage of the contract does the Renegotiation Board step in? In other words, if it determined that profits were excessive, would the Board step in after the contractor had been paid for his services or before the final payments were made?

At what stage do you step in and say that they have made an excess profit, Mr. Hartwig?

Mr. HARTWIG. When the contractor makes deliveries under the contract he records receipts or accruals on his books. These receipts or accruals are recorded by him on a fiscal year basis. If they exceed a million dollars in a particular fiscal year, we will renegotiate the profit for that year, even though the contract is not yet finished. If the contract has 2 to 3 years to run, we will be looking at the profit in the initial stages.

There is a statement in our annual report which might help you on this point. The contracts we renegotiate may vary in form, as we have already said, from cost-plus-fixed to firm fixed-price contracts; they may be prime contracts or subcontracts, and they may relate to a variety of products and services. These contracts may be performed over differing periods. Some may be completed within a contractor's fiscal year, while the performance of others may extend beyond such year. So we examine the overall profit result of all contracts performed in a particular fiscal year.

Does that answer your question?

Mr. PRYOR. Yes, sir.

FINAL CONTRACT PAYMENTS MADE WITHOUT BOARD'S CERTIFICATION

Mr. WYMAN. Along the line that Mr. Pryor questioned on, is the fiscal officer of the various departments that makes payment under these contracts authorized at the present time to make the final payment under a contract that goes over a million dollars without the okay being stamped on it from your Board?

Mr. HARTWIG. Yes, sir.

Mr. WYMAN. He is authorized to do this?

Mr. HARTWIG. Yes.

Mr. WYMAN. How much of the time are such payments made on contracts in excess of this amount in terms of profit that your Board has never seen—I mean in agencies that your jurisdiction extends to as indicated in your statement?

Mr. HARTWIG. That gets to the question of how many billions of dollars of defense business escape renegotiation by reason of exemptions in the act.

Mr. WYMAN. I wasn't particularly talking about exemptions. I am talking about the agencies in the contracts, $31.8 billion, to which your jurisdiction applies. As I understood Mr. Pryor's question—and I had the same thought in mind—usually when you have a contractor, as I understand it, he is paid in installments. And the last installment is not paid until various certifications are received that everything is OK. I just wanted to find out whether your certification is one of those that must be on that contract under existing law.

Mr. HARTWIG. No.

Mr. WYMAN. Do you think it should be?

Mr. HARTWIG. I don't think so.

COLLECTION OF REFUNDS

Mr. EVINS. Once you have made a determination of the amount, you have no difficulties in securing refunds or collections?

Mr. HARTWIG. No. The collections are made by the procurement agencies. When we have made a determination of excessive profits the case is referred to the cognizant procurement agency for collection. I believe they have had a pretty good record.

JURISDICTION OF FIELD OFFICES

Mr. EVINS. Back to this question of assignments, you want more staff in the field, and 87 percent of the work is done in the Washington office. You refer out to the field class B cases.

Mr. HARTWIG. And class A also.

Mr. EVINS. And also class A?

Mr. HARTWIG. Yes.

Mr. EVINS. And they settle $800,000 or less, if it is a million or more, they make a preliminary determination and refer it to the statutory board?

Mr. HARTWIG. If it is more than $800,000.

Mr. EVINS. If it is more than $800,000?

Mr. HARTWIG. It is a class A case.

Mr. EVINS. If it is more than $800,000 and they can't settle it in the field?

Mr. HARTWIG. All they can do is make a recommendation.

Mr. EVINS. A preliminary recommendation?

Mr. HARTWIG. Right.

TIME REQUIRED FOR RENEGOTIATION

Mr. EVINS. From the time you send out your questionnaire or your form seeking the information until the case is settled, what amount of time elapses?

Mr. HARTWIG. With respect to the more difficult cases, the ones that go to the field for full-scale renegotiation, the average has been 16 months.

Now, compare that with the average time required to screen cases at headquarters, the easy cases—the loss cases, and so on—which is 38 days. This shows the difference in the man-hours required. Let's say a contractor files with us and shows an overall renegotiable loss. Well, obviously we haven't much to do with that case if we are satisfied that there was a loss, because there can't very well be excessive profits. So we will clear that case at headquarters.

Mr. EVINS. You look behind the figures to see?

Mr. HARTWIG. Oh, yes.

But if we have a case where the profit looks rather high, or where there may be complex legal or accounting questions, that case goes to the region. The average completion time for such a case is 16 months. You can see the difference in manpower requirements. And it is our judgment that as a result of increased procurement for Vietnam there will be a substantial increase in the cases that require this detailed examination in the regional boards.

Mr. EVINS. Complicated cases involving enormous sums of money with affiliated corporate connections?

Mr. HARTWIG. That is right; yes.

Mr. EVINS. Naturally they are time consuming, but you have a pretty good record of about 16 months on the average?

Mr. HARTWIG. Sixteen months average; yes.

EXAMINATION OF FILINGS

Mr. WYMAN. Mr. Chairman, I can conceive of all kinds of problems on this. And I am sure you can too.

In the first place, you don't have everybody reporting to you. These 1-month cases involving extreme complications are the ones which under the mechanics of the act you have taken the initiative on, is that right? You have decided that you are going to look at them?

Mr. HARTWIG. After they have filed a report; yes.

Mr. WYMAN. After they have filed. And yet there are many who do not file?

Mr. HARTWIG. Many—those that are under a million dollars don't file.

Mr. WYMAN. But those that are over a million dollars have to file?

Mr. HARTWIG. That is right.

Mr. MYMAN. And yet you don't look at all of them that file over a million dollars?

Mr. HARTWIG. We look at all of them.

Mr. WYMAN. Tell me how you do that, actually. Do you send a man to look at the books?

Mr. HARTWIG. No.

Mr. WYMAN. How do you do that?

Mr. HARTWIG. Coming back to the 3,372 that we screened last year, 1966. Those represented filings of contractors who had more than a million dollars of renegotiable business in their fiscal year, so they had to file with us. And they did file. And we looked at their filings.

Incidentally, if you haven't seen one of these forms——

Mr. EVINS. It is pretty detailed and rather precise.

Mr. HARTWIG. I think we have made it simpler.

Mr. EVINS. Some businessmen say that you have not simplified it as much as you could.

SCREENING PROCEDURE

Mr. HARTWIG. These filings are, first of all, reviewed by the Office of Assignments, which gives them a quick check to see if they conform to the technical requirements of filing. Then they are sent on to the Office of Accounting at headquarters, which reviews the segregation of sales and allocation of costs between renegotiable and nonrenegotiable business.

Mr. WYMAN. This does not involve at this time any computer function, this is a man sitting at a desk talking with other men?

Mr. HARTWIG. An accountant sitting at a desk reviewing this report and looking at the contractor's explanation of how he segregated his renegotiable business and his costs, to be sure that, under our accounting standards, the renegotiable profit is correctly stated.

Now, once the accountant is satisfied, and puts his OK on it, the report goes to a committee that we call the screening committee. That committee then recommends either that the Board clear the case without further proceedings, or that the case be assigned to a regional board for further processing. Assignment is recommended if the case involves a lot of questions that can't be settled without meeting with the contractor.

Now, this in a nutshell is the way the screening process operates.

Mr. EVINS. The representatives of the Board go to the offices of the company and examine the records?

FIELD PROCEDURE

Mr. HARTWIG. Let's assume that in a particular case we have a lot of questions. We send the case to the regional board. That board will get in touch with the contractor, and will visit his plant, hold conferences, and detail the questions to which they want answers, in order to——

Mr. WYMAN. And if this was Westinghouse or GE, or some giant, this would be quite an undertaking, wouldn't it?

Mr. HARTWIG. Yes, sir. But bear in mind that we do not conduct audits the way the GAO or Internal Revenue conducts them. It is obvious that we couldn't; we don't have enough people.

Mr. LOVELESS. It may be helpful to advise that their tax reporting report to the Internal Revenue Service is required to be sent to us.

Mr. WYMAN. And that is available to you?

Mr. LOVELESS. Yes; we are provided with a copy of that.

Mr. HARTWIG. Contractors' reports for renegotiation tie in with the tax returns.

Mr. EVINS. Are there any instances in which the Board could utilize the staff and the services and the skilled expertise of the General Accounting Office in your proceeding?

Mr. HARTWIG. Well, if we need outside assistance for an audit, the act provides that we can ask the Internal Revenue Service to conduct the audit for us.

SMALL BUSINESS PARTICIPATION IN DEFENSE CONTRACTS

Mr. EVINS. You don't go after the little man; you exempt small business, you just go after the big contractors?

Mr. HARTWIG. The million dollar floor had quite an impact on the Board's workload in 1956, as well as the commercial exemption.

Mr. EVINS. Over the years hasn't this million-dollar level been raised up to $5 million, or down? What has been the experience?

Mr. HARTWIG. One million is the top. In 1951 the first floor was $250,000.

Mr. EVINS. And then $500,000, and then a million?

Mr. HARTWIG. That is right.

Mr. EVINS. Therefore, the small businessman is exempt. Does the Board have any knowledge or information as to the percentage of contracts by defense, let us say, that small business participates in

either in contracting or subcontracting? Do we have this data in other reports?

Mr. HARTWIG. I think we can get that for you.

Mr. EVINS. In other words, what is the percentage of small business participation in contracts and subcontracts?

Mr. HARTWIG. I gave you the DOD prime contract awards a little while ago. The 1966 prime contract awards were $38.2 billion. And small business's share of that $38.2 billion was $7.269 billion.

Mr. EVINS. Percentagewise, what is that figure?

Mr. HARTWIG. 21.4 percent.

Mr. EVINS. It used to be 8, then 10, and then they got it up to 16. Our goal has been 25 percent participation. It is getting pretty close now. You are making progress. This is good for the economy. That broadens the base.

AMOUNT OF SUBCONTRACTING

Mr. HARTWIG. Now, there is another statistic that might interest you in that connection. Subcontracting by large military prime contractors in 1966 amounted to $11.8 billion, and $4.9 billion——

Mr. EVINS. About $7 billion in primes for small business, and $11 billion in subcontracting, are they your round figures?

Mr. HARTWIG. Out of $11.8 billion of subcontracting by large military prime contractors in 1966, $4.9 billion went to small business, or 41.8 percent.

Mr. EVINS. Mr. Chairman, I wish you would elaborate on this for the record and supply some tables and further information.

(The material referred to follows:)

Department of Defense prime contract awards

[Dollars in millions]

Fiscal year	Total	Small business share	
		Amount	Percent of total
1962	$29,254	$4,622	17.7
1963	29,379	4,301	15.8
1964	28,796	4,519	17.2
1965	27,997	4,943	19.6
1966	38,243	7,269	21.4

Subcontracting, by large military prime contractors

Fiscal year	Total	Small business share	
		Amount	Percent of total
1962	$10,560	$4,011	38.0
1963	11,411	4,341	38.0
1964	9,278	3,629	39.1
1965	8,518	3,534	41.5
1966	12,163	5,102	41.9

EXPERIENCE OF EMPLOYEES

Mr. PRYOR. Mr. Chairman, I am looking over your personnel list, and I note that you deal with contractors. In hiring your personnel and in your personnel makeup overall, do you have people on your staff and out in the field who have had actual contracting experience? I note that you have lawyers and accountants, but do you have people who have had contracting experience?

Mr. HARTWIG. We employ quite a number of people who transferred to us from the Defense Department, and who have been engaged in procurement, so we have the benefit of their background in that regard. Rather a substantial number of our people have had prior procurement experience. We have had quite a number also who came into the Government from private business.

SUMMARY OF OPERATIONS

Mr. EVINS. Mr. Reporter, please place in the record pages 3 through 24.

(The material referred to follows:)

PURPOSE OF APPROPRIATION

The general purpose of the appropriation "Salaries and Expenses, Renegotiation Board" is to provide funds for salaries and all other expenses of the Renegotiation Board, created by the Renegotiation Act of 1951 (Public Law 9, 82nd Congress, approved March 23, 1951, and as amended September 1, 1954, August 3, 1955, August 1, 1956, September 6, 1958, July 13, 1959, July 3, 1962, June 30, 1964 and June 30, 1966).

THE RENEGOTIATION PROCESS

PURPOSE AND SCOPE

The Renegotiation Board has authority under the Renegotiation Act of 1951, as amended, to determine and eliminate excessive profits realized by contractors and subcontractors in the defense and space programs.

Renegotiation is conducted not with respect to individual contracts, but with respect to the receipt or accruals of a contractor under all renegotiable contracts and subcontracts in a fiscal year of the contractor.

Not all Government contracts are within the scope of the Act. The Act relates only to prime contracts with the Departments of Defense, the Army, the Navy, and the Air Force, the Maritime Administration, the Federal Maritime Commission, the General Services Administration, the National Aeronautics and Space Administration, the Atomic Energy Commission, and the Federal Aviation Agency; and to related subcontracts, including purchase orders. Moreover, certain types of contracts with these agencies and certain types of subcontracts are exempt, in whole or in part, from renegotiation.

The Act provides that a report must be filed with the Board by every contractor or subcontractor having receipts or accruals in a fiscal year which exceed $1 million ($25,000 in the case of brokers and manufacturers' agents) from contracts or subcontracts subject to the Act. Contractors or subcontractors with renegotiable receipts or accruals amounting to less than the above minimum need not file a report but may, if they choose, file a Statement of Non-Applicability.

ORGANIZATION AND OPERATION

The Statutory Board is composed of five members and, together with its staff, comprises the Headquarters Office. Operations are conducted at the Headquarters Office and two Regional Boards. The Eastern Regional Renegotiation Board serves the eastern part of the United States and the Western Regional Renegotiation Board serves the western part.

For a contractor whose renegotiable receipts or accruals in a fiscal year exceed the applicable minimum, the renegotiation process begins with the filing of a Standard Form of Contractor's Report. To compile the report, a contractor must segregate his renegotiable from his non-renegotiable business and must also determine the costs and expenses allocable to each such segment. Generally, all amounts deductible for Federal income tax purposes are allowable as costs in renegotiation to the extent allocable to renegotiable business.

All reports of contractors are examined at the Headquarters Office. Those reports showing renegotiable receipts or accruals below the "floor" (Statements of Non-Applicability) are reviewed for acceptability. Where filings are above the "floor", and the profits are obviously non-excessive, the Headquarters Office issues a clearance notice to the contractor. All other above the "floor" cases are assigned to a Regional Board of renegotiation, usually on a geographical basis.

Authority has been delegated to the Regional Boards to complete those cases in which renegotiable profits before income taxes are $800,000 or less (Class B). In any such case, if a clearance is issued or a refund agreement is entered into with the contractor, the action of the Regional Board is final; if agreement is not reached with the contractor, the Regional Board issues an order, which is subject to review and final determination by the Statutory Board. The Regional Boards also process cases of greater magnitude (Class A), but in such cases their authority is limited to recommending determinations to be made by the Statutory Board; and if a Regional Board's recommendation is not acceptable to either the Statutory Board or the contractor, the case is reassigned from the Regional Board to the Statutory Board for further proceedings and completion.

Renegotiation proceedings are relatively informal and non-adversary in nature. The Act provides that the Board shall endeavor to reach an agreement with a contractor on the amount of excessive profits, if any, and that the Board shall issue an order determining excessive profits only if an agreement is not made.

The Board's determination in each instance reflects its judgment on the application of the following statutory factors to the facts of the specific case: efficiency of the contractor, reasonableness of costs and profits, net worth and capital employed, extent of risk assumed, nature and extent of contribution to the defense effort, and character of business. It is apparent that no formulae or pre-established rates can be used to determine whether profits are, or are not, excessive in any given case.

Refund Determinations and Voluntary Price Adjustments

During fiscal 1966, 21 determinations of excessive profits were made totaling $24,513,962. In addition, as of the end of the year, the Board had also made, but had not incorporated in agreements or orders, additional refund determinations in the amount of $1,902,393. Since the Board's inception through fiscal 1966, 3,737 determinations of excessive profits have been made totaling $936,455,823, before adjustment for Federal income and excess profits tax credits.

Also during fiscal 1966, contractors reported in connection with renegotiation proceedings voluntary refunds and voluntary price reductions amounting to $23,248,982. (These refunds and price reductions are to be distinguished from price reductions made pursuant to contract provisions.) Such reported savings totaled $1,269,802,673 since creation of the present Board.

The above cumulative results are tabulated as follows:

Determinations of excessive profits:	
Completed	$936, 455, 823
In process	1, 902, 393
Total	938, 358, 216
Voluntary refunds and voluntary price reductions	1, 269, 802, 673
Total	2, 208, 160, 889

Appeals to the Tax Court

When a contractor does not agree with a determination of excessive profits, the Board issues a unilateral order directing the contractor to refund to the Government the amount of excessive profits involved. Under the Act, contractors then have a right to petition to The Tax Court of the United States for a determination.

Since the inception of the Board, through fiscal 1966, only 140 of a total of 3,737 determinations of excessive profits have been appealed to the Court. Four such appeals occurred during fiscal 1966. As of the end of that year, the Tax Court had disposed of 101 cases. The Court upheld the Board's determination in 59 cases. Details are set forth in the following table:

Tax Court action on board determinations

	Total	Upheld	Modified upward	Modified downward
Dismissals	43	43		
Stipulations	29	2	3	24
Decisions	29	14	2	13
Total	101	59	5	37

The actual number of filings assigned to and completed by the Regional Boards in fiscal year 1964–1966, and the estimates for 1967–1970 are shown below:

Government fiscal year	Actual			Estimated			
	1964	1965	1966	1967	1968	1969	1970
Beginning inventory in regions	543	524	422	464	464	464	464
Assignments received	502	355	444	500	600	650	650
Total	1,045	879	866	964	1,064	1,114	1,114
Ending inventory	524	422	464	464	464	464	464
Completed by regions	521	457	402	500	600	650	650

Obligations by activity

	1965 actual	1966 actual	1967 estimate	1968 estimate
Executive direction	$572,296	$565,153	$589,000	$587,000
Staff operations	895,130	847,730	847,000	845,000
Renegotiation operations (field)	1,114,394	1,057,588	1,101,000	1,168,000
Total obligations	2,581,820	2,470,471	2,537,000	2,600,000

Average employment by activity

	1965 actual	1966 actual	1967 estimate	1968 estimate
Executive direction	43.4	41.2	40.2	40.2
Staff operations	68.1	60.7	56.5	56.8
Renegotiation operations (field)	80.1	73.0	75.5	81.2
Total average employment	191.6	174.9	172.2	178.2

Headquarters Office Operations

Executive direction

	1966 actual		1967 estimate		1968 estimate	
	Positions end of fiscal year	Average employment	Positions end of fiscal year	Average employment	Positions end of fiscal year	Average employment
Office of the Board	16	17.1	16	16.0	16	16.0
Office of the Secretary	3	3.0	3	3.0	3	3.0
Office of the Economic Adviser	2	2.0	2	2.0	2	2.0
Office of Administration	19	19.1	19	19.2	19	19.2
Total	40	41.2	40	40.2	40	40.2

The Statutory Board, which is composed of five members, is responsible for administration of the Act. The Statutory Board establishes policy, formulates rules and procedures, issues regulations and informational material to the public, issues internal directives governing agency procedure, decides exemption questions, hears cases and determines the existence or non-existence of excessive profits.

The Secretary serves as an assistant to the Board, develops and schedules Board agendas, acts as recording officer for formal meetings, signs official correspondence with regard to Board actions, processes agreements and orders to the procuring departments for collection, and monitors the continuing function of examining and updating Board directives.

The Economic Advisor conducts economic studies, analyses and surveys, prepares background material for the Annual Report of the Board, and advises the Board and members of the staff with respect to all economic matters relating to renegotiation.

The Director of the Office of Administration provides administrative management services to all components of the Renegotiation Board. These include personnel, security, budget, fiscal accounting, library services, travel, dissemination of information, mail and file, office services, and supply.

Staff operations

	1966 actual		1967 estimate		1968 estimate	
	Positions end of fiscal year	Average employment	Positions end of fiscal year	Average employment	Positions end of fiscal year	Average employment
Office of Assignments	22	22.6	22	21.5	22	21.5
Office of Accounting	10	9.9	10	9.5	10	9.8
Office of Review	17	19.2	17	17.0	17	17.0
Office of General Counsel	9	9.0	8	8.5	9	8.5
Total	58	60.7	57	56.5	58	56.8

The Headquarters Staff assists the Board in the formulation of policy, gives technical guidance to, and coordinates, the activities of the field organization, and assists the Board in completing certain cases which have been processed in the field. In addition to the foregoing, Headquarters personnel are engaged in securing and examining the filings of contractors for the purpose of determining acceptability, and analyzing all such filings in the screening process for the purpose of determining which cases can be cleared without assignment to the field.

Office of Assignments

	1966 actual	1967 estimate	1968 estimate
Positions, end of year	22.0	22.0	22.0
Average employment	22.6	21.5	21.5

The Office of Assignments develops and maintains a mailing list of contractors and subcontractors who may have renegotiable business above the "floor". The names of such contractors and subcontractors are obtained through procurement lists from agencies named in the Act, through answers to questions included in Federal income tax returns and other miscellaneous sources. This list includes the names of companies and persons to whom the Board annually sends instructions and reporting forms.

The contractors' reports are received by the Office of Assignments where they are examined for acceptability, checked for subsidiary, affiliated or controlled companies, and reviewed to separate those indicating a total of renegotiable business below the statutory minimum from those above such figure. Acceptable reports which show renegotiable business in excess of the applicable "floor" are forwarded to the Office of Acounting for further processing. Appropriate examination is also made of below the 'floor" filings.

In additon to its responsibility for the securing and examination of filings, the Office of Assignments acts as the control point for all assignments which are made to the Regional Boards for processing and acts as liaison with the Internal Revenue Service in obtaining tax information used in the administration of the Act. It also maintains, summarizes and interprets statistical data for all cases processed.

Office of Accounting

	1966 actual	1967 estimate	1968 estimate
Positions, end of year	10.0	10.0	10.0
Average employment	9.9	9.5	9.8

The Office of Accounting provides technical guidance and assistance to the Statutory Board, the Headquarters staff, and the Regional Boards.

This office reviews above the "floor" filings in the screening process, and passes on the adequacy and correctness of the segregation of sales and allocation of costs and expenses. In these review activities, the Office of Accounting processed 3,390 filings during fiscal 1966. For each of the fiscal years 1967 and 1968, it is estimated that the Office of Accounting will process 3,750 and 4,100 filings, respectively.

It also reviews cases completed by the Regional Boards for adherence to accounting principles and consistent treatment of accounting matters, conducts complete accounting reviews of cases subject to final approval by the Statutory Board, and assists in the accounting aspects of cases reassigned to the Board. It advises on the need for, and substance of, special accounting agreements for renegotiation and collaborates with the Department of Justice on accounting matters pertaining to Tax Court cases.

During fiscal 1966, the activities of the Office of Accounting included accounting reviews of 211 assignments completed by the Regional Boards, of which 204 were Class A and 7 Class B.

It is estimated that for the fiscal year 1967, the Office of Accounting will review 250 assignments, of which 225 will be Class A and 25 Class B. For 1968 it will review 275 assignments of which 245 will be Class A and 30 Class B.

Office of Review

	1966 actual	1967 estimate	1968 estimate
Positions, end of year	17.0	17	17
Average employment	19.2	17	17

All above the "floor" filings by contractors are analyzed by the Office of Review. That office has authority to assign filings to the Regional Boards for detailed processing when circumstances warrant. It also makes recommendations to the Board to clear filings without assignment except in a limited area where authority has been delegated to that office to grant clearances without approval by the Board. The Office of Review processed 3,372 above the "floor" filings during fiscal 1966. It is estimated that 4,000 filings will be processed in each of the fiscal years 1967 and 1968.

Applications for the standard commercial article and service exemption, and other exemptions provided for in the Act, are examined by the Office of Review and recommendations for approval or denial are made to the Board. During fiscal 1966, this office processed 264 applications for commercial exemptions in which the total amount claimed was $545,733,000.

The Office of Review furnishes technical guidance to the Regional Boards when necessary and it analyzes all cases processed by those Boards (Class A and Class B) to assure compliance with Board regulations and policies. It provides assistance to the Statutory Board in the final disposition of impasse and other reassigned cases. This office also maintains liaison with the procurement agencies whose contracts are subject to renegotiation. Such liaison includes obtaining necessary procurement and performance information in specific cases.

During fiscal 1966, the Office of Review analyzed 354 assignments completed by the Regional Boards consisting of 179 Class A and 175 Class B assignments.

It is estimated that, in fiscal 1967, this office will review 400 assignments completed by Regional Boards (200 Class A and 200 Class B), and, in fiscal 1968, will review 500 assignments (260 Class A and 240 Class B).

Office of General Counsel

	1966 actual	1967 estimate	1968 estimate
Positions, end of year	9	8.0	9.0
Average employment	9	8.5	8.5

The General Counsel is the legal advisor to the Board, passing on legal problems arising out of all phases of the Board's operations. He advises the Board on policies and procedures for the conduct of renegotiation. The Office of General Counsel drafts all legal forms, agreements, and orders employed by the Board in the conduct of renegotiation. The General Counsel insures the legal accuracy and sufficiency of Board regulations and amendments and interpretations thereof, bulletins, rulings, and other publications prescribing the conduct of renegotiation. He advises contractors with respect to legal problems under the Renegotiation Act. The Office of General Counsel provides the necessary legal assistance in the preparation of recommendations for the granting or denial of exemptions under the Renegotiation Act and maintains liaison with the Department of Justice with respect to criminal and civil litigation involving renegotiation, including partcularly litigation before The Tax Court of the United States.

REGIONAL BOARD OPERATIONS

	1966 actual	1967 estimate	1968 estimate
Positions, end of year	80	76.0	87.0
Average employment	73	75.5	81.2

The following tabulation reflects the estimated field workload and production goal established for fiscal 1968:

New assignments to be received during fiscal year	600
Beginning inventory	464
Workload	1,064
Estimated completions during fiscal year	600
Ending inventory	464

Under Board policy, only those cases are assigned to Regional Boards which present a possibility of excessive profits, or which involve accounting, legal, or other problems which cannot be resolved on the basis of contractors' filings. For this reason, assignments processed in the field normally require detailed analysis and represent the more difficult cases.

In connection with the processing of cases, the Regional Boards obtain and analyze accounting, financial and performance data, make plant visits, conduct special studies where necessary, hold meetings with contractors and make determinations of excessive profits. As stated earlier, authority has been delegated to the Regional Boards to determine excessive profits and enter into final agreements in cases involving renegotiable profit of $800,000 or less. In other assigned cases, the Regional Boards make preliminary determinations of excessive profits and recommend dispositon of such cases to the Statutory Board.

The Regional Boards also perform various other functions which include: securing filings from contractors in some instances; entering into special accounting agreements; developing information for the processing of exemptions; securing other information as instructed by the Statutory Board; consulting and advising contractors regarding accounting requirements, legal matters, and compliance with the Act and regulations.

EXPLANATION OF ESTIMATES FOR OTHER OBJECT CLASSES OF EXPENDITURES

	1966 actual	1967 estimate	1968 estimate
12 Personnel benefits	$156,016	$160,000	$164,000

This object class includes employer's share of contributions to several employee benefit programs, as required by law. The fiscal year 1968 estimate of $164,000 is composed of these items: Employees' life insurance, $7,500; health benefits, $11,700; retirement, $144,000; and FICA, $800.

	1966 actual	1967 estimate	1968 estimate
21 Travel and transportation of persons	$26,443	$29,000	$29,000

It is estimated that $29,000 will be required in fiscal year 1968 to provide for necessary trips to the plants and offices of contractors by operating personnel and travel between the Headquarters Office and Regional Boards.

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

An estimate of $800 is included to cover GSA Motor Pool charges to the agency.

	1966 actual	1967 estimate	1968 estimate
22 Transportation of things	$1,931	$4,000	$5,000

This estimate is to cover movement of household goods.

	1966 actual	1967 estimate	1968 estimate
23 Rent, communications, and utilities	$44,158	$47,000	$48,000

The estimate of $48,000 for fiscal year 1968 covers communications services, which consist of telephone, teletype and telegraph services and cost of postage. Extensive communications services are required by the Board, since contractors are located throughout the United States. Wherever possible, the Board endeavors to save travel funds by communicating with contractors through FTS facilities.

Also included is $3,000 for rental of IBM and Xerox equipment.

	1966 actual	1967 estimate	1968 estimate
24 Printing and reproduction	$9,135	$11,000	$11,000

Included in this estimate of $11,000 for 1968 are provisions for the printing of forms, reports, administrative manuals and guides,and the purchase of regulations, business reports and special financial data. All duplicating work for the agency is also included under this classification.

	1966 actual	1967 estimate	1988 estimate
25.1 Other services	$9,792	$10,000	$10,000

This item covers such expenses as repair and maintenance of equipment, moves, relocations and building alterations.

	1966 actual	1967 estimate	1988 estimate
25.2 Services of other agencies	$24,340	$25,000	$25,000

The estimate for services to be performed by other agencies includes $10,000 for data processing services to be furnished by the Bureau of Standards; $2,000, Internal Revenue Service; $5,000, security and loyalty investigations by the Civil Service Commission; $4,000 for employee training programs furnished by other agencies; and the remainder for special contract award data to be furnished by procurement agencies, such as the Department of Defense and NASA.

	1966 actual	1967 estimate	1968 estimate
26 Supplies and materials	$11,328	$14,000	$14,000

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

	1966 actual	1967 estimate	1968 estimate
31 Equipment	$6,218	$12,000	$14,000

An estimated $14,000 is required for 1968 to provide for essential replacement of such items as office machines, typewriters and furniture. Maintenance costs for adding machines and calculators now in use which were purchased when the Board was established in 1951 make it essential to begin a replacement program for these items.

BOARD PERSONNEL

Mr. EVINS. Take one look at your chart over here. You have 15 aids to the Board and Board members. Then the administrative office has 19 and the Economic Adviser two—you are not doing much economic advising. The secretary of the Board employs three and the assignments office, 22. This is where they send the work out to the field. You have to have the General Counsel for all these legal problems. He has eight helping him, is that right?

Mr. FENSTERSTOCK. Altogether, including secretarial help.

Mr. EVINS. The Office of Accounting has 10 and the Office of Review 17.

Then this is headquarters, the first chart is the headquarters office, is that correct?

Mr. HARTWIG. Yes, sir.

Mr. EVINS. Here is the eastern board and the western board. You have eight on your western board and eight on your eastern board. Which region does the most work, the eastern or the western?

Mr. HARTWIG. The eastern board has received more assignments than the western.

Mr. EVINS. Any further questions, gentleman?

RENEGOTIATOR-ACCOUNTANT TEAMS

Mr. WYMAN. Just one.

What is the division of renegotiating?

Mr. HARTWIG. When a case goes to the regional board, it is assigned to two people, an accountant and a renegotiator. The accountant is in the division of accounting, and the renegotiator is in the division of renegotiating. The renegotiator is the financial analyst who reviews the case from the point of view of the statutory factors that I enumerated.

Mr. WYMAN. Do most of these personnel who have been in these regional offices have a pretty good idea of what kind of business these corporations do with the Government?

Mr. HARTWIG. I think so.

Mr. WYMAN. And approximately what they earn over the——

Mr. HARTWIG. In fact, we still have quite a number of people who were with renegotiation in World War II, so we have the benefit of their experience.

NASA CONTRACTS

Mr. WYMAN. Is it your experience in the examination of NASA contracts, that to a certain extent is a new field, that there has been a little bit heavier burden on you in regard to excess profits than there has been in some of the other fields?

Mr. HARTWIG. I couldn't make any generalization.

Mr. WYMAN. I wasn't attempting to make it, I was just asking about it. I wonder if some of the lunar excursion module contracts were open.

Mr. HARTWIG. Well, when you appreciate that the contractors who have space business also have business with the Defense Department, and that we look at a bundle of contracts, which may include some with NASA, some with Air Force, some with Navy, it is difficult to generalize as to one segment. Moreover, NASA procurement has not been an important factor in the total picture until quite recently. For that reason we haven't had too much experience with NASA contractors per se.

You see, NASA prime contract awards were $5 billion in 1966. But as late as 1963 they were $3 billion as against $29 billion for the military departments. So it is a small part of the total picture.

Mr. WYMAN. But you do look at those on a contract-by-contract basis?

Mr. HARTWIG. No, we don't. We look at the overall results in a particular fiscal year.

In other words, the NASA contracts are lumped right in—all renegotiable contracts are lumped together in the contractor' 'scal year.

Mr. WYMAN. Incentive and otherwise?

Mr. HARTWIG. That is right.

LARGE CORPORATIONS

Mr. EVINS. There was a statement placed in the record last year of a hundred corporations who were in the billion-dollar category. The Board doesn't look at those just on the round figures. You have to find out if they are a contractor for the Government. You have your statutory requirements. In other words, there are a lot of companies making enormous profits, a lot of billion-dollar concerns in the country, but you can't look at them unless they are contractors with the Government who fall within your statutory authority; is that right?

Mr. HARTWIG. That is right.

BOARD ECONOMIES

Mr. EVINS. Mr. Chairman, you say that the Congress has passed more travel allowances and more pay raises. You put all of these increases in the Congress. Can't you absorb some of these increases?

Mr. HARTWIG. I think this Board has done very well in the last 4 years to demonstrate to this committee how economy minded we are. I would like to have you compare this agency with all other independent agencies that will appear before you. How many of them have had a 22-percent reduction in staff in the past 4 years?

Mr. EVINS. Well, Mr. Chairman, we want to commend you for your good work. We think it is an important agency, we are interested in your work and the things you do. As I have said earlier, I want you to be more aggressive and more active. I think you have an important mission. Congress has extended this law eight times. So we commend you for your good work and your important role.

A pretty good note to end on is to show that the voluntary refunds and the Board refunds determinations over its life have exceeded $2 billion, $2,208,169,000. You have a pretty good record on economy, and you have a good record on returns to the Government. You are more than justifying your operations.

I wonder if Mayor D'Alesandro, an old colleague, wants to spell anything out for the record.

Mr. D'ALESANDRO. I am just glad to be here. And I thank you for your consideration.

Mr. EVINS. Mr. Loveless, do you want to say anything on the record or off the record?

Mr. LOVELESS. We are very appreciative of the courtesies the committee has shown us as you know we do not have too many friends on the outside.

However, many businessmen have stated to me privately that they have felt that renegotiation is a good thing, because it does remove any public stigma of wartime profiteering on their operation.

Mr. EVINS. More and more the Government and business are becoming interrelated. I placed in the record recently a speech of Henry Ford in which he said many businesses had feared the Government and worried about the Government and complained about the Government, but now business is recognizing more and more that the Government and business are interrelated, and that this is a period of necessary cooperation.

Mr. Beaty?

Mr. BEATY. I have nothing to say. Thank you.

Mr. EVINS. Mr. Burkhalter?

Mr. BURKHALTER. I would reiterate what my colleagues have said about our appreciation of our annual visit with you.

I would say this, that on the subject of travel I think maybe we ought to travel more than we do and get out to see these mysteries that we are supposed to be examining. I, for one, feel that our staffs, and the Board members, too, profit greatly from plant visits where we get to see firsthand how they are doing these different things.

Mr. EVINS. Thank you very much.

TUESDAY, FEBRUARY 21, 1967.

FEDERAL HOME LOAN BANK BOARD

WITNESSES

JOHN E. HORNE, CHAIRMAN OF THE BOARD
ROBERT H. RAND, MEMBER OF THE BOARD
SIMON L. TREVAS, EXECUTIVE ASSISTANT TO THE CHAIRMAN
HARRY S. SCHWARTZ, ADVISER TO THE BOARD OF DIRECTORS; AND DIRECTOR OF THE OFFICE OF RESEARCH AND HOME FINANCE
KENNETH E. SCOTT, GENERAL COUNSEL
LAWRENCE M. WALTERS, DIRECTOR OF THE OFFICE OF EXAMINATIONS AND SUPERVISOR
LYNDON R. DAY, DIRECTOR OF THE OFFICE OF FEDERAL HOME LOAN BANK OPERATIONS
JERRY D. WORTHY, DIRECTOR OF THE OFFICE OF FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
CLARENCE S. SMITH, DIRECTOR, OFFICE OF APPLICATIONS
ROBERT F. QUIGLEY, COMPTROLLER
ELMER B. CALLAHAN, BUDGET OFFICER
GRADY PERRY, JR., ASSISTANT SECRETARY

ADMINISTRATIVE EXPENSES

Program and financing

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Program by activities:			
1. Examination and supervision of Federal home loan banks	320	357	408
3. Chartering Federal and insuring savings and loan associations	537	579	608
5. Executive direction and staff services	1,606	1,758	1,977
6. Analysis of operation	519	540	575
7. Administrative services	826	921	972
Total accrued expenses—costs	3,808	4,155	4,540
Financing:			
Unobligated balance lapsing	152	255	
Limitation	3,960	4,410	4,540

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	2,701	2,920	3,252
11.3	Positions other than permanent	24	28	28
11.4	Special personal service payments	21	34	24
11.5	Other personnel compensation	34	38	42
	Total personnel compensation	2,780	3,020	3,346
12.0	Personnel benefits	196	226	249
21.0	Travel and transportation of persons	100	115	122
22.0	Transportation of things	1	1	1
23.0	Rent, communications, and utilities	414	454	457
24.0	Printing and reproduction	10	15	37
25.1	Other services	108	102	111
25.2	Services of other agencies	83	76	64
26.0	Supplies and materials	58	68	72
31.0	Equipment	58	78	81
93.0	Administrative expenses included in the fund as a whole	−3,808	−4,155	−4,540
	Total accrued expenses—costs			

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	310	333	335
Full-time equivalent of other positions	5	5	5
Average number of all employees	285	297	327
Average GS grade	8.4	8.5	8.5
Average GS salary	$9,254	$9,662	$9,892
Average salary of ungraded positions	$5,470	$5,320	$5,382

Nonadministrative Expenses

Program and financing

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Program by activities:			
2. Supervision of Federal and State-chartered institution	706	848	885
4. Examining savings and loan associations	11,002	11,807	12,160
5. Executive direction and staff services	496	565	605
8. Special studies of savings and loan industry		100	175
Total accrued expenses—costs	12,204	13,320	13,825
Financing:			
Unobligated balance available, start of year		−500	−400
Unobligated balance available, end of year	500	400	225
Unobligated balance lapsing	451	245	
Limitation	13,155	13,465	13,650

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	8,135	8,948	9,321
11.3	Positions other than permanent	15	16	16
11.4	Special personal service payments	102	91	53
11.5	Other personnel compensation	20	15	24
	Total personnel compensation	8,272	9,070	9,414
12.0	Personnel benefits	613	683	719
21.0	Travel and transportation of persons	2,463	2,537	2,584
22.0	Transportation of things	5	17	17
23.0	Rent, communications, and utilities	397	422	396
24.0	Printing and reproduction	78	80	80
25.1	Other services	17	118	193
25.2	Federal home loan bank board services	286	312	341
	Services of other agencies	8	11	11
26.0	Supplies and materials	35	39	39
31.0	Equipment	30	31	31
93.0	Nonadministrative expenses included in the fund as a whole	−12,204	−13,320	−13,825
	Total accrued nonadministrative expenses—costs			

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	953	953	953
Full-time equivalent of other positions	4	5	5
Average number of all employees	857	881	898
Average GS grade	10.0	10.2	10.2
Average GS salary	$9,704	$10,223	$10,428

Mr. EVINS. The committee will come to order.

We have with us this morning Mr. John E. Horne, Chairman of the Board, and Mr. Robert L. Rand, member of the Board.

Is Mr. Greenebaum here?

Mr. HORNE. Mr. Greenebaum could not come. He asked that I express his regrets. He is out of the city.

Mr. EVINS. Other staff people here are Mr. Trevas, executive assistant to the Chairman; Mr. Harry Schwartz, adviser to the Board and Director of the Office of Research and Home Finance; Mr. Kenneth E. Scott, General Counsel; Mr. Walters, Director of the Office of Examinations and Supervision; Mr. Walter Brown, Deputy Director of the Office of Examinations and Supervision.

We also have Mr. Day, Director of the Office of Federal Home Loan Bank Operations; Mr. Jerry Worthy, Director, Office of the Federal Savings and Loan Insurance Corporation, Mr. Clarence Smith, Director of the Office of Applications; Mr. Robert Quigley, Comptroller; Mr. Elmer Callahan, budget officer; and Grady Perry, Assistant Secretary.

Where is your liaison man?

Mr. PERRY. Here I am.

Mr. EVINS. Oh, I see you have the title of Assistant Secretary.

Mr. PERRY. For congressional liaison, sir.

Mr. EVINS. Mr. Chairman, we always listen to you with profit. We shall be glad to hear you. I notice you have a statement. You can put it all in the record; proceed to highlight it, or do as you wish.

General Statement

Mr. Horne. Mr. Chairman and members of the committee, I welcome this opportunity to appear in behalf of the Federal Home Loan Bank Board in support of our fiscal 1968 budget estimates. Also, Mr. Chairman, I want to thank you and the members of the committee for your consideration and understanding of the Board's problems in connection with our fiscal 1967 budget.

You have identified those of us who are here. I would like to point out if I may, sir, that we are especially glad to have our new member, Robert L. Rand, with us this morning. Prior to his appointment on the Board, he was a senior vice president of the Fidelity Federal Savings & Loan Association of Glendale, Calif. This was a large association. Mr. Rand started with it when it was very small. It grew under his or partly under his direction. He was senior vice president and had charge of loans. It continued to be, during all of its growth, a very soundly operated institution. He has had the experience of running successfully a sound institution and seeing it grow from a small size to a large size institution.

At the outset, we can say without reservation that 1966 has been the most trying year in the recent history for the Board, its staff, and the savings and loan industry.

I thought, Mr. Chairman, that rather than burden the committee with statistics, it might be interesting for me to review the major problems that we had in 1966, and the way that we tried to solve them.

Mr. Chairman, this statement is about 15 or 16 pages long. It is double spaced, though. I do not want to impose on the committee's time. The statistics in support of our budget requests are included in the last four or five pages.

Mr. Evins. Why don't you proceed and just highlight your statement and we will feel free to interrupt as we go along.

Mr. Horne. All right, fine.

Tight Money Situation

Besides having to face intense competition from commercial banks for savings, savings and loan associations were affected severely by the tight money situation. There was a reduction in net savings inflow of savings and loan associations from $8.4 billion in calendar year 1965 to $3.7 billion in 1966. This very sharp reduction in savings inflow resulted in a marked reduction in mortgage lending, which in turn intensified the decline in housing construction that normally accompanies tight money periods.

Mr. Evins. That was a considerable drop. We have noticed in looking at your budget that every year there have been more savings and more loans. We find one table that says savings continue to decrease, but your loans have increased. How do you account for this drastic drop in input?

Mr. Horne. The main cause for the drop in savings in 1966, of course, was the tight money and competition from commercial banks, and also from other market instruments, as for example, Treasury bonds and corporate issues. The corporations went to the market for a much greater amount in 1966 to what previously had been the case.

Not only that, but they paid more for it. This combination of factors resulted in a tremendous drop in the net inflow.

Mr. EVINS. You have gone through a tight-money situation, and the record shows that in 1966, there was a drop in savings deposits to Federal savings and loans associations in an appreciable amount.

Mr. HORNE. Yes, sir.

Mr. EVINS. The industry wound up the rest of the year profitably?

Mr. HORNE. It ended up fairly well, at least with a net gain of $3.7 billion in savings. While this was less than what they had in 1965, at least they ended up in the black. There were a few isolated associations that ended up in the red. But taking the industry as a whole, it ended up in the black.

INTEREST RATES

Mr. EVINS. As of the first of the year, we noticed a public announcement that the Board has increased the interest rates, whereas the trend of the tight-money situation is to lower the interest rates.

Mr. HORNE. That comes about this way, Mr. Chairman. But before replying directly to that, let me point out that in the months of November and December of 1966, and also in the month of January, savings and loan associations showed an improvement so far as the flow of money, the increase in the net inflow to savings and loan associations, was concerned. But the question that you ask about the ——

Mr. EVINS. Why did you raise interest rates? Why did the Board authorize the raising of interest rates in a tight-money situation when normally, they would be lowering the cost of money?

Mr. HORNE. This is the way it works, Mr. Chairman. The savings and loan associations get their money principally from three different sources. The primary source is people like you and I, and others coming in from the street and opening up savings accounts. The second major source of our funds is from repayments on outstanding mortgages.

Now, so far as the rate associations pay for their savings from the public, we actually lowered that. When Congress gave us the authority to impose a dividend ceiling, we not only imposed a ceiling, but in some cases, rolled back the high dividend rates they were paying. What I believe you have in mind, though, is the third source from which savings and loans get their money. That is to borrow from our 12 district banks.

You see, they are members of each of our 12 district banks, like associations in Tennessee are members of the bank in Cincinnati.

Mr. EVINS. This was raising the interest rates for their own borrowings?

Mr. HORNE. As we lend them money, the rates we charge have to reflect what it costs us to go to the market and obtain funds. So as the cost of our geting money from the market went up, we had to raise the rates that we charge the borrowers as our associations borrow that money in turn from the 12 banks.

This is what you had in mind, I think.

Mr. EVINS. Yes.

How long do you anticipate this high rate will continue?

Mr. HORNE. The last action that we took actually reduced the rate at which we are lending money to them. We reduced it from 6 percent to 5.75. As soon as we are able to go to the market and get additional money or roll over the issues as they mature at less cost, we shall be able again to reduce the rates that we charge our borrowers—that is, the savings and loan associations.

I think to get at the question you just asked as to when we may be able to reduce them again, I am hopeful—although I would not want to be held to this because we just do not know—I am hopeful that by the middle of the year or before, we can make another reduction to our borrowers.

Mr. GIAIMO. Will the Chairman yield?

Mr. EVINS. Yes.

Mr. GIAIMO. The federally chartered banks have to pay their own interest rates, do they not, when they borrow money?

Mr. HORNE. Yes. There are several Government agencies that go to the market and borrow funds, just as the Treasury does. The Treasury is the traffic director of all of us. When we have to go to the market to borrow money to either roll over a maturing issue, or get money to lend our savings and loan associations, we go to the Treasury for assistance. We work with the Treasury and the Federal Reserve Board, and also our dealers, in setting the price we have to pay in the market to get this money. What we have to pay for that money, we have to reflect in the rate charged to the savings and loan associations that borrow it.

AVERAGE COST OF MONEY

Mr. BOLAND. What were you paying for it last year?

Mr. HORNE. Right now, our average cost of all issues outstanding is 5.74. That is the average. Last year, we paid as high as 6.25 percent. That was when the interest was raised.

Mr. BOLAND. What were you charging member banks?

Mr. HORNE. We charge member banks now 5.75. Our average cost, though, is 5.74. We are now absorbing administrative expenses and costs. Actually, if we were adding the administrative costs to the associations, our borrowers, they would be paying a little bit in excess of the 5.75.

Mr. EVINS. The interest rate in the Federal Home Loan Bank Board is higher than Treasury rates.

Mr. HORNE. They are higher, sir.

Mr. EVINS. You are setting the pattern, rather than the Treasury Department or the Fed, aren't you?

Mr. HORNE. Of course, the Fed is an entirely different operation, as you know, sir. The Treasury goes to the market and raises funds. While we recognize and the Congress recognizes this better than I do that if something happened, you would come to the rescue of this industry, the truth is that according to the law, our issues are not backed by the full faith and credit of the Federal Government. The Treasury issues are, and Treasury is always able to raise money, usually at a little less cost than we, usually 15 points——

DROP IN SAVINGS INFLOW

Mr. BOLAND. Is that reduction in savings inflow, from $8.4 billion to $3.7 billion, is that one of the sharpest drops, averagewise, ever experienced?

Mr. HORNE. Yes, sir, it certainly is in the past decade. I do not have the past history beyond that.

Mr. BOLAND. That is rather a shocking, incredible drop, is it not?

Mr. HORNE. It was a very severe drop; yes, sir. As I have explained, the primary reason for it is competition for funds. I have been told we had more money in circulation in 1966 than we have ever had in one single year, but we have also had more demand for it from so many different sources that there was not as much money as people wanted.

Mr. BOLAND. How seriously did it affect the banks? Did any of them go out of business because of it?

Mr. HORNE. Well, it caused some of them, as they had to raise their rates—the interest they had to pay to savers to avoid having a worse drop, to begin operating in the red because they were caught in this profit squeeze.

I do not know, Congressman, that I could actually say that it has resulted in putting very many out of business. The drop in funds was not the primary reason for associations going out of business during this period.

Mr. EVINS. Mr. Chairman, in the closing days of Congress we passed a special appropriation for the Federal Home Loan Bank Board to make a study of institutions that were in impaired condition. I am sure this has not been completed. Do you want to give us a little insight as to what has developed, what progress has been made?

Mr. HORNE. It is in my statement a little later on.

Mr. EVINS. Proceed, sir.

DIVIDEND RATES ON SAVINGS ACCOUNTS

Mr. HORNE. Dropping down to the beginning of the first complete paragraph on page 2, savings and loan associations were at an especially great disadvantage in competing with commercial banks during the period of tight money we experienced in 1966. This disadvantage was marked by the boosting of dividend rates on savings accounts in order to remain competitive.

Unlike commercial banks, savings and loan institutions have their portfolios invested in long-term mortgages with relatively limited turnover. Rates paid on savings accounts are related to the average yield on the mortgage portfolios. Yet this average rose only gradually as interest rates on new mortgages rose, both because of the slow turnover in existing mortgages and the sharply reduced amount of funds available for investment in new mortgages.

In contrast, rates on open market securities rose quite sharply, and commercial banks were able to boost the average yield on their relatively short maturity portfolios quickly and thus soon reach a position to pay up to the permissible 5½ percent ceiling interest rate on certificates of deposit.

Under these conditions, savings and loan associations were faced with especially difficult operating conditions. To stem the sharp re-

duction in their savings inflow and to obtain funds to invest in higher yielding mortgages, associations felt compelled to increase the rates paid on their savings accounts. Yet the margin of earnings available to do so—consistent with the need for adequate reserves—was slim in many instances. Understandably, though, the temptation to pay higher dividend rates was difficult to resist.

DIVIDEND RATE REGULATIONS

The new ceiling dividend rate regulations issued by the Board last September, which are discussed in more detail later, were designed to deal with this problem. These regulations were helpful in great measure in stemming further escalation of rates and further losses in savings, while permitting many associations some latitude for further boosts in rates.

These and related circumstances, all served to increase the burden placed upon the Federal Home Loan Bank Board to provide the proper regulations, to establish a realistic credit policy for the Federal Home Loan Bank Board system, and to carry out the type of examinations and supervision necessary to preserve the soundness of savings and loan associations.

During the month of April 1966, it became apparent that the Federal home loan banks would be required to curtail substantially their lending to members for mortgage portfolio expansion. Funds were being withdrawn from savings and loan associations in heavy amounts and the Board concluded that in order to preserve the liquidity of the Federal Home Loan Bank system, advances to meet withdrawals and for mortgage portfolio expansion could not safely be made simultaneously in large amounts.

Thus on April 20 the Board requested the Federal home loan banks to curtail advances to associations for mortgage portfolio expansion. Member institutions were advised to limit further commitments on mortgage loans to a level in keeping with their cash flows. Moreover they were advised not to rely on additional Federal home loan bank credit for expansion purposes.

FLOW OF MORTGAGE FUNDS

However, to hold to the minimum the reduction of home mortgage funds, the Board advised the banks and the members that where the operating characteristics of an institution were favorable, maturing expansion advances would be renewed. Thus, such associations were able to invest mortgage repayments in the mortgage market. And all associations not faced with maturing advances were likewise able to invest mortgage repayments. Without this latitude, the availability of mortgage funds for 1966 would have been far less, and the homebuilding industry would have suffered much more than it did.

It might interest the committee members if I were to add right here that the repayments of mortgages last year amounted to in excess of $12 billion. As I have just explained, we were able to permit these associations to take these repayments and stay in the mortgage market at least to this extent.

The drain on savings flows for member institutions continued in May and June but to a somewhat reduced extent. But during the

July reinvestment period the associations lost approximately $1½ billion in net savings. Almost one-half of this loss was covered by advances to affected member associations by the Federal home loan banks. Savings outflow continued into August. Obviously, it was too risky for the Board to relax credit restraints on advances for mortgage expansion purposes. This was especially so in view of the approaching October reinvestment period and the fact that the exact extent of savings losses for that period could not be reasonably estimated.

PRESIDENTIAL DIRECTIVE ON OBTAINING MONEY FROM THE OPEN MARKET

As you gentlemen know, pressures in the money market became so extreme that the President, to combat them in part, directed Federal agencies not to obtain funds from the marketplace beyond money needed for maturing issues. Reviews of agency requirements would be made by the Treasury and the White House and new funds, where justified, would be provided by Government investment accounts.

The Federal Home Loan Bank Board was the first agency to go to the market—in August—after the Presidential statement. There was a maturing liability of $500 million to meet and our district banks had estimated a need for an additional $90 million, making a total requirement of $590 million. The Government investment accounts subscribed to $90 million, the first use of such funds after the announcement.

Mr. GIAIMO. Would you explain that, Mr. Chairman? How could they do that?

Mr. HORNE. They had accounts or holdings which they can let us have instead of our going to the market, on which we pay the same rate as we would have paid if we had gone to the market. In other words, on this $90 million——

Mr. DAY. These are funds of Social Security, Railroad Retirement—trust funds, which normally would be invested.

Mr. GIAIMO. Do you pay the going rate?

Mr. DAY. Yes, sir.

Mr. EVINS. The President issued a directive asking you not to go to the market. However, the Federal Home Loan Bank Board was the first one to take advantage of going to the market.

Mr. HORNE. He did not ask us not to go to the market, but to——

Mr. EVINS. Do you have issues other than the $90 million which you derived from taxable trust funds?

Mr. HORNE. Yes, sir.

Mr. EVINS. Go ahead.

Mr. HORNE. Yes, sir.

In the following month, September, again there was a maturity of $500 million but the total requirements from the banks was for $650 million. The Board and the banks were not in a position to recommend any reduction in this total amount in view of a forthcoming quarterly investment, reinvestment period, and the absence of any satisfactory evidence of a decided improvement in savings and flows at the time.

After consultations with appropriate administration officials and a review of the needs of the savings and loan industry, it was decided that the Board would seek $450 million from the securities

market and the Government investment accounts would purchase the balance of $200 million.

So there were 2 straight months in which the Treasury came to our rescue with Government investment funds.

IMPROVEMENT IN MONEY MARKET

The announcement of the offering and the large purchase by the Government accounts had a decided effect on the market. There was an immediate improvement in its tone and interest rates began backing off. We believe an involved combination of factors, in which our offering played an important role, brought restraining influences to a disturbed financial climate. In October, November, and again in January we went to the market for large sums but principally for the purpose of rolling over maturities.

Savings inflows improved considerably toward the end of 1966 and into 1967. Because of this, the Board was able a few weeks ago to take two direct actions. These followed the announcement by the President, in his state of the Union message, of the availability of an additional $1 billion in credit to member associations in addition to a previous announcement of the availability of $500 million, and were (1) a liberalization of our bank credit policy on mortgage expansion loans, and (2) the reduction of interest rates on such loans of one-quarter percent.

That was the reduction, I pointed out to you Mr. Chairman, a few moments ago.

I have dealt with this area of the Board's operations in more detail than in the past, because the problems involved in the extension of credit under the unusual conditions which prevailed last year—coupled with the administration of dividend control—have been absorbing and time-consuming processes for the Board and its staff. That is not to say that other areas of the Board's operations were unaffected by these conditions. Pressures generated by conditions prevailing last year had a corresponding impact on all areas of the Board's operations.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION OPERATIONS

For example, 1966 was the most active year in the history of the Federal Savings and Loan Insurance Corporation. The Corporation became financially involved in the affairs of 12 associations during the year. These associations had savings capital of approximately $449 million. By contrast during its previous 31-year history the Corporation had been involved in cases totaling approximately $357 million in savings. Of these 12 cases that we took action on in 1966, two of the institutions went into receivership and insurance was paid directly to the savers.

In the other 10 cases, the Corporation exercised its authority under section 406(f) of the National Housing Act and either made a contribution, a loan, or purchased assets in order to prevent default. Approximately $34 million was paid out to the savers in the two institutions which went into default, and in both cases payments were begun within 1 week after the appointment of a receiver. The underlying strength of the insurance corporation is apparent in the fact that

notwithstanding this unusual activity by the insurance corporation, its liquidity assets as represented by cash and Government obligations increased by almost $200 million during the year.

Mr. EVINS. How were you able to do that? You were paying out two and assisting others, and yet its capital structure increased. How was the insurance corporation able to do this?

Mr. TALCOTT. Did the premium rates go down?

Mr. HORNE. No, this was not affected, this does not affect, really, the rates, this particular operation.

You see, the insurance corporation is supported by premium dues from its members. These dues, of course, continue to be paid. Moreover, we take funds of the insurance corporation and invest them in Government securities.

Mr. Worthy, you might add to that.

Mr. Worthy is the Director of the Federal Savings and Loan Insurance Corporation.

INSURANCE PREMIUMS AND PREPAYMENTS

Mr. WORTHY. The big thing is premium prepayments. The Congress authorized this method of increasing the liquidity of the Insurance Corporation in September 1961. We collect from each institution each June, 2 percent of the net increase in savings capital during the preceding year.

Mr. EVINS. Two percent of the net increase is the insurance cost to the institution?

Mr. WORTHY. No, sir; this is not a cost. This is a deposit they make to us. This is in addition to their premium.

Mr. EVINS. Do they not pay a certain fee for the insurance protection?

Mr. WORTHY. Yes, sir; that is one-twelfth of 1 percent per annum of their net savings capital and their creditor obligations.

Mr. EVINS. Say that again, now? What does the premium cost the institutions, Mr. Worthy?

Mr. WORTHY. One-twelfth of 1 percent per annum of their savings.

Mr. EVINS. One-twelfth of 1 percent per annum of their savings?

Mr. WORTHY. Right.

Mr. EVINS. In addition to that, you have another subscription or fee or charge or investment that is added once a year?

Mr. WORTHY. Right. This is 2 percent of their net increase.

Mr. EVINS. Two percent of their net increase?

Mr. WORTHY. Yes, sir.

Mr. EVINS. How did this increase when there were 12 that were in an impaired capital structure position and two that you had to liquidate? You mean others were gaining when some were going down?

Mr. WORTHY. That is correct. The money we collected in 1966 was for the increase in 1965. We collected $150 million for this purpose in 1966, indicating that the industry grew by $7.5 billion in 1965.

Mr. EVINS. Notwithstanding the difficult situations, the overall Federal Savings and Loan Insurance Corporation's business increased about $200 million?

Mr. WORTHY. The FSLIC's liquid assets increased by that amount in 1966, yes, sir.

Mr. TALCOTT. Mr. Chairman, will you yield for just a minute?
Mr. EVINS. Mr. Talcott.

INTEREST PAYMENTS BY MEMBER IN DEFAULT

Mr. TALCOTT. Have you ever estimated how much investors lost in interest between the time that the savings and loan institution went into default and the time you were able to complete their payoff? You said you paid off very quickly. I think you said you began payment within 1 week of the appointment of a receiver. This is rather unclear to me, because we do not know when the receiver was appointed, when you began payment, when you completed payment. I would like to know how much interest people actually lost.

Mr. WORTHY. Mr. Chairman, may I answer that?

Mr. HORNE. Yes.

Mr. WORTHY. We had two cases last year. In one, dividends were paid in June; we began paying out in August.

Mr. TALCOTT. When did you complete paying out——

Mr. WORTHY. We paid out the last of August.

Mr. HORNE. The interest and dividends were the same.

Mr. WORTHY. They lost their dividend or interest on their money from July 1 to an average of, say, September 1.

Mr. SCHWARTZ. Which would be about seven-tenths of 1 percent.

Mr. WORTHY. Right. By the 1st of September, we had paid out well over 60 percent of savings.

SUPERVISION OVER SAVINGS AND LOAN ASSOCIATIONS TO PREVENT INSOLVENCY

Mr. TALCOTT. At the top of the page, you say that you had a very active year and 12 associations became insolvent. Could this have been prevented if you had better supervision?

Mr. WORTHY. I think if we had had more authority in years past.

CEASE-AND-DESIST AUTHORITY

Mr. HORNE. The legislation, Congressman, that Congress passed last year made possible issuance of cease-and-desist orders, and in extremely limited cases, actual removal of officers and directors. That kind of authority could have helped us if we had had that legislation several years ago. It could have been used to prevent some of these cases we are talking about here.

On that point, I would like to say this: As you may recall, since you and I discussed the legislation on several occasions last year, I said over and over—the Board did—that the legislation would not help us with the cases that have already developed, that we are now faced with, our serious cases, but would help us to prevent cases down the road, not yet serious cases.

We have quite a few sick cases now that we are not going to be able to resolve through the cease-and-desist procedure. But if we had had this legislation 4 or 5 years ago, we could have prevented such cases.

Mr. EVINS. Proceed.

DISPOSITION OF PURCHASED ASSETS

Mr. HORNE. The Insurance Corporation also made progress during the year in the disposition of assets it had previously acquired in various problem cases. However, the liquidation of these assets continues to be a lengthy process and will require much of the attention of the Corporation's staff during the next few years. The key to conserving the liquidity of the Corporation and minimizing its losses in the handling of problem cases has been the use of mergers or other default prevention devices in the solution of problem cases.

The widespread squeeze on earnings as a result of the high-rate competition among financial institutions for savings funds has caused serious operating problems for many of them—this gets back to the question you asked a few minutes ago, Congressman Boland—including a number of savings and loan associations that heretofore were relatively problem free. The problems faced by savings and loan associations in recent years are expected to continue in some degree through fiscal year 1968. With more mortgage money available to associations during the latter part of fiscal year 1967 and the early part of fiscal year 1968, some institutions will be tempted, I fear, to make high-rate, high-risk loans in order to generate additional income. Such a practice would, of course, cause another kind of problem.

EXAMINATION AND SUPERVISION PROGRAM

In connection with the examination of and supervision of insured savings and loan associations, the Board of necessity must constantly review and be ever alert to developments that might adversely affect insured institutions. Examinations of insured institutions were maintained on a current basis in fiscal year 1966, during which time there were 4,567 examinations made. It is estimated that 4,654 examinations (an increase of 87 over fiscal year 1966) will be made during fiscal year 1968. It is apparent, from the competitive situation in the lending and savings market, that substantially more special examinations will be required in fiscal years 1967 and 1968. In the first half of fiscal year 1967, 53 special examinations were commenced as compared to 37 in all of fiscal year 1966. These special examinations must be conducted promptly and effectively when needed but without retarding the regular examination program. The appraisal assignments in connection with examinations during the first half of fiscal year 1967 were about double the previous annual rate.

In our present examination and supervisory program emphasis is placed on prevention of trouble—not to wait until it happens and then try to cure it. Attention is directed to deficiencies in policies, practices, and procedures which require close scrutiny and continuous supervisory attention to effect correction. This program has proved its value and effectiveness in dealing with developing problems, including many cases caused by the tight money situation of last year.

The Board keeps a detailed ready reference record of developments in those institutions which are of some degree of supervisory concern and a considerable portion of the Board's time is consumed in dealing with problem cases of varying degrees of seriousness.

To the extent that persuasion can be effective in any problem case, it will be fully utilized. If more drastic action becomes necessary,

we expect that the availability of new supervisory tools, such as cease and desist orders, will have a salutary effect. As a long-range matter, however, it is in the technique of using preventive supervision that an affirmative approach can be further developed.

STAFF OF EXAMINATIONS AND SUPERVISION OFFICE

No additional positions in the Office of Examinations and Supervision are requested for fiscal year 1968.

Mr. EVINS. Mr. Chairman, is this not really the field where you can be most effective, where you need to place your personnel, where your workload really should be directed, in examination and supervision, keeping the policeman on the beat, so to speak, and the watchman abroad? If the Federal examining authorities are in x institutions, do you not think this is where you should have your staff employed? Yet you do not ask for any increase. Do you have too many in this field?

Mr. HORNE. Mr. Chairman, may I answer your question, sir, in two ways?

First, you are entirely correct when you emphasize, and I could not be more pleased than when this committee has, year after year, during the 3 years I have been before it, emphasized the importance of our staying on top of our examination responsibilities. We do so. And believe me, when I submit a request to this committee, I have checked it out thoroughly with Mr. Larry Walters, who is in charge of the examination and supervision, to make certain that we are asking for the necessary personnel to enable him to do the job he ought to do.

But I would like to say one thing further, sir.

All of the responsibilities of all of the offices in this agency, since we are under one head, since we are not divided like the banking regulatory agencies are, they are meshed. Any time there is an increase in demands upon Larry Walters' office, it also affects the General Counsel's office. It also affects the Director of Economics office, and the other offices that we have. It is just as necessary for us to be adequately staffed in the other offices as in Mr. Walters' office, because if we break down in the other offices, which do so many supporting jobs for examination and supervision, we could break down there, too.

Mr. EVINS. You have an overall supervisory job. The institution is growing and the whole system is increasing. But you have just told us that there are going to be about 80 more examinations. In addition, there are going to have to be special examinations during the year, and yet in this area, you do not need any increase.

Mr. HORNE. You will see, as we get a little further along, some of the recruitment difficulties we have had. So we are not asking for any new jobs.

Mr. EVINS. You will notice that we gave you too many last year. You did not even use them all.

Mr. HORNE. No, sir. We have a lot to do here. I have been assured by the Director of the Office, Mr. Walters, that if he has a full complement of examiners as currently authorized, he can accomplish his mission notwithstanding an estimated increase in workload in fiscal year 1968.

Other operational activities of the Board are set out in detail in the budget estimates submitted to the committee. Our staff officials who accompanied me here this morning will be pleased to answer any questions within their areas of responsibility. For the convenience of the committee we have attached to this statement a functional chart which graphically illustrates the interdependence of the operational offices carrying out the Board' s statutory responsibilities and the supporting staff services.

NEW SUPERVISORY AUTHORITY

As a result of action taken by the last session of Congress, the Board has new authority and tools under which to operate. Perhaps the most significant was the passage of the so-called Supervisory Act, Public Law 89–695, which contained new supervisory and regulatory authority for the Board.

Among other provisions of that act is the new authority given to the Board to initiate administrative hearings for the issuance of cease-and-desist orders to associations engaging in improper practices and procedures. This new remedy will enable the Board to take prompter preventive action, and in many cases eliminate the necessity of having to take such drastic action as taking over an institution or terminatng insurance, either of which for all practical purposes results in putting the institution out of business. This measure will fill a real gap in our supervisory effectiveness, in the view not only of the Board but all the banking agencies as well.

You gentlemen will remember that when we were given that authority, the same authority was given to the Federal Reserve Board, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Mr. EVINS. What date did it become effective through the Board?

Mr. SCOTT. On October 16, 1966, it was signed by the President.

Mr. EVINS. Have you had any administrative hearings or issued any cease-and-desist orders since it became effective?

Mr. HORNE. No, sir, and I would say to the committee, it would take some months to get underway. I have also explained earlier that it would not be a very material help, or any help at all, to those serious cases already in existence. It will help us down the road in the development of such cases.

Mr. EVINS. Proceed.

Mr. HORNE. Proposed regulations implementing the provisions of this law have been published and written comments have been invited.

NEW AUTHORITY ON DIVIDEND RATE CONTROL

Public Law 89–597 permitted the Board, for the first time, to regulate dividend rates paid by savings and loan associations. Simultaneously with the approval of the legislation by the President on September 21, the Board, together with the other financial regulatory agencies, issued rate ceiling rules. We believe this prompt action put an end to the uncertainties besetting the thrift industry all through last summer and was instrumental in causing first a cessation in savings outflows in the fourth quarter of 1966 and then a turn around. I am convinced that this action was an important factor in arresting

deterioration in the crucial September-October period. This authority was enacted with a 1-year expiration date. Upon the basis of our experience to date, the Board is confirmed in its view that such authority, on a standby basis, should always be available to the monetary and regulatory authorities.

SPECIAL STUDY OF SAVINGS AND LOAN INDUSTRY

As this committee knows, the Board requested funds for a study of the savings and loan industry and the Board last year. Public Law 89–426, approved May 13, 1966, provided $500,000 for nonadministrative funds for conducting special studies of the savings and loan industry.

Mr. Chairman, I should like to express my gratitude right here for the very wonderful help you and other members of the committee gave in making this study available.

The Board immediately organized an advisory panel consisting of Dr. Frederick Balderston, vice president in charge of business and finance, University of California, as Chairman, and Mr. Kermit Gordon, vice president of the Brookings Institution and former Chairman of the CEA, as you remember, and Prof. John Lintner of Harvard University, as members.

In consultation with the Board, the Advisory Panel approved the selection of Prof. Irwin Friend of the University of Pennsylvania as Director of Research for the study. In August, the Board signed a contract with the University of Pennsylvania, naming Professor Friend as the Director of Research and providing for a study to cost $400,000. The Board retained $100,000 in order to cover contingencies and publication costs and any expenditures of funds within the agency directly related to the study which would otherwise not have been incurred.

The Director of Research developed an outline of the study after consulting with the Advisory Panel which had the benefit of the Board's views as to the nature of the study and the directions which it should take. Briefly, the study encompasses a review of the background of the industry; its financial soundness and liquidity, its economic performance; comparative effectiveness of different types of savings and loan institutions; entry, branching, and merging in the savings and loan industry, the effect of industry and Federal home loan bank structure on policies; the impact of Board policies on housing demand and its cyclical stability; possible changes in the structure of the industry; effects of various policy instruments on the industry; and an analysis of the Board's regulatory procedures.

We believe this independent look at the industry and the Board will provide insights that are not otherwise obtainable, and that the analysis underlying the findings will enable the Board and the Congress to be in a better position to understand the industry, its development, and its current situation.

Mr. EVINS. Is this a 2-year study?

Mr. HORNE. Yes, sir; we believe it would take about 2 years.

ACQUISITION AND CONSTRUCTION OF FHLBB BUILDING

Additionally, the Congress amended the Federal Home Loan Bank Act, Public Law 89–754, authorizing the Board, utilizing the services of the General Services Administration, to acquire land in the District of Columbia and undertake construction of a suitable permanent headquarters building, at a cost not to exceed $13.2 million unless otherwise authorized. The funding for such building would be accomplished by a loan from the 12 Federal home loan banks repayable within 25 years.

At this point the Board has reviewed several available sites located by the General Services Administration and has authorized the GSA to proceed with the selection of an architect who will conduct feasibility studies of these sites in relation to the needs of the Board. We hope before too long to be able to select an appropriate site and proceed from there.

Mr. EVINS. Does the Board propose to proceed independently of Congress and buy a building or piece of property? Are you not going along with the proposal by the President to hold down production——

Mr. HORNE. Yes, sir. We have purchased no property and we certainly would not violate a Presidential directive.

Mr. EVINS. I am sure you will not. But some of the agencies are looking around for buying an already-existing piece of property. Have you checked this out?

Mr. HORNE. No, sir; we will not.

Mr. EVINS. All right, proceed.

LEGISLATIVE PROGRAM

Mr. HORNE. The items for the Board's legislative program in 1967 are more in the nature of unfinished business than new proposals. In his 1967 Economics Report, transmitted to the Congress on January 26, President Johnson stated that he was renewing his recommendation for "stronger regulation of savings and loan holding companies" and "provision of Federal charter for mutual savings banks, to enlarge and strengthen our system of thrift institutions." The Board supports legislation to accomplish both objectives.

SUMMARY OF BUDGET REQUEST FOR FISCAL YEAR 1968

I appreciate this opportunity to have reported to you our experiences since last meeting with you. Coming now to the budget estimates for fiscal 1968, the agency's budget is a business-type budget in 3 parts, set out as follows:

Unit	Positions	Estimates
Board and staff offices	356	$4, 540, 000
Office of Examinations and Supervision	953	13, 650, 000
Federal Savings and Loan Insurance Corporation	20	298, 000
Total	1, 329	18, 488, 000

It provides for a net increase in overall employment over the current fiscal year of three positions. Of these, two are in the board and staff offices, and one is in the Insurance Corporation. No increase is requested in the number of positions in the Office of Examinations and Supervision but funds will be needed to fill existing positions on a full-year basis, since it is estimated that total productivity in fiscal 1968 will increase 17 man-years over the current fiscal year.

The budget estimate for fiscal 1968 provides in the aggregate for an increase in funds over the current fiscal year of $848,000. This is only $328,000 more than Congress approved last year. $520,000 was saved by the freeze on employment.

Moreover, when you consider the $363,000 absorbed by the Board for pay increase costs authorized by Public Law 89-504, we are actually asking $35,000 less for fiscal year 1968 than the authorization approved by Congress for fiscal year 1967.

CURRENT EMPLOYMENT

Mr. EVINS. Why do you not supply for the record or tell the committee now how many positions you have in each one of these three categories? You are asking for, next year, 356 for the board and staff. How many people do you have aboard at present?

Mr. HORNE. We have authorization for 354 now.

Mr. EVINS. I know. How many do you have on the job in this board and staff?

Mr. CALLAHAN. In the board and staff offices as of January 31, we had 297; in the Office of Examination and Supervision, 824; and in the Insurance, 15, for a total of 1,154.

Mr. EVINS. So you are considerably under the authorized strength?

Mr. HORNE. Yes, sir.

Mr. EVINS. Proceed.

PROPOSED USE OF INCREASE IN FUNDS

Mr. HORNE. Of the increase, $385,000 is in the Board and staff offices; $430,000 is in the Office of Examinations and Supervision; and $33,000 is in the Federal Savings and Loan Insurance Corporation. Percentagewise, there is an overall increase in positions of 0.02 percent and in funds of 4.8 percent.

Of the increase requested of $848,000, only $27,000 is required for the three new positions. The balance of the increase is to cover personal services and benefits for the authorized personnel under the last budget, and for contractual services, supplies, and equipment. Of the requested increase, $268,000 is needed to pay for statutory within-grade increases and for increased pay costs authorized by Public Law 89-504. Another $391,000 is needed to fill current-year positions on a full-year basis. Employment level limitations for positions authorized in fiscal year 1967 prevented the Board from filling certain of these positions on a full-time basis in the current year. $14,000 is requested to cover normal overtime compensation required in the Board's day-to-day operations.

The remaining $148,000 increase is in contractual services, supplies, and equipment. This would be broken down thus: $54,000 of this is

required for increased travel expenses anticipated in connection with the increase of 17 man-years in examining savings and loan institutions; $61,000 is required for personnel benefits and the remaining $33,000 is needed to pay for space and utilities, support services, and supplies.

As the figures submitted indicate, the increase in our estimates for fiscal 1968 over our 1967 authorization is due substantially to built-in increases over which we have no control and to filling positions on a full-year basis. When these estimates were being prepared, the needs and requests of every office in the Board were evaluated in the light of current and projected workloads. Consideration was given to the significance and importance of each operation and its relation to the Board's responsibilities. To the best of our ability we have attempted to incorporate these objectives in our detailed submission. It is my sincere judgement that consistent with our statutory responsibilities the budget estimates submitted represent the minimum amount necessary to carry out effectively our functions.

Mr. Chairman, I wish to thank you and the other members of the committee for your consideration. My colleagues and I shall try to answer any questions you may have.

Mr. EVINS. Thank you, Mr. Chairman. That is a very fine statement. It is very much to the point. You have highlighted your years' activities and your funds and requests. You have also taken a look at your budget. I want to say it is well prepared, you have numerous charts and tables. You have an enormous amount of information. Your budget officer has done a good job in compiling the budget.

OPERATIONS OF THE BOARD

Basically, the three-man Board sets the policy. Then you have 12 member banks, is this right?

Mr. HORNE. Yes, sir.

Mr. EVINS. And this stock for the member banks was sold initially by public subscription and in part authorized by the Congress. It has all been repaid and the banks are on their own. These banks in turn make loans to the Federal savings and loan institutions when they need a loan, such as, when their capitalization becomes tight. Then they go to the member banks for the loan.

Mr. HORNE. That is right.

Mr. EVINS. And the Board sort of oversees the policy to insure that it is run properly in the public interest.

Mr. HORNE. Yes, sir.

Furthermore, Mr. Chairman, as I am sure you all know, while we go through the Bureau of the Budget process and come to you for our appropriation, the funds that you permit us to use are not publicly appropriated funds but are funds that are generated within the industry itself.

In other words, we are self-supporting insofar as——

Mr. EVINS. But we set a limitation on the funds for the Home Loan Bank Board and also for the Federal Savings and Loan Insurance Corporation.

Mr. HORNE. Yes, sir.

Mr. EVINS. It gives the Congress an annual review of your operations.

Mr. HORNE. Yes, sir.

Mr. EVINS. You have just detailed the tight money situation in 1966. Congress has given you funds for a special study. Congress has given you new laws. They have placed a new Chairman to strengthen the Board, and you have had a hard year with all these things. We have been too kind to the Board.

Mr. HORNE. No, Mr. Chairman. I shall be honest with you; I have had, I thought, some difficult jobs, but I recall when President Kennedy asked me to go from the Small Business Administration to the Home Loan Bank Board, he said, "John, you can stay at the Small Business Administration as long as you want to stay, as long as I am President." Then he said, "But I have some problems over at the Home Loan Bank Board. I want you to go over there." If I had known what all the problems were, I might not have been so willing to have gone over.

What you did last year, you cannot imagine how helpful it was to us to know we had your support and what it did to our morale. While we did not fill all the jobs you authorized, we needed those jobs you authorized. We need them now. There are several places where we are behind in our workload. You take the Office of Applications, Colonel Smith's office. He is very much behind with his workload. We have a policy that we meet formally once a week, the Board does. We meet more frequently if we need to. We are current, but the staff which must process cases to the Board is not.

INSTITUTIONS IN FINANCIAL DIFFICULTY

Mr. EVINS. Then do you charter all your new applications that come in in view of the problem cases. Wasn't there 12 last year, two of them that went into bankruptcy and 10 in an impaired capital situation?

How many problem cases do you have under your special study? Quite a number, I understand.

Mr. HORNE. Mr. Chairman, Larry Walters can probably speak to this more quickly than I can.

I guess it is over 100, Larry, is it not?

Mr. WALTERS. The total number of problem cases?

Mr. HORNE. Yes; how many are there?

Mr. EVINS. Tell us again how many Federal savings and loan institutions there are operating today. These are federally chartered. It is about 4,500, is it not?

Mr. TREVAS. Insured institutions are about 4,500.

Mr. EVINS. They are all insured if they are federally operated, or chartered?

Mr. WALTERS. We have about 4,500 insured. We have 2,100 of these that are Federal.

Mr. EVINS. How many federally chartered institutions do you have?

Mr. HORNE. Approximately 2,000, 2,100.

Mr. EVINS. Are all of these 2,100 insured?

Mr. HORNE. Yes, sir.

Mr. EVINS. When they become federally chartered, they are automatically insured?

Mr. HORNE. That is right.

Mr. EVINS. How many out of the 2,100 are in a difficult or problem situation today?

Mr. WALTERS. Forty-three. That is the total number of problems in all three categories. We break them down as to serious, next serious, and subject to more than usual surveillance.

Mr. EVINS. We are talking now about federally chartered, 43. But many of your problem cases are in the State-chartered ones, is that correct?

Mr. WALTERS. We have 100 of them.

Mr. EVINS. So it is 143?

Mr. WALTERS. That is right.

CHARTERING OF NEW INSTITUTIONS

Mr. EVINS. In view of this 143 problem cases and the special study underway, are you still chartering numerous other institutions?

Mr. HORNE. We are chartering some, yes, but we are not chartering very many. We are more carefully studying the people who are going to serve as board members at the new associations. We are taking into consideration, of course, the existing economic conditions. We are taking into consideration whether or not—we have to by law—whether or not we would impair the stability or do harm to associations already insured.

We are required by law to take into consideration whether or not there is evidence of need of another institution, whether a service not already being performed would be performed for the community.

Mr. EVINS. You said Mr. Smith is overworked, Mr. Chairman.

Mr. HORNE. He is understaffed in his operation.

Mr. EVINS. We'll talk more about the problem cases, since this is under study now.

Mr. HORNE. We review, we have a meeting every week, Mr. Chairman, with the staff and the Board, especially Mr. Rand. As I have explained earlier, he has had experience in operating an association and has more familiarity with the real problems an association can experience than either of the other two Board members have had. He especially meets with the staff once a week. We are on top on a week-by-week review basis with our problem associations, the 143 cases Mr. Walters is talking about.

NEW LEGISLATION NEEDED

Mr. EVINS. You mentioned earlier that the President asked for stronger powers of regulation. What specifically does the Board need? What can we do to help the Board?

HOLDING COMPANY LEGISLATION

Mr. HORNE. The specific authority we need most right now so far as increasing and improving our supervisory tools is concerned, is the passage of a sound and appropriate savings and loan holding company bill. The only Federal legislation we have relating to holding companies—I think I am correct about this; Mr. Scott is here to correct me if I am wrong—was the Spence Act. But the Spence Act, as it

was passed in 1959, simply stopped—put restraints on the formation of holding companies. It did not give the Board any authority to examine, regulate, and look into operations of a savings and loan holding company. We are asking for that legislation. Our request for it is now at the Bureau of the Budget. It was requested last year and introduced last year. But it was not pushed last year because we thought we should give priority first to the supervisory act, the Financial Institutions Act, which would give us our added supervisory authority for the savings and loan associations. We are asking this year for the holding company legislation, and I would hope very much that you would give us that authority.

CREATION OF BOARD AND FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Mr. EVINS. The Federal Savings and Loan Insurance Corporation and the Federal Home Loan Bank Board were set up in 1934 or 1935, during the depression years.

Mr. HORNE. It was in 1938. As a matter of fact, the creation of the Board itself—we sometimes joke about this within the Board and otherwise—was signed into law by President Hoover, but was passed by a Democratic Congress. So it was a nonpartisan creation.

Then the authority for the Board to charter Federal associations and the establishment of the Federal Savings and Loan Insurance Corporation were enacted in 1933 and 1934, I believe.

Mr. EVINS. Well, you have been in operation for a long time. You have had a lot of experience as your institutions have grown. The Federal capital investment has been paid off. You should be pretty well refined on your processes of supervision and regulation. You ought to know what the problems are and how to handle them.

Mr. HORNE. We are doing a much better job in this field, I think, Mr. Chairman.

GROWTH OF BANK SYSTEM

Mr. EVINS. Is one of the problems caused by the fact that the industry has grown so rapidly?

Mr. HORNE. There are two basic problems here. There are others, but the important ones have been the rapid growth of the industry and the fact that technical competence and managerial knowhow have not kept pace with the growth of the industry. After all, about the end of 1947 or 1948, this was about an $8 billion industry. Today it is about a $140 billion industry, when you put in all the members of the bank system. If you just consider the insured associations, it is about a $128 billion industry.

USE OF REGULATORY AUTHORITY

Mr. EVINS. What authority does the statute give to the Board to supervise and regulate State-chartered institutions?

Mr. HORNE. We had very little such authority. As a matter of fact, prior to the passage of the Financial Institutions Act last year, the only things we could do with a State-chartered association was to try to persuade or failing that, to take away insurance. With this new authority, we now will have cease-and-desist authority and also will have——

Mr. EVINS. Will this cease-and-desist authority go to the State institutions as well?

Mr. HORNE. Yes, sir. We are required by the act, which is perfectly all right—as a matter of fact, the Board recommended it—that we go through the State supervisory authority and give them first chance. We notify them as to what we intend to do, and let them take necessary action if they will. We are not restrained or prevented from taking such action if they do not.

Mr. EVINS. That is a pretty powerful tool. That is an injunctive power. You have the power of chartering, you have the authority to supervise and to set the rates. I do not know how much more authority you need. You have great powers.

Mr. HORNE. We do have, sir, and we try to use it with restraint and caution.

Of course, we always try to use persuasive power first, and we work completely and fully cooperatively with the State authorities where they will work with us, and most of them will.

Mr. EVINS. Could you not start using this injunctive power in this 140-some odd difficult cases?

Mr. HORNE. Most of these are too far gone for it to have any effective influence, Mr. Chairman. These 143 cases are divided into three cases.

Mr. EVINS. If you do not employ it, later on you will say, well, it is too late to do anything about the situation.

Mr. HORNE. We have published our proposed regulations. We have asked for comments which should be in within a few weeks. We should adopt final rules and regulations on cease-and-desist proceedings in a few weeks.

EXAMINATION OF INSTITUTIONS

Mr. EVINS. How many investigators from the supervisory authority do you employ in your federally chartered institutions annually, and how many examinations do you make of the State-chartered institutions?

Mr. HORNE. We examine every association that is insured.

Mr. EVINS. State and Federal?

Mr. HORNE. State and Federal once a year.

Mr. BOLAND. Are there some State associations that are not insured?

Mr. HORNE. Yes, sir.

Mr. BOLAND. Are there many?

Mr. HORNE. There are a good number, numberwise, but assetwise, it does not add up to much. I would think of all State associations throughout the land, about 96 percent would be insured.

Mr. BOLAND. If they are insured, this is where you get your supervisory authority.

Mr. HORNE. This is what the law did last year. Where they are insured, we have the authority over the State-chartered institutions.

Mr. EVINS. The State-chartered institutions have been applying for insurance for a number of years. This is not new, is it?

Mr. HORNE. No, sir.

Mr. EVINS. Since 1934?

Mr. HORNE. Yes, sir.

Mr. EVINS. So you have been looking over the State agencies since you have been in existence.

Mr. HORNE. We have had no authority, except we could take away their insurance.

Mr. EVINS. You have had the authority to take away their insurance and publicize the fact that the Federal Government took away their insurance protection.

Mr. JONAS. Will the chairman yield?

Mr. EVINS. Mr. Jonas.

COMPARISON OF INSURED AND NONINSURED

Mr. JONAS. Mr. Horne, if you do not have the information at your fingertips, could you give us a little comparison between the experience of the insured associations, the noninsured associations, State institutions, their experience over the last several years, so we will have something to go on.

In other words, what I would like to know is whether or not our experience is better in insured institutions or——

Mr. SCOTT. As to the uninsured institutions, we do not ourselves have any source of data or information.

Mr. JONAS. I think that would be available.

Mr. HORNE. We might be able to get something for you, but we do not have any control over them.

Mr. JONAS. I know you do not. I want to see whether all this control you have is worth what it is costing. You have an administrative expense here of $4.5 million for supervising and examining, and you admit that you have 40 or 50 institutions that are in serious difficulties despite all of the investigations and examinations and control and supervision. I think it would be helpful if we knew what the experience is among institutions that are not subjected to all of this close supervision.

Mr. HORNE. Well, I said a few moments ago—I think you were here, though I am not sure—that most of the associations of any size—there may be two or three exceptions throughout the country, but most of the associations that are of any size that have $2 or $3 million and above in accounts are insured. I think of all of the savings that are in associations throughout the whole 50 States, only about 4 percent of the savings is not insured. The other 96 would be insured.

As I have said, we have no authority or no control over the noninsured. We may still be able to get the information that you want, and we will make an effort to get it, sir.

Mr. JONAS. I knew you had no authority or control over them, but I thought somewhere in the Government there ought to be a record indicating if any, and if so, how many, have failed, how many have gone through liquidation, how many have been in trouble.

Mr. HORNE. I doubt, Mr. Congressman, whether we—the Federal Government—has any of those figures.

Mr. JONAS. I will tell you one thing, there is a lot of resentment on the part of the business community about all of the questionnaires that it has to fill out. I doubt if the Department of Commerce or the other statistics-collecting agencies of the Government have ignored

the noninsured savings and loan associations. I believe that information is available somewhere in Government.

Mr. HORNE. We will endeavor to get it for you.

Now, as to the problems that exist in Federal associations versus State associations that are insured, we can give you that. I would like to suggest that just a few moments ago, we gave you some of that information. I leave this, of course, up to the judgment of the committee, but I have some fear that I think in fairness I should express, and that relates to publishing the information. Let me supply it to the committee. You decide whether or not you want to include it in your hearings.

Unquestionably, we have far more supervisory difficulty with State-chartered associations on the whole, and we have more problems, numberwise and assetwise, than we have with federally chartered associations.

Now, to publicize that information could have a detrimental effect, because it could very well, even though they are insured, cause some savers to doubt the stability and strength of a State-chartered association.

Mr. JONAS. I certainly would not want anything in the record that would be misinterpreted.

Mr. HORNE. I know you would not. I just raise that caution.

But I shall be glad to supply you with the information.

Mr. JONAS. I would not have asked the question if I had thought the answer could be misinterpreted. I just thought that information was readily available.

Mr. EVINS. Off the record.

(Discussion off the record.)

Mr. EVINS. Supply this information to the committee, Mr. Chairman. We will take a look at it.

Mr. HORNE. Yes; I will, Mr. Chairman.

(The requested information was furnished to the committee.)

Mr. EVINS. Mr. Boland?

PROBLEMS OF RECRUITING PERSONNEL

Mr. BOLAND. I notice that as of January 31, you have 1,154 on the payroll. That is 175 less than the positions that you are now seeking. For the board and staff offices, how many positions did we appropriate for last year?

Mr. CALLAHAN. 354, sir.

Mr. HORNE. And we are asking for two there.

Mr. BOLAND. And we appropriated in the Office of Examinations and Supervision 953?

Mr. HORNE. Yes, sir. And you appropriated for Savings and Loan Insurance Corporation 19, sir.

Mr. BOLAND. Why did you not come up to the authorized strength? What happened?

Mr. HORNE. Two things, Congressman, kept us from doing so. It simply is difficult, once you get the authority, to go out and find the qualified people to put in these positions. We have been severely restrained in filling these positions because of that. But something even more acute than that was the fact that all Government agencies

had orders issued to them to freeze employment at least at July levels—not to hire for additional positions.

Now, in our case, they did finally make some exceptions, because they had the same concern once it was pointed out to the Bureau of the Budget, as you have always expressed here, that we wanted adequate people and particularly an adequate number of people in examining and supervision to do the job right. Those two circumstances are the primary reasons why we were not successful in filling these jobs you authorized.

Mr. BOLAND. Thank you. We will get into that.

Mr. EVINS. You had a freeze on, but your freeze did not go to your current level. It was above the level, was it not? You were frozen on employees above a certain level.

Mr. HORNE. As of a certain time.

Mr. JONAS. You were frozen as of last June 30, were you not?

Mr. TREVAS. July. We were limited to persons actually on the payroll as of July 31; it was just at this point in time that we had started to recruit for additional employees.

Mr. HORNE. As he just pointed out, I do not mean to be critical—I hope nobody will misunderstand me. But having the authority to get started on something, it takes time to exercise that. Then, by the time you get your recruitment underway, you have the authority cut off again and you lose what you have in the pipeline as far as new personnel is concerned.

Then, when the authority is restored, you have to start all over again.

Mr. EVINS. Congress raised your limitation and said go ahead and recruit what you need, but before you recruited them, the freeze was put on and you did not complete your recruiting.

Mr. HORNE. Yes, sir.

Mr. EVINS. Mr. Giaimo?

INTEREST RATES ON MORTGAGES

Mr. GIAIMO. On page 8, you state:

> With more mortgage money available to associations during the latter part of fiscal year 1967 and the early part of fiscal year 1968, some institutions will be tempted, I fear, to make high-rate, high-risk loans in order to generate additional income. Such a practice would, of course, cause another kind of problem.

This leads me to ask the question—you are regulating dividend rates, now, are you not? You have a ceiling on them?

Mr. HORNE. Yes, sir; we have a ceiling.

Mr. GIAIMO. But you have nothing to do with how much interest a savings and loan institution can charge on a mortgage?

Mr. HORNE. No, sir.

Mr. GIAIMO. And the business of points which so many of them are now getting on mortgages, and which actually adds to interest rates, you have no control over that?

Mr. HORNE. No, sir.

Mr. GIAIMO. Doesn't that lead into the problem you are talking about in this paragraph?

Mr. HORNE. It could contribute to that. We are somewhat in the same situation as the Federal Housing Administration is now in. The Federal Housing Administration has no control over points.

Mr. GIAIMO. That is true, and it is a similar problem; you do have it in FHA. But it seems to me that the Government ought to have something to say about this business of points. If it is going to be interest, it is interest. If you are paying 6 or 6.5 percent, that is what you should get. You are going to start adding points, then the interest rate is something in excess of 6.5 percent or whatever it might be.

I just think that it is confusing to borrowers, and I am not so sure that it is leveling with borrowers from the standpoint of many banks or savings and loan institutions.

Mr. HORNE. I must admit that philosophically, I am in agreement with the expression that you have made. But during the long time that I have worked with Congress, both as a staff member up here and then later downtown, this has been a very controversial issue. Congress has, on several occasions, seen fit to get into or give them the authority to exercise such authority to get into this area. You have people looking at what this costs, and here when there is a shortage of money, if a person has something to loan, he is going to get more for it than he would if there were plentiful supply.

Mr. GIAIMO. I understand that part of it, and I'm not saying we should regulate interest on money. But it seems to me if it is going to be interest, it ought to be called interest.

Mr. HORNE. It may be. I do not know what Congress will do on Senator Proxmire's bill. It might very well get into that area.

Mr. GIAIMO. It almost gets into the area of the truth-in-lending type legislation.

Mr. HORNE. It is true that when money is short and somebody buys a house, he frequently not only pays the amount that is on the face of the mortgage, but he pays a point or two more, in addition to that.

Mr. EVINS. Would you say this is a part of the free enterprise system, competitivewise, rather than a controlled economy?

Mr. HORNE. That is what the other side would say.

Mr. JONES. Does not that point thing come about by reason of the fact that some of the States' usury laws are different than others? I know in my State, for example, the State usury statute is 6 percent.

Mr. GIAIMO. Except that I am talking about States that do not have this law.

Mr. HORNE. The temptation to make use of it, Congressman, would be greater in a State like North Carolina. But it is used pretty universally.

Mr. EVINS. Mr. Pryor, a new member of our committee.

Mr. Pryor, any questions?

CONVERSION OF ASSOCIATIONS TO STOCK COMPANIES

Mr. PRYOR. Only one.

Is there a trend, would you say, for these institutions to convert to so-called stock institutions, and if so, why? Also, what are some of the pros and cons of the stock associations?

Mr. HORNE. To answer the first part of your question, we have a moratorium presently on the conversion of a mutual association to a stock association. For all practical purposes, there is a moratorium on the mutual association converting to a stock association.

Your next question, What is the temptation or argument for a stock association? I suppose that the management of a mutual might want to convert to a stock association to benefit by the ownership of the stock and the fact that if the association does well, the stock might appreciate in value.

Your third question, as to whether or not we have more problems with mutual associations than we do with stock associations, the answer is we have far more problems, relatively speaking, with stock associations than we do with mutuals. You might not think that should be the case or would be the case. I do not think it should be the case, but the fact is that it is the case and there is no need to deny it.

Mr. PRYOR. Is this moratorium a permanent type?

Mr. HORNE. I would not say it is a permanent type moratorium, but we do not know when we might lift that. We are having a study that has not been completed on just this particular aspect.

Mr. PRYOR. Do you have any indications?

Mr. HORNE. There are only about 20 or 25 States that permit the formation of stock associations. Usually, when a State authorizes the establishment of stock associations, you seldom have any additional requests for mutuals. Sometimes you do, but not very often. Most of them want to go stock.

Mr. EVINS. Mr. Jonas?

Mr. JONAS. I will wait until we get into the budget proper.

Mr. EVINS. Mr. Wyman?

VACANT POSITIONS IN EXAMINATIONS AND SUPERVISION

Mr. WYMAN. Mr. Horne, how many of your failures to fill positions have been in the field of examining and supervising?

Mr. HORNE. I believe it is 111.

PAYMENT OF INSURANCE

Mr. WYMAN. With the insurance division, you do not insure interest, you insure capital on these accounts; is that right?

Mr. WORTHY. Any dividend that has been declared and paid has become a part of capital. To that extent, we insure it.

Mr. WYMAN. Over a period of liquidation, whatever insurance you would pay would not become part of that?

Mr. WORTHY. No, neither would FDIC.

Mr. WYMAN. Sometimes that period could be fairly protracted?

Mr. WORTHY. It has not been our experience in recent years that it has been.

Mr. WYMAN. What would be an average period for an average saver?

Mr. WORTHY. In the largest one we have had this year, the saver was paid off on an average of 60 days after the declaration of his last dividend.

SUPERVISION OF PROBLEM ASSOCIATIONS

Mr. WYMAN. You have talked about problem cases, and there have been some with State banks and some with federally chartered banks or institutions. Could you, just for the record, take a given problem case—not a hypothetical one, but without identifying it necessarily for

the record—and tell us how you deal with it, how you actually go through the mechanics of dealing with a problem case?

Mr. HORNE. May I ask Larry Walters, Director of Examination and Supervision, to answer that?

Mr. WYMAN. Surely.

Mr. WALTERS. Actually, we make an examination each year of each insured institution. Those institutions are rated on 10 or 12 different factors of operation. The management is rated along with those various financial factors that are involved. As we see any deteriorating trend whatsoever, we then put that up for observation for future action and consideration.

Initially, when we see evidences of unsound operations, or at least these deteriorating trends or violations of regulation and so forth, that is generally handled by our supervisory agent in the field, by letter, asking for certain corrective action.

Mr. WYMAN. When you say you put it up for observation, you mean you ticket it for repeat check in 6 months?

Mr. WALTERS. Yes, we identify it for further observation. The first evidences of criticism are handled by correspondence with the Board of Directors, between our supervisory agent in the field and the Board of Directors. Corrective action is requested and the Board of Directors replies. If the reply is not satisfactory, additional correspondence is written until the agency is satisfied that the difficulties have been corrected.

If, in some cases, the criticism or corrections are of such a nature that the supervisory agent in the field thinks it would be more effective to bring them to the attention of the Board of Directors, a conference is set up with the Board of Directors.

If correction was not accomplished by persuasion—we have had a problem in the past because our only choice, as it further deteriorates, was to terminate insurance or to take action for a conservator. These were drastic actions. When you see signs of deterioration, you do not feel, using caution and respect for private management, that you can terminate insurance or take control at the Federal level merely because of the deteriorating trends, where the actual financial condition of the institution had not reached a point to justify it. So persuasion was our tool.

USE OF NEW LEGISLATIVE AUTHORITY

We are hoping that with the new legislation we can use it to stop the trend of unsafe practices and violations. I am sure we will be able to. It will be most helpful.

As they become more serious and we are not accomplishing our objective by persuasion, we at that point put them in our problem book. We step up examinations. We may make them in 9 months, 6 months, or hold special examinations. We may have appraisals on securities in order to tie down the nature of these difficulties.

Here again, we have a conference with the Board of Directors on each of these matters. These particular problem cases are watched regularly. We make daily entries on any action taken by us or the association so each problem has an outline of history of action taken.

In the past, when we have had to make a decision to issue a letter of termination of insurance, or appoint a conservator, we took that action. In the future, we will use cease-and-desist authority.

DETECTION OF UNSAFE PRACTICES

Mr. WYMAN. This is what bothered me when Mr. Horne said you had several that had reached a point that was almost irretrievable. At least, that is what I understood. How can it reach this point if you see them taking this course without you actually hauling the insurance coverage out from under them?

Mr. WALTERS. Some of it can be pretty fast in view of some of the surplus in housing. We can name a few cases where the association misread the market and suddenly this surplus of housing in this particular area came out of nowhere, so there was not too much time to act in advance.

On some of these institutions that are in this so-called failing category, there are already letters of termination of insurance. But you cannot terminate insurance overnight. In some cases, it takes 2 years after the letter goes out to actually terminate insurance.

We try to effect mergers, try to take whatever other action we can take during this period in order to try to not eliminate this institution. But if they take it to the courts and so forth, it can drag on for some time.

We have in our serious category a number of letters for termination outstanding at the moment, which are at one stage or another of a particular action.

Mr. WYMAN. When you flag these particular institutions into the so-called monitor list, is there anything in the community that serves to alert the general public to the fact that you are flagging them, or is this all done on a very confidential basis?

Mr. WALTERS. This is all done on a very confidential basis. One State that I know of does publish schedule items, which is one of the criteria, which shows the increase in total assets subject to criticism that are of a substandard nature. Of course, the investor can see when real estate is increasing, when real estate has been acquired for foreclosure, they can see that trend in statistics published on foreclosures in these areas. But we do not publish any financial information regarding these deteriorating associations.

Mr. WYMAN. Along the lines of Mr. Giaimo's question about mortgage interest, you do not tell these institutions what mortgages to take do you? This is done by their boards of directors?

Mr. WALTERS. That is true, but I can say that every supervisory effort is made to change the course of their operation, and if the type of loans they are taking and the underlying credit is not satisfactory and the appraisals are high, this we will find out and this we will stop at once with a cease and desist order. In the past, we have tried to persuade them to stop it.

Mr. HORNE. If I may add a word to what Mr. Walters has said, even though the association is in difficulty, we keep in mind two or three things: No. 1, so far as the whole industry is concerned, only a very small percentage of our management is deliberately acting improperly.

Secondly, even though this management might be acting improperly and may be carrying this association down the road to ruin or great trouble, if it is insured, the public who have savings there are protected. If we should give signals publicly that it is in difficulty, we could very well cause a great deal of disturbance and unnecessary fear—fear that might very well lead to the belief that banks within the community or even other associations are unsound.

Mr. WYMAN. I understand. But within the banking community itself, which is a fairly close community around the Nation, they get the word pretty well, do you not think?

Mr. HORNE. They know pretty well. The public does not always know, but the competing savings and loan associations know, and the competing banks know.

CHARTERING OF MUTUAL SAVINGS BANKS

Mr. TALCOTT. You have two legislative objectives. One is to provide Federal charters for mutual savings banks. You do not really want a new system of banking to compete with the existing associations—to cause you more troubles and burdens, do you? Or do you believe like Mr. Patman that the more bankruptcies you have, the better?

Mr. HORNE. That is a leading question.

Mr. TALCOTT. Did I quote anybody wrongly? I would want to retract, if I did so.

Mr. HORNE. I am not happy when bankruptcies occur. I am not happy when failures occur in savings and loan associations or commercial banks. I do not believe that the granting to the Board of authority to charter mutual savings banks would lead to bankruptcies.

What the legislation would provide, this program was arrived at after a very careful study of what I believe is called the Committee on Financial Institutions made up of the then Chairman of the Home Loan Bank Board, the Council of Economic Advisers, Director, Bureau of the Budget and the Treasury had people on this committee also. They recommended, and the administration has since that time supported it, the right for the Federal Home Loan Bank Board to charter Federal mutual savings banks. Coupled with that would be the right for a savings and loan association, if it wanted to do so, to convert to a mutual savings bank, and also the right for a mutual savings bank that we had started to revert to savings and loan if it wanted to.

Mr. TALCOTT. As long as you have the power, you can convert to mutual savings banks. But do you want to establish a third system of mutual savings banks, along with general savings and loan?

Mr. HORNE. In a way, it would be the third system, but the savings and loan and the mutual savings banks would be under one board. In many ways, they would be interrelated and one could convert to the other.

Mr. TALCOTT. I think I understand your view a little better.

EXAMINATION OF FEDERAL AND STATE INSTITUTIONS

With regard to examinations and supervision, you report that 40 man-days per year were spent on Federal institutions and only 24 man-days per year were spent on State institutions. Maybe this is

one reason why State institutions fail more often than Federal, because you do not pay as much attention to them.

Mr. HORNE. No, sir.

Mr. WALTERS. I think what that figure means is our examination of Federal associations is carried out solely by the Board's examiners. In our examination of State-chartered institutions, we have throughout the years attempted to work out a joint program. These institutions are also subject to State examination and supervision. So that ordinarily, we hope that the State will furnish an equal number of examiners to ours on these assignments. In many cases, they do not. That is why it is not exactly divided—it changes from State to State.

But actually, the total manpower on these State associations would be in excess of the total manpower on the average on the Federal associations.

Mr. TALCOTT. Is one of the reasons why you cannot recruit examiners that you cannot get high caliber people to perform the duties that you require, such as the simple complaining about a title of an officer on the wrong line and little, insignificant errors to which you require your examiners to devote time?

Mr. HORNE. No, sir. I will let Mr. Walters answer that. But no, sir; I do not think that would be involved.

We have, during the past very few years, Mr. Congressman, streamlined and I think made more meaningful in many ways our examination and supervision.

Mr. TALCOTT. This is a general complaint, that your examination is really petty in many ways and pays attention to the wrong things.

Mr. HORNE. This is what some of the associations would say, and I would agree that in some instances, this is sometimes a valid criticism.

But we are looking at the major things. We are not nit-picking the minor, insignificant things.

The basic answer to your question was the fact that we paid perhaps more attention to unnecessary details in the past than we do now, does that inhibit recruitment? I do not think it does, sir. I do not think the person we are recruiting would even know what the situation was going to be.

Mr. TALCOTT. You mean he would not know what his job was to be?

Mr. HORNE. To begin with he would not, unless we can get some experienced ones. There are times when we can get someone who has worked in an association, or who has been a State supervisor, or otherwise had qualifying experience. He would be familiar with it.

Mr. TALCOTT. I hope that in the future, some of your State examination and supervision personnel can be used for more useful things.

Mr. HORNE. This is one reason why, in the past 3 years, we have almost solely asked that you just let us have the number of examiners that you let us have last year, for example, or the year before. The reason for that, the reason we have not asked for more examiners, is because we are doing the kind of thing that I think you are driving at, if I understand you correctly.

Mr. TALCOTT. Thank you.

That is all the questions I have, Mr. Chairman.

COMMENTS BY BOARD MEMBER RAND

Mr. EVINS. Mr. Rand, you have been on the Board for less than a year, but you have had vast experience with the Federal savings and loan industry before coming on the Board. Give us the benefit of your wisdom and experience, please, and tell us what you think is needed after having been here this while.

Mr. RAND. Mr. Chairman, really, I have only been on the Board 4 months now. I have sat rather quietly here, for two reasons. You know the Chairman is charged with administration and, in our case, we have a Chairman so well informed on the subject that he really does not need much backing up.

To answer your question specifically, John Horne asked me to devote most of my attention to the area of supervision. Therefore, I have worked very closely with Larry Walters. Having been on the receiving end of some 20 examinations when I was in the savings and loan business, and having been on the receiving end of some 10 or 11 examinations when I was in the commercial banking business, I have some expertise in this field. I was therefore interested in the questions asked by Congressman Talcott.

There has been a very definite change in the examinations made by the Federal Home Loan Bank Board in the last 3 years. Having been on the receiving end, I recognize those changes. For a good many years, they were primarily sent out to do the things that you were referring to, seeing whether or not names are correct and looking at the documentation. They were factfinders. Today they are trying to hire analysts. This is why it is so difficult to recruit men of this caliber.

But I did notice that in the last 3 years, the examinations were directed along that line and this is a considerable improvement in the examination technique. I think this fact, together with the new cease and desist, an intermediate method that we have under this new supervisory bill, we can do a much better job of supervision than was done in the past few years.

I am very hopeful, at least, that once these hard-core problem cases that we already have are out of the way, we are going to go through a period of years where Jerry Worthy's insurance corporation will not be too busy. I am very hopeful that will come about.

RESERVE FUNDS

Mr. EVINS. What is your feeling regarding the adequacy of reserves of most of the institutions, and your regulations regarding the adequacy of reserves?

Mr. RAND. I think the reserve regulation we have now, as it has been improved on in the last 2 or 3 years, is quite satisfactory. Some of the associations, of course, have had their reserves impaired somewhat in the past year by reason of having to pay extraordinary high dividends and without having a great deal of funds to lend in the market, their reserves have suffered some impairment, as we could expect. As these interest rates adjust, we hope the dividend rates will come down and, by the same token, we hope they have a greater inflow of savings, and therefore can lend again in sufficient volume to build up reserves. I think that will be a very healthy thing.

Mr. EVINS. The Board can have a very marked effect on this trend. They want to pay more and larger dividends and advertise for it, and the customers want it, but the Board can use the reserve level to make the institutions stronger.

Mr. RAND. This has been done. I think 3 or 4 years ago, a new reserve regulation was put into effect aimed exactly at that point, Mr. Chairman, to stop some of the overexuberance growth of some of the associations who were paying extraordinarily high dividends in order to attract a great deal of funds to their own institutions. In California, we had some associations grow from $100 million one year to $200 million the next year. This is too great a growth. It tempts the management to make loans too fast and not to exercise sufficient care.

These reserve regulations imposed 2 or 3 years ago are directed at that. In these cases where there is extraordinary growth, there has to be extraordinary contribution to reserves.

Mr. EVINS. How many times over history has the Board acted on reserve regulations? Deposits have grown up; interest rates have increased. Once or twice, you have made a requirement that you increase reserves.

Mr. HORNE. Yes, sir, and also the reserve regulation that Mr. Rand is talking about is somewhat related to growth. As an association grows in savings, it has to add to its reserves to compensate for its growth.

Mr. EVINS. This has all been very interesting.

APPRAISAL REPORTS

Mr. JONAS. How does an examining team or an examiner discover that an institution is beginning to get in trouble? How can he do that without examining the collateral on every loan? I can understand how he would have a flag run up if an institution is increasing its dividends or its interest on savings to attract additional funds and going overboard that way.

But you do not know anything about the value of a piece of property or house and lot that X institution lends $8,000 on. Your examiners do not, unless they go out and look at it.

Mr. WALTERS. Initially, we start with the documents that are in the files of the institution, which reflect policy of that institution with respect to its entire underwriting procedure. In other words, we look at who their appraisers are, the nature of those appraisal reports, how they are put together. We have men who have been going to appraisers school who have an insight into appraisal methods and policy and practices.

Mr. JONAS. Do not the institutions have committees that supervise or doublecheck the appraisers?

Mr. WALTERS. Some have loan committees, some have independent appraisers with a loan committee, some use staff appraisers in connection with their loan approvals. There are different methods used. There can be competent staff appraisers as well as competent independent appraisers.

In either case, whether it is independent appraisal or staff appraisal, we look at the work as it has been performed and at what the file shows. We look at the credit underwriting procedure as to what the credit risk is of the obligations of that individual and so forth. If there

is any indication whatsoever of the use of appraisers that are not qualified, or there are gaps in the appraisal program, we will require independent appraisals by an appraiser we select. In some cases we make field surveys and inspections where we want to review the type of property they are lending on, whether they are in certain tract-lending situations, that type of thing. You give a red flag to the policy of that institution.

Mr. JONAS. Do you examine the papers of every loan made during the year since the last examination?

Mr. WALTERS. No; we do not. We do this on a sampling basis. We make an effort to determine what the policies of this institution have been.

In many cases, we have a record of particular institutions that have had sound underwriting policies down through the years; their whole record has been sound. If the same management and the same directors are there, we will then cut our tests to a degree to satisfy ourselves that those sound policies are continuing. In that event, we do not pursue it over the whole portfolio, which would be a very expensive and time-consuming operation.

Mr. JONAS. I would think to look at the ratio of foreclosures to loans would be important.

Mr. WALTERS. We have flags on the foreclosures, we have them on any increase in the schedule items, in slow loans——

Mr. JONAS. Do you have a copy of the form your appraisers have to fill out with you?

Mr. WALTERS. We do not have a prescribed appraisal form.

Mr. JONAS. You do not? They do in bank examining.

Mr. WALTERS. We do not.

Mr. JONAS. They do in bank examining.

Mr. WALTERS. All we require is that it be by a qualified appraiser.

Mr. JONAS. I mean your examination.

Mr. WALTERS. You mean our whole examination form?

Mr. JONAS. Yes.

Mr. WALTERS. I do not have it with me. We would be glad to supply such a report.

Mr. JONAS. I think I would like to see a blank one.

Mr. WALTERS. As part of our major reorganization, we adopted a new report form in the past year. As a matter of fact, the whole program is being directed to the same kind of thing Congressman Talcott was talking about.

Mr. JONAS. I would like to ask that they supply for the committee a sample of the examination forms used 3 years ago and the one in use today.

Mr. EVINS. Supply copies to the committee, please.

Mr. WALTERS. We will be glad to supply copies.

(NOTE.—The requested information was furnished to the committee.)

SUMMARY OF OPERATIONS

Mr. EVINS. Miss Reporter, place in the record pages 5 through 35.

(Pages 5 through 35, inclusive, follow:)

Program highlights

[Dollars in millions]

Federal Home Loan Bank System	1966 actual	1967 estimate	1968 estimate
Members (June 30):			
Number	5,049	5,076	5,110
Assets	$138,351	$148,600	$159,300
Savings (shares)	$117,226	$125,000	$133,100
Mortgage loans	$117,781	$127,000	$136,600
Insured	4,514	4,564	4,624
Regional banks: Advances outstanding	$6,783	$7,600	$7,200

OUTLINE OF FUNCTIONS

The Federal Home Loan Bank Board supervises and regulates the Federal Home Loan Bank System, the System of Federal Savings and Loan Associations, and the Federal Savings and Loan Insurance Corporation, created to serve the American public through the media of savings and loan associations, co-operative banks, and other financial institutions engaged in the encouragement of thrift and economical home ownership.

These three components are described as follows:

Federal Home Loan Bank System.—The Federal Home Loan Bank System, through its 12 regional Federal Home Loan Banks, strategically located throughout the country, provides a permanent credit reserve for eligible thrift institutions of the savings and loan type. The Federal Home Loan Banks advance funds to these member institutions to meet withdrawal demands as well as seasonal and expansionary needs for additional home-mortgage funds. Through the use of interbank deposits, the System maintains an adequate flow of home loan funds into every locality. October 15, 1966, marked the 34th anniversary of the opening of the regional Banks.

The regional Banks, the stock of which is owned by their member institutions, do not deal directly with individuals. The great majority of the members are savings and loan associations, also known sectionally as building and loan associations, co-operative banks, and homestead associations. Included also in the membership of the Federal Home Loan Bank System are 49 mutual savings banks.

The importance of the Federal Home Loan Bank System is indicated by the fact that at June 30, 1966, the combined resources of its member institutions totaled over $138 billion (the December 31, 1966 figure is estimated at approximately $142 billion). In fiscal year 1966 its savings and loan members made home loans amounting to $22.3 billion.

Located in most cities, suburban areas, and towns throughout the United States, the System's member institutions serve over 51 million people including savers, investors, and home-loan borrowers.

Federal savings and loan associations.—The creation of Federal associations was authorized by Congress in 1933 to provide additional local thrift institutions for people to place their savings and/or obtain loans to finance their homes. In their charter and form of organization, Federal associations embody the most modern practices developed by savings and home-financing institutions during their 135-year history in this country.

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

At June 30, 1966, there were 2,031 privately owned, local, mutual institutions operating under charter, examination, and supervision by the Federal Home Loan Bank Board. Their combined resources at June 30, 1966, were $68.6 billion. Federal savings and loan associations are in operation in every State, in the District of Columbia, and in Puerto Rico.

Federal Savings and Loan Insurance Corporation.—Created in 1934, the Federal Savings and Loan Insurance Corporation insures, up to $15,000 each, savings or share accounts in approved savings and loan associations and similar institutions. Insurance of savings has been an important factor in stimulating the

flow of savings into thrift and home-financing institutions. These savings are used largely for the financing of homes. The number of insured institutions at June 30, 1966, was 4,514; their combined assets were $127.8 billion.

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

INTRODUCTION

The Federal Home Loan Bank Board is primarily a regulatory and supervisory agency in the savings and home-financing field. It also issues charters for Federal savings and loan associations, insures savings or share accounts in Federal savings and loan associations and in approved State-chartered savings and loan or building and loan associations and associations of the savings and loan type.

The 1968 budget estimates of the Federal Home Loan Bank Board, the Office of Examinations and Supervision, and the Federal Savings and Loan Insurance Corporation are based on the need for maintaining all operations in a current status giving full consideration to the complex problems arising from changing economic conditions and the increased competition for savings among financial institutions.

The number, size, and assets of member savings and loan institutions supervised by the Board continued their expansion in fiscal year 1966; however, while there was an expansion in loans made and new savings, the rate of expansion was slightly lower than amounts recorded in fiscal year 1965. The following table reflects a comparison of these details:

[Dollars in billions]

Description	Fiscal 1965	Fiscal 1966	Increase over 1965	
			Amount	Percent
Member S. & L. institutions:				
Number	4,996	4,999	3	0.1
Assets at June 30	$122.5	$130.8	$8.3	6.8
Loans made during year	$23.8	$22.3	−$1.5	−6.3
Net inflow of new savings	$9.3	$6.3	−$3.0	−32.3

This expansion continued notwithstanding the increased competition for savings from commercial banks, insurance companies and other financial institutions. The number of loans made by member institutions in fiscal year 1966 represented over 43% of the Nation's home financing.

SUMMARY

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

The budget estimates for 1968, the revised estimates for the current fiscal year, and actual expenses for fiscal 1966 are summarized in the following two tables:

Comparative summary of positions and man-years

Unit	1966 actual		1967 estimate		1968 estimate	
	Positions	Man-years	Positions	Man-years	Positions	Man-years
Board and staff offices	331	295.5	354	309.8	356	343.3
Federal Savings and Loan Insurance Corporation	16	13.8	19	15.5	20	18.4
Office of Examinations and Supervision	953	853.4	953	875.6	953	893.0
Total	1,300	1,162.7	1,326	1,200.9	1,329	1,254.7

Comparative summary of expenses

Unit	1966 actual	1967 estimate	1968 estimate
ADMINISTRATIVE EXPENSES			
Board and staff offices	$3,807,609	$4,155,000	$4,540,000
Federal Savings and Loan Insurance Corporation	222,216	265,000	298,000
Subtotal	4,029,825	4,420,000	4,838,000
NONADMINISTRATIVE EXPENSES			
Office of Examinations and Supervision	12,203,778	13,220,000	13,650,000
Total	16,233,603	17,640,000	18,488,000

BOARD AND STAFF OFFICES

The 1968 estimates of administrative expenses of the Board and Staff Offices, the revised estimates for the current fiscal year, and actual expenses for 1966 are summarized in the following table:

Description	1966 actual	1967 estimate	1968 estimate
Positions	331	354	356
Man-years	295.5	309.8	343.3
Personnel compensation	$2,881,932	$3,094,000	$3,443,000
Personnel benefits	203,400	231,000	257,000
Total, personal services and benefits	3,085,332	3,325,000	3,700,000
Contractual services and supplies	820,768	859,000	901,000
Acquisition of capital assets	61,629	81,000	84,000
Total gross expenses	3,967,729	4,265,000	4,685,000
Reimbursements from other accounts	−160,120	−110,000	−145,000
Total, net expenses	3,807,609	4,155,000	4,540,000
Estimated savings	152,391	255,000	0
Actual, authorization, and estimate	3,960,000	4,410,000	4,540,000

As shown, the Federal Home Loan Bank Board requests authority to expend $4,540,000 for administrative expenses of the Board and its Staff Offices in fiscal 1968.

The estimate reflects an increase in personnel of 2 positions and 33.5 man-years over the current fiscal year, and an increase in funds of $130,000 over the approved budget for the current fiscal year.

However, because the Board expects to save $255,000 of the amount authorized for the current fiscal year, the estimate reflects an increase of $385,000 over the estimated expenses for the current fiscal year.

Of this increase, $349,000 is in Personnel Compensation, $26,000 in Personnel Benefits, $42,000 in Contractual Services and Supplies, and $3,000 in Acquisition of Capital Assets. These increases, however, are offset by $35,000 additional reimbursements estimated to be collected in fiscal year 1968.

Personal services and benefits.—The need for the 2 new positions requested is set out in the departmental justifications of the Office of Federal Home Loan Bank Operations (1) and Operating Analysis Division (1).

All other expenses.—The net increase of $45,000 in all other expenses is in the items of Travel and Transportation of Persons $9,000; Rent, Communications, and Utilities $6,000; Printing and Reproduction $23,000; Supplies and Materials $5,000, and Equipment $3,000; there is a net decrease in Other Services of $1,000. Review and analyses of these items together with justification of the need for the increases will be found beginning on page 109.

Reimbursements.—A table showing reimbursements to the Board for services rendered will be found on page 118.

Sources of funds

The funds used to pay the administrative expenses of the Board are derived from the following sources:

Source	1966 actual	1967 estimate	1968 estimate
By assessments upon—			
Federal home loan banks	$1,370,739	$1,495,800	$1,634,400
Federal Savings and Loan Insurance Corporation	2,151,299	2,347,575	2,565,100
Office of Examinations and Supervision (FHLBB)	285,571	311,625	340,500
Total funds	3,807,609	4,155,000	4,540,000

Distribution of the 1968 expenses among the 3 sources shown is based upon the following formula: The Insurance Corporation will pay 25% of the administrative expenses of the Board as a direct charge for services rendered by the Board Staff Offices and Divisions in its behalf. The remainder of the administrative expenses will be distributed by assessment as follows: 10% to the Office of Examinations and Supervision, 42% to the Insurance Corporation, and 48% to the Banks. The percentage for the Office of Examinations and Supervision is based on past experience. The respective percentages for the Insurance Corporation and the Banks are based on the ratio of the membership of each one to the combined membership of the Insurance Corporation and the Bank System at June 30, 1966.

Member institutions

Membership.—The Federal Home Loan Bank System comprised of the 12 regional Federal Home Loan Banks had a membership of 5,049 institutions at June 30, 1966. Membership in the System since its inception increased from 2,080 in calendar year 1933 to 3,951 in calendar year 1938. Resulting primarily from consolidation and mergers, the membership gradually decreased to 3,698 in calendar year 1946. Since that time, both the membership and membership assets have gone steadily upward as shown both in the following table and in the chart on the following page.

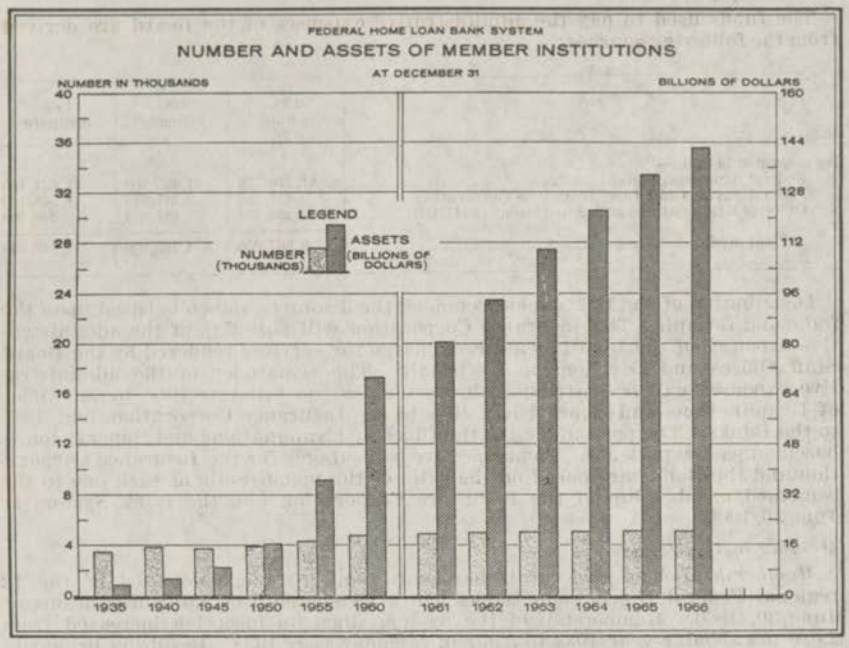
At June 30	Number	Assets (billions)	At June 30	Number	Assets (billions)
1946	3,698	$9.4	1963	4,971	$100.8
1950	3,898	15.4	1964	5,021	116.3
1955	4,272	34.0	1965	5,043	128.6
1960	4,674	65.8	1966	5,049	138.3
1961	4,778	75.1	1967 [1]	5,076	148.6
1962	4,866	86.8	1968 [1]	5,110	159.3

[1] Estimate.

As indicated, membership showed a net increase during fiscal 1966 of 6; it is expected to increase by 27 during the current fiscal year and by an additional 34 in fiscal 1968 reaching 5,110 at June 30, 1968.

Total assets at June 30, 1966 reflected an increase for the fiscal year of $9.7 billion or 7.5%. They are expected to increase by $10.3 billion during the current fiscal year and to reach $159.3 billion by June 30, 1968, an estimated increase of 15.2% in two years. In the last five years, membership increased by 271 or 5.7% and assets increased by $63.2 billion or 84.2%.

The following table shows composition of the total membership at June 30, 1965 and 1966, together with the estimated total assets:



[Dollars in millions]

Members	June 30, 1965		June 30, 1966	
	Number	Assets	Number	Assets
Savings and loan associations:				
Federally chartered	1,993	$64,283	2,031	$68,630
State chartered, insured	2,490	55,441	2,483	59,219
State chartered, uninsured	513	2,766	485	2,948
Mutual savings banks	47	6,129	49	7,540
Insurance company			1	14
Total, all members	5,043	128,619	5,049	138,351

Included in the 513 State-chartered uninsured institutions at June 30, 1965, are 156 Co-operative Banks in the State of Massachusetts with aggregate assets of $1.7 billion. These institutions are members of the Massachusetts Share Insurance Fund of the Co-Operative Central Bank.

Mortgage loans.—Loans made by member savings and loan associations for the years indicated are shown in the following table:

Loans made by member savings and loan associations

[In thousands]

Fiscal year	Savings and loan members of Federal home loan bank system	All insured associations
1946	$2,636,640	$2,214,731
1950	4,202,461	3,708,755
1955	10,297,586	9,820,255
1960	14,193,016	13,916,162
1961	15,161,982	14,893,578
1962	18,937,180	18,646,917
1963	22,239,441	21,939,045
1964	25,217,130	24,894,717
1965	23,788,807	23,473,280
1966	22,343,134	22,023,589
1967 [1]	23,300,000	22,980,000
1968 [1]	24,800,000	24,480,000

[1] Estimate.

As indicated, total dollar volume of mortgage loans made by member savings and loan associations in fiscal year 1966 aggregated $22.3 billion compared with $23.8 billion in fiscal year 1965, a decrease of $1.5 billion or 6.3%. Mortgage loans are expected to reach $23.3 billion in the current fiscal year and $24.8 billion in fiscal year 1968, an estimated increase of $2.5 billion in the two-year period.

Total dollar volume of mortgage loans made by insured associations in fiscal year 1966, also shown in the above table, aggregated $22.0 billion compared with $23.5 billion in fiscal year 1965, a decrease of $1.5 billion or 6.4%. These loans are expected to reach $23.0 billion in the current fiscal year and $24.5 billion in fiscal year 1968, an estimated increase of $2.5 billion in the two-year period.

Purpose of loans.—The principal purposes for which loans, were made by *insured* savings and loan members over the last three fiscal years are indicated in the following table:

Loans made by insured savings and loan associations, by purpose of loan

[Dollar amounts in thousands]

Purpose	Fiscal 1964	Percent	Fiscal 1965	Percent	Fiscal 1966	Percent
Construction	$6,885,347	27.7	$6,050,499	25.8	$5,057,488	23.0
Home purchase	10,172,209	40.8	10,134,178	43.2	10,023,061	45.5
Other purposes [1]	7,837,161	31.5	7,288,603	31.0	6,943,040	31.5
Total	24,894,717	100.0	23,473,280	100.0	22,023,589	100.0

[1] Includes loans for refinancing, reconditioning, and miscellaneous purposes.

As indicated, Construction loans in fiscal 1966 reflect a decrease of 16.4% when compared with 1965. Home Purchase loans reflect a decrease of 1.1% over 1965, and loans for Other Purposes a decrease of 4.7%. The overall decrease was 6.2%.

Savings.—The trend in savings in member savings and loan associations is shown in the following table:

[In billions]

Fiscal year	New savings	Withdrawals	Net inflow	Fiscal year	New savings	Withdrawals	Net inflow
1947	$3.0	$1.9	$1.1	1963	$33.3	$22.4	$10.9
1950	4.5	3.0	1.5	1964	36.5	26.3	10.2
1955	11.9	7.3	4.6	1965	38.3	29.0	9.3
1960	23.0	16.3	6.7	1966	40.6	34.3	6.3
1961	25.7	17.5	8.2	1967 [1]	43.0	36.5	6.5
1962	29.0	20.3	8.7	1968 [1]	46.0	39.2	6.8

[1] Estimate

As indicated, new savings accepted by member savings and loan associations during fiscal 1966 aggregated $40.6 billion, an increase over 1965 of $2.3 billion or 6.0%. Withdrawals of savings aggregated $34.3 billion, leaving a net inflow of $6.3 billion.

Net inflow of savings for the current fiscal year is expected to reach $6.5 billion, and $6.8 billion in fiscal 1968.

PROGRAMS AND ACTIVITIES

An analysis of administrative expenses by activities for the three years included in the Budget is shown in the table on the following page and is followed by an outline of each activity in the order shown.

Following the discussion of administrative expenses by activities is a presentation of the Board's program for the current fiscal year and fiscal year 1968 relating to Special Studies of the Savings and Loan Industry and the acquisition and construction of a building in the District of Columbia.

Administrative expenses (gross) by activities

	Total	Examination and supervision of Federal home loan banks	Chartering Federal and insuring savings and loan associations	Executive direction and staff services	Analysis of operations	Administrative services
Fiscal year 1968:						
Positions	356	25	45	133	52	101
Man-years	343.3	24.0	43.6	127.4	50.7	97.6
Personnel compensation	$3,443,000	$292,240	$498,045	$1,497,929	$403,491	$751,295
Personnel benefits	257,000	23,660	36,920	110,360	31,200	54,860
All other expenses	985,000	92,320	72,976	438,815	139,796	241,093
Total 1968	4,685,000	408,220	607,941	2,047,104	574,487	1,047,248
Fiscal year 1967:						
Positions	354	24	45	133	51	101
Man-years	309.8	22.0	41.3	108.7	47.0	90.8
Personnel compensation	$3,094,000	$256,288	$470,641	$1,296,545	$373,657	$696,869
Personnel benefits	231,000	18,630	34,040	99,900	27,140	51,290
All other expenses	940,000	81,701	73,970	396,575	139,634	248,120
Total 1967	4,265,000	356,619	578,651	1,793,020	540,431	996,279
Fiscal Year 1966:						
Positions	331	22	42	118	51	98
Man-years	295.5	20.7	40.4	104.7	43.1	86.6
Personnel compensation	$2,881,932	$235,149	$441,239	$1,216,923	$324,626	$663,995
Personnel benefits	203,400	16,679	31,120	85,834	22,984	46,783
All other expenses	882,397	68,605	64,314	339,676	173,077	236,725
Total 1966	3,967,729	320,433	536,673	1,642,433	520,687	947,503

Examination and supervision of Federal home loan banks

The examination phase of this activity for fiscal 1968 is carried on by the Office of Audits (10 positions); the supervision phase is carried on by the Office of Federal Home Loan Bank Operations (15 positions).

The functions and duties of the Board and its staff units in the examination and supervision of the 12 regional Banks include:

1. Issuance of regulations covering their operations.
2. Appointment of four public interest members of each regional Bank's Board of Directors (The Comptroller's Division conducts the elections of the industry members of each Board).
3. Review, analysis, and approval of the operating budget of each Bank.
4. Examination of each Bank at least once annually.
5. Issuance of consolidated obligations.

The 12 Federal Home Loan Banks constitute a Nationwide permanent credit reserve for their member institutions. They provide members with a ready source of funds to meeet both normal and unusual home-financing demands and withdrawal requests of their investors. They also serve to equalize the supply of home-mortgage credit by the transfer of funds between Banks to areas where unfilled demands exist.

The Banks obtain their funds primarily from capital stock subscribed by member institutions, inter-bank deposits, members' deposits, return on their investments, and borrowings from the public.

Capital stock.—The United States Government provided the original capital of the Banks by investing, over a period of years, $124,741,000. This investment was retired by the Banks, over the years, at a rate in excess of statutory requirements. As of July 2, 1951, the Government's investment had been fully repaid. All of the capital stock of the 12 Banks is owned by the member institutions. Capital stock outstanding at June 30, 1966, was $1,339,416,925, an increase of $79,711,490 or 6.0% since last year.

Operating highlights.—A comparison of the operating highlights of the Banks at June 30, 1964, 1965, and 1966 is afforded in the following table:

[In thousands]

Description	June 30, 1964	June 30, 1965	June 30, 1966
Assets	$6,753,368	$7,425,222	$8,951,001
Liabilities	5,421,221	6,018,823	7,439,796
Capital	1,332,147	1,406,399	1,511,205
Legal reserve	83,081	94,009	108,595
Net income for year	51,788	54,637	72,934
Investments (par)	1,817,666	1,705,410	1,959,336

As indicated, Assets at June 30, 1966, reflected an increase for the fiscal year of $1,525.8 million or 20.5%; Liabilities increased by $1,421.0 million or 23.6%; thus Capital increased by $104.8 million or 7.5%. Legal Reserve increased in the same period by $14.6 million or 15.5%; Net Income for year increased by $18.3 million or 33.5%, and Investments increased by $253.9 million or 14.9%.

Loans to members.—The following table shows the trend in loans to member institutions, repayments, and amounts outstanding at June 30 each year for the years indicated:

[In millions]

Fiscal year	Loans	Repayments	Outstanding June 30
1950	$364.3	$285.0	$442.7
1955	1,058.4	716.6	1,016.9
1956	948.8	792.3	1,173.4
1957	931.9	1,025.9	1,079.4
1958	1,258.6	1,408.5	929.5
1959	1,622.4	1,014.8	1,537.1
1960	2,050.5	1,817.8	1,769.8
1961	2,199.3	2,099.7	1,869.4
1962	3,583.7	2,686.0	2,767.1
1963	4,498.0	3,995.3	3,269.8
1964	6,078.2	4,579.1	4,768.9
1965	5,661.5	4,844.5	5,585.9
1966	4,499.7	3,302.5	6,783.1
1967 [1]	2,980.0	3,663.0	6,100.0
1968 [1]	4,000.0	3,300.0	6,800.0

[1] Estimated.

Loans or advances to member institutions in fiscal year 1966 aggregated $4.5 billion, a decrease over last year of $1.2 billion or 21.1%. Repayments aggregated $3.3 billion, a decrease over last year of $1.5 billion or 31.3%. Loans outstanding at June 30, 1966, aggregated $6.8 billion, an increase over last year of $1.2 billion or 21.4%.

Consolidated obligations.—Pursuant to law, all issuances of consolidated obligations by the Board become the joint and several obligations of all the Banks. The following table shows the number of offerings made and the amounts of such offerings for the years indicated:

Fiscal year	Number of offerings	Amount (millions)
1950	5	$333
1955	6	554
1956	9	1,530
1957	10	1,481
1958	6	994
1959	8	1,073
1960	9	1,982
1961	8	1,214
1962	8	2,392
1963	10	2,928
1964	13	4,522
1965	13	4,357
1966	15	6,533

As indicated, the Federal Home Loan Bank Board made 15 offerings of consolidated Federal Home Loan Bank obligations during fiscal 1966 aggregating $6.5 billion. Twelve (12) of these offerings were for terms of one year or less; three were for terms of more than 1 year. Interest ranged from 4.30% * to 5.75% and compares with the 1965 range of 3.95% to 4.375%. The total offerings represented an increase over fiscal 1965 of $2.1 billion or 49.9%. The proceeds from these offerings were used to meet the loan demands of the membership.

The following table shows cumulative totals of Consolidated Obligations issued, retired, and outstanding at June 30, 1964, 1965, and 1966:

[In thousands of dollars]

Description	June 30, 1964	June 30, 1965	June 30, 1966
Issued	23,234,250	27,591,250	34,124,250
Retired	19,033,250	22,834,250	27,815,250
Outstanding	4,201,000	4,757,000	6,309,000

*The range is for all 15 issues; the interest range for twelve offerings with terms of one year or less was from 4.30% to 5.65%.

The balance outstanding at June 30, 1966, reflects an increase of $1,552.0 million or 32.6% when compared with June 30, 1965.

Financial condition.—Beginning on the following page, the following three consolidated financial statements of the Banks, as of June 30, 1966, appear in the order listed below:

1. Comparative Condensed Consolidated Statement of Condition.
2. Comparative Consolidated Statement of Income and Expense.
3. Condensed Income Statement and Disposition of Net Income.

Personnel requirements.—The estimate of 25 positions for this activity reflects an increase of 1 position over the current fiscal year. The new position is a GS–14 Financial Analyst for the Office of Federal Home Loan Bank Operations. A more detailed outline of the duties involved in this joint activity and justification of the need for the new position requested will be found beginning on pages 65 and 73.

On a man-year basis there are 24.0 man-years in 1968 and 22.0 in 1967, an increase in 1968 of 2.0 man-years. Of the increase, 1.4 man-years represent delay in filling positions in the current fiscal year; the remaining 0.6 man-years represents the new position requested.

Comparative condensed consolidated statement of condition as of dates indicated

	June 30, 1966	June 30, 1965	Increase or decrease (−)
ASSETS			
Cash:			
On hand and in banks	$67,163,673.09	$58,377,892.00	$8,785,781.09
Treasurer of the United States	92,653,278.40	51,917,637.71	40,735,640.69
Total cash	159,816,951.49	110,295,529.71	49,521,421.78
Investments:			
U.S. Treasury Obligations	1,953,389,669.00	1,647,835,423.74	305,554,245.26
Securities held under resale agreements	0	43,497,872.24	−43,497,872.24
Total investments	1,953,389,669.00	1,691,333,295.98	262,056,373.02
Advances outstanding:			
Secured	5,970,295,742.58	4,380,159,085.89	1,590,136,656.69
Unsecured	812,823,260.35	1,205,780,824.35	−392,957,564.00
Total advances outstanding	6,783,119,002.93	5,585,939,910.24	1,197,179,092.69
Accrued interest receivable	48,644,957.92	33,618,055.40	15,026,902.52
Deferred charges	5,999,363.15	4,002,536.54	1,996,826.61
Other assets	30,835.80	32,745.42	−1,909.62
Total assets	8,951,000,780.29	7,425,222,073.29	1,525,778,707.00
LIABILITIES AND CAPITAL			
Deposits:			
Members (time)	694,775,066.05	848,662,111.85	−153,887,045.80
Members (demand)	277,638,617.29	323,279,612.46	−45,640,995.17
Government instrumentalities (demand)	52,255,625.82	2,538,741.50	49,716,884.32
Applicants for membership	329,675.50	132,820.15	196,855.35
Total deposits	1,024,998,984.66	1,174,613,285.96	−149,614,301.30
Accrued interest payable	91,702,861.51	76,085,209.15	15,617,652.36
Accounts payable	787,211.82	517,563.58	269,648.24
Dividends payable	13,236,491.28	10,364,557.13	2,871,934.15
Other liabilities	16,520.00	31,421.62	−14,901.62
Deferred credits	53,340.50	210,801.05	−157,460.55
Consolidated obligations [1]	6,309,000,000.00	4,757,000,000.00	1,552,000,000.00
Total liabilities	7,439,795,409.77	6,018,822,838.49	1,420,972,571.28
Total paid in on capital stock	1,339,416,925.00	1,259,705,435.10	79,711,489.90
Retained earnings:			
Legal reserve	108,595,383.94	94,008,600.49	14,586,783.45
Undivided profits	63,193,061.58	52,685,199.21	10,507,862.37
Total retained earnings	171,788,445.52	146,693,799.70	25,094,645.82
Total capital	1,511,205,370.52	1,406,399,234.80	104,806,135.72
Total liabilities and capital	8,951,000,780.29	7,425,222,073.29	1,525,778,707.00

[1] Consolidated Federal home loan bank obligations issued by the Federal Home Loan Bank Board and now outstanding are the joint and several obligations of all Federal home loan banks.

Comparative consolidated statement of income and expense for the years ended as indicated

	June 30, 1966		June 30, 1965	
	Amount	Percent	Amount	Percent
Earned operating income:				
Interest on advances	$284,158,086.14	82.4	$207,769,465.99	77.7
Interest on securities	60,564,478.75	17.6	59,561,007.09	22.3
Miscellaneous	5,980.52		10,393.90	
Total operating income	344,728,545.41	100.0	267,340,866.98	100.0
		Percent of operating income		Percent of operating income
Operating expenses:				
Compensation	3,371,018.12	1.0	3,074,361.37	1.2
Travel	355,798.59	.1	303,134.25	.1
Other administrative expenses	2,265,302.34	.7	1,976,937.83	.7
Interest on consolidated obligations	229,699,893.35	66.6	171,119,989.69	64.0
Interest on deposits—U.S. Treasurer	0		70,655.19	
Concessions on consolidated obligations	5,287,007.47	1.5	4,326,764.71	1.6
Paid through office of fiscal agent	250,939.14	.1	230,450.29	.1
Interest on members' deposits	27,631,499.67	8.0	29,293,155.74	11.0
GAO audit expense	6,300.00		0	
Assessment for expenses of FHLB Board	2,010,337.56	.6	1,819,668.21	.7
Total operating expenses	270,878,096.24	78.6	212,215,117.28	79.4
Net operating income	73,850,449.17	21.4	55,125,749.70	20.6
		Percent of total income		Percent of total income
Nonoperating income:				
Profit-sales of securities	109,577.92		233,044.34	0.1
Furniture and equipment sales	8,085.18		11,968.51	
Miscellaneous	13,946.52		43,654.04	
Total nonoperating income	131,609.62		288,666.89	.1
Nonoperating charges:				
Loss-sales of securities	852,024.36	0.3	538,595.32	.2
Furniture and equipment purchased	127,730.14		235,325.28	.1
Miscellaneous	68,386.99		3,987.00	
Total nonoperating charges	1,048,141.49	.3	777,907.60	.3
Net income	72,933,917.30	21.1	54,636,508.99	20.4

Condensed income statement and disposition of net income from beginning of operations through June 30, 1966

	Combined	
	Amount	Percent
Income:		
Operating	$1,830,228,415.02	99.2
Nonoperating	14,783,107.56	.8
Gross income	1,845,011,522.58	100.0
Charges against income:		
Operating	1,295,980,783.61	70.2
Nonoperating	7,027,633.92	.4
Total charges	1,303,008,417.53	70.6
Net income to date	542,003,105.05	29.4
Disposition of net income:		
Allocated to legal reserve	108,595,383.94	20.0
Dividends paid:		
U.S. Government	26,176,170.42	4.8
Member institutions	342,441,649.07	63.2
Total dividends	368,617,819.49	68.0
Retirement fund	1,577,972.48	.3
Organization expense, Spokane bank	18,867.56	
Undivided profits	63,193,061.58	11.7
Total	542,003,105.05	100.0

Chartering Federal, and insuring savings and loan associations

This joint activity is carried on by the Office of Applications.

Chartering Federal savings and loan associations.—Section 5(a) of the Home Owners' Loan Act of 1933 authorizes the Board to provide for the organization, incorporation, examination, operation, and regulation of associations to be known as Federal savings and loan associations and to issue charters therefor.

These associations provide thrift and home-mortgage lending facilities in communities where such facilities are unavailable or inadequate. They are established by the granting of charters to newly created associations anywhere in the United States or its Territories. State-chartered associations may also apply and, if approved, convert to a Federal charter.

The savings or share account of each saver in Federal savings and loan associations is insured up to $15,000 by the Federal Savings and Loan Insurance Corporation. The associations are subject to periodic examination by the Federal Home Loan Bank Board and are members of the Federal Home Loan Bank System.

The following table shows membership, aggregate assets, and reserves and undivided profits of Federal associations for the years indicated:

Fiscal year end	Member-ship	Assets in billions	Reserves and undivided profits (in millions)
1950	1,515	$7.9	$513
1955	1,656	18.5	1,184
1956	1,709	21.6	1,419
1957	1,757	24.4	1,640
1958	1,787	27.6	1,887
1959	1,828	32.2	2,197
1960	1,856	36.4	2,493
1961	1,885	41.0	2,830
1962	1,922	46.6	3,195
1963	1,957	52.9	3,580
1964	1,969	58.9	3,945
1965	1,993	64.3	4,342
1966	2,031	68.6	4,744

As shown, a steadily increasing upward trend in membership and assets is reflected. Assets have shown a rapid growth over the years. In the last 5 years they have increased by 67.3% from $41.0 billion at June 30, 1961, to $68.6 billion at June 30, 1966. Similarly, reserves and undivided profits for the same period have kept pace with this growth, increasing from $2.8 billion to $4.7 billion, an increase of $1.9 billion or 67.9%.

The chart shown on the following page reflects the trend in assets of *all* State-chartered and Federal savings and loan associations at December 31 of the years indicated. Although the estimated number of State-chartered associations at December 31, 1966 (4,168) exceeded Federal associations (2,052) by (2,116) or 103.1%, the estimated assets of Federals ($70.0 billion) exceeded those of State-chartered associations ($64.9 billion) by $5.1 billion or 7.9%.

This Section of the activity includes the analyses of applications for Federal Charter, Branches, Conversion, and Bank System membership and recommendations thereon to the Board. The related workload increases in direct proportion to the upward trend in the business activity of insured institutions. The Division processed 27 applications for new charters, 33 applications for conversion from State to Federal charter, and 101 applications for branches or a total of 161 applications in fiscal 1966. It expects to process approximately 207 applications in the current fiscal year and 237 in 1968.

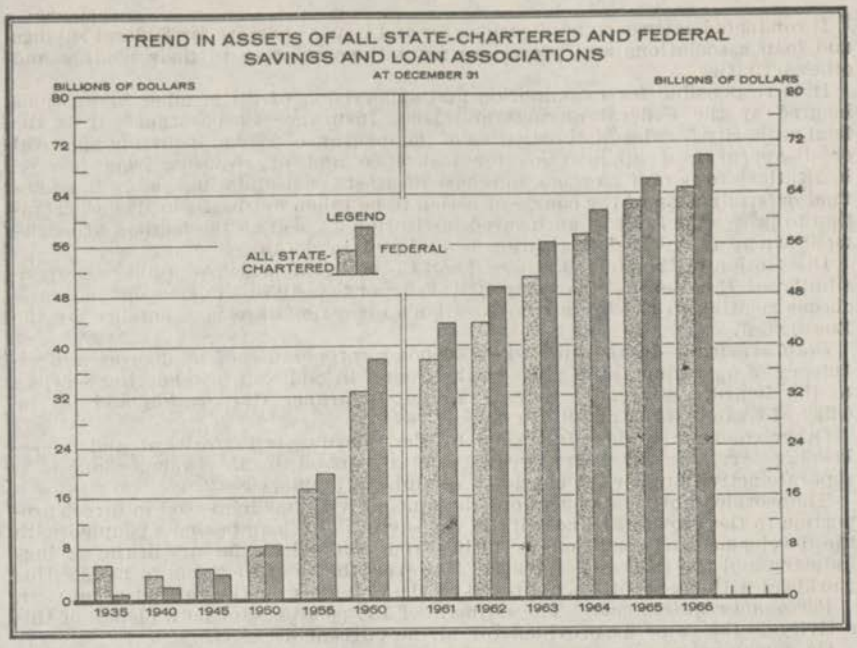
Insuring savings and loan associations.—Insurance protection is obligatory for all Federally chartered associations. State-chartered institutions of the savings and loan type which apply for insurance and meet the Corporation's requirements are also insured.

In the underwriting process, this Division analyzes all factors bearing upon the financial condition and other aspects of applicant associations. Included among these are: capital structure, assets, liabilities, reserve positions, operating income and expense ratios, liquidity position, etc. Other considerations are character of management and directorate: soundness of all policies and practices pursued in appraising and lending. All factors are evaluated in the light of local economic conditions and the trends and prospects of the general economy.

Public demand for protection of its savings makes it advisable for uninsured savings and loan associations throughout the country to seek insurance of the accounts of their savers or investors. The following table shows the number of insured institutions at June 30 of the years indicated and the net increase each year:

At June 30	Number insured associations	Net increase	At June 30	Number insured associations	Net increase
1947	2,529		1963	4,386	119
1950	2,799	108	1964	4,443	57
1955	3,472	102	1965	4,483	40
1960	4,044	108	1966	4,514	31
1961	4,160	116	1967 [1]	4,564	50
1962	4,267	107	1968 [1]	4,624	60

[1] Estimate



As indicated, the 1966 figure is expected to increase by 50 associations in fiscal 1967 and by 60 in 1968, bringing the total at June 30, 1968 to 4,624.

There were 49 insurance applications processed in fiscal 1966. It is expected that 47 applications will be processed in the current fiscal year and 50 in fiscal 1968.

This Section of the activity also processes a large variety of other types of applications relating to regulatory requirements. These types accounted for 2,135 case studies last year, and represented 93.3% of the 2,289 case studies made during the year. It is expected that case studies will total 2,607 in the current year and 3,068 in fiscal 1968.

The term "case study" refers to the analysis and evaluation of voluminous documents, such as articles of incorporation, constitution and bylaws, security forms, passbooks formerly and currently issued to evidence savers' and investors' holdings, State supervisory examination reports, Federal eligibility examination reports, audit reports, annual financial reports, published financial statements, correspondence covering criticisms and actions by the State supervisory authorities, form of mortgage notes and related instruments, maps disclosing extent of lending territory, and sales plans and practices.

Personnel requirements.—The estimate of 45 positions for both phases of this activity is the same as provided for in the current fiscal year.

On a man-year basis there are 43.6 man-years in 1968 and 41.3 in 1967, an increase in 1968 of 2.3 man-years. The increase represents delay in filling positions in the current fiscal year.

Executive direction and staff services

The following offices and positions are included in this joint activity for fiscal 1968: Offices of the Chairman and Board Members (15); Office of the Executive Assistant to the Chairman (2); Office of International Home Finance (5); Office of Research and Home Finance (17); Office of the Secretary-Immediate (20); Office of the General Counsel (46); Office of Personnel Management (12); Office of Public Affairs (7); Organization and Methods Division (3), and the Office of Regulations (6).

Executive direction.—The Board establishes the general policies for all operations under its control. It supervises the operations of the 12 regional Banks and the examination of each Bank at least annually.

It conducts hearings on applications for and issues charters for Federal savings and loan associations and prescribes regulations relating to their lending and other activities.

It is responsible for examination and supervision of all member institutions insured by the Federal Savings and Loan Insurance Corporation. It is the final authority for the administration of the insurance system, including approval or disapproval of applications for insurance and of requests from insured institutions to permit mergers, purchase of assets, consolidations, etc. It makes final determination of the course of action to be taken by the Insurance Corporation to prevent default in an insured institution as well as the method of settlement when an insured institution is declared in default.

Dissolution of the Home Owners' Loan Corporation, which was also a responsibility of the Board, was completed February 3, 1954. Correspondence and claims relating to the former Corporation's operations are now handled by the Board staff.

Staff services.—In the interest of economy, proper use of manpower and efficiency of operations, staff units of the Board, in addition to rendering services to the Board, also render services to the Insurance Corporation and to the Office of Examinations and Supervision.

Other common services furnished by the Board's staff are fiscal and housekeeping services; these are treated and discussed in this submission as a separate activity under the caption "Administrative Services."

The workload of most phases of this joint activity has increased in direct proportion to the growth and activity in the savings and loan business coupled with the development of conditions resulting from competitive factors in the savings industry and the mortgage market. However, the Board expects to handle this workload with the positions approved by the Congress for the current fiscal year.

Personnel requirements.—The estimate of 133 positions for both phases of this activity is the same as provided for in the current fiscal year.

On a man-year basis, there are 127.4 man-years in 1968 and 108.7 in 1967, an increase in 1968 of 18.7 man-years. The increase represents delay in filling positions in the current fiscal year.

Analysis of operations

This activity is carried on by the Operating Analysis Division of the Board. It involves the design of statistical and data processing procedures and the collection, evaluation, and processing of large amounts of data for use of the Board, other elements of Government, the industry, and the public. These steps, among other things, represent a means of providing basic information used by the Federal Home Loan Bank Board in determining policy and other considerations. Pertinent information is furnished to the Federal Home Loan Bank Board resulting from the continuous study of the financial condition of the member institutions; evaluation of reserves and liquidity position; character and volume of mortgage lending; trends in savings and withdrawals, and other related characteristics of the industry.

The Division also maintains an analysis of real estate foreclosures and interest rates on home mortgages. This information, together with other information furnished by this activity in the areas of savings and home-financing, both national and local, is used by other Government agencies and by economists in both public service and private industry.

In order to increase its value, effectiveness, and efficiency the Division is in the process of developing procedures which will ultimately permit one to relate any element of information in their files, whether current or historical, to any other element or set of elements for the purpose of rapidly providing needed information summaries at the lowest possible cost. To do this will require that the Division make more effective use of electronic data processing equipment, appropriate techniques of systems design and systems management, and appropriate techniques of statistical summarization and estimation. To keep abreast of the anticipated workload in 1968, an additional employee will be required.

Personnel requirements.—The estimate of 52 positions for this activity reflects an increase of 1 position over the current fiscal year. The new position is a GS–14 Statistician.

A more detailed outline of the functions associated with this activity and justification for the new position will be found beginning on page 102.

On a man-year basis there are 50.7 man-years in 1968 and 47.0 in 1967, an increase in 1968 of 3.7 man-years. The increase represents delay in filling positions in the current fiscal year.

INCREASE IN OPERATIONS

Mr. EVINS. Take a look at this table on page 5. The number of institutions has grown from 5,049 to 5,110. This is in 2 years. Assets have grown from $138,351 billion to $159,300 billion. That is a lot of money, and shares have increased from $117,226 billion to $133,100 billion. The number of mortgage loans has increased from $117,781 billion to $136,600 billion.

The mortgage loans are more than the shares.

This insured figure—tell us what that means, Mr. Chairman.

Mr. HORNE. Yes, sir.

Mr. TREVAS. It is the number of institutions that have been insured.

Mr. EVINS. The number of institutions that have been insured is 4,624 estimated for 1968.

You mention that the Home Loan Bank Board supervises and regulates the Federal Home Loan Bank System, the system of Federal savings and loan associations, and the Federal Savings and Loan Insurance Corporation, and it encourages thrift and economical home ownership.

FEDERAL HOME LOAN BANK SYSTEM

In your bank system, you have 12 regional Federal home loan banks; they advance funds to member institutions to meet withdrawal demands and they supply quickly additional mortgage funds where needed.

You are now in your 34th year of opening of these regional banks.

These regional banks, the stock of which is owned by their member institutions, do not deal directly with individuals, they deal with institutions.

You mention that the combined resources of the Home Loan Bank System totaled $138 billion last year. It is estimated to go to $142 billion.

FEDERAL SAVINGS AND LOAN ASSOCIATIONS

Then your Federal Savings and Loan Associations are required to be members of the Home Loan Bank System and to carry insurance on their savings or share accounts.

As of June 30, 1966, there were 2,031 privately owned local mutual institutions operating under charter, examination, and supervision by the Federal Home Loan Bank Board. Their combined resources as of June 30, 1966, exceeded $68 billion. These are the 2,031 Federal savings and loan institutions.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Then your Insurance Corporation was chartered in 1934, and originally, the insurance protection was $5,000, then it was increased to $10,000. Last year, it was increased to $15,000.

The Insurance Corporation is very liquid, is it not, Mr. Chairman? What are its total assets?

Mr. WORTHY. Total assets are about $1,800 million, and the liquid assets are a little over $1,500,000.

Mr. EVINS. How much since its inception has it had to pay off?

Mr. WORTHY. It has actually disbursed in the neighborhood of $475 million.

Mr. EVINS. Less than half a billion dollars in this disbursement, and over a $1 billion in assets.

Mr. WORTHY. Almost $2 billion.

Mr. EVINS. So it is a very sound one. You have disbursed less than a half billion dollars, and you have assets of almost $2 billion.

Mr. TALCOTT. Maybe the premiums are too high.

Mr. HORNE. As to the 2 percent extra premium prepayment that Mr. Worthy was explaining some time ago, that is maintained at a ratio of savings. When the prepayment is sufficient to equal this ratio, it will be discontinued.

Jerry, do you want to explain that a little further?

Mr. WORTHY. Our combined reserves—that is, our primary and secondary reserves, the secondary being made up of the premium prepayments—when it reaches 2 percent of savings and creditor obligations, both premiums and premium prepayments will cease. Premiums will be paid from this secondary reserve until the total reserves drop down to 1.75 of savings capital and creditor obligations. The best projection is that we will probably reach this level in 1971 depending on the growth of the industry.

Mr. HORNE. There was a time, Congressman, on a statistical basis, the FDIC was in a much better position so far as what it had available to pay out insurance of accounts than was the Federal Home Loan Bank Board. Congress corrected that, I think in 1961, by the extra 2 percent prepayment premium that Mr. Worthy is talking about.

HOUSING STARTS

Mr. EVINS. To assure that the institution is justifying its declared purpose and its intent, the number of loans made by institutions in 1966 represented over 43 percent of the Nation's home financing. It has really contributed to the building of homes in America.

You have a surplus of homes in certain areas and a shortage in others. What is the projection for next year for the home market?

Mr. HORNE. Based on the latest figures that we have, the projection is about 1¼ million for the calendar year of 1967. As you project this out into 1970, you get anywhere from 1½ million to over 2 million.

Mr. GIAIMO. On this point, I have seen different figures.

What were the total starts in 1966?

Mr. SCHWARTZ. Total starts in 1966 were 1.2 million.

POSITIONS AND MAN-YEARS

Mr. EVINS. Your summary figures are shown on page 8, positions and man-years.

The staff and the Board in 1966 had 331 positions. You actually only filled 295. You estimated for 1967 354, and your man-years were 309. You were way down from what was authorized in both cases, and in 1968, you were asking for 356 for the Board and staff. However, you estimate that you will use only 343 of those.

The same situation prevails in the Insurance Corporation. You had 16 in 1966, you only had 13 man-years; 19 and 15.5 for 1967; and 20 and 18 projected for 1968.

In your other operations, the same picture, for a total of 1,329 as against a total of 1,326.

SUMMARY OF EXPENSES

In the breakdown of your comparative summary of expenses the Board and staff offices go up from $3,807,000 to an estimated $4,540,000 in 1968. And for the Insurance Corporation, $222,216 to $298,000.

In your nonadministrative expenses, supervision of banks, in which the banks pay for the service, or the savings and loan institution, they go up from $12,203,000 in 1966 to an estimated $13,650,000 for 1968, for a total of budget, administrative and nonadministrative expenses, of $18,488,000.

INCREASE IN EXPENSES, 1968 OVER 1967

Now, Mr. Chairman, based upon your experience of not using all your manpower and absorbing some of these costs, can you not operate on the same level you did last year of $17,640,000?

Mr. HORNE. It would be extremely difficult to do so, Mr. Chairman. We have built-in expenses over which we have no real control, and I would like to emphasize that one of the things that has been so extremely helpful during the year 1966, even though we did not utilize all of the authorization this committee had approved and which the other committee in Congress finally approved, was the fact that until we had our job freeze, we had this backing.

I want to say this, too, that the industry knew this. The industry appreciated the fact that this committee backed us up so far as our budget requests were concerned, and I am sure it had a salutary effect on the performance of people in this industry.

Mr. EVINS. Last year, you had one of the highest budget levels the Board has ever had.

Mr. HORNE. Yes, sir. Of course, these salary increases and costs of other things forced the budget up. We cannot control this. Many of the increases have come, as you can see over the years, not by the addition of personnel, but by the increased salaries and increased expenses that go with supporting these bodies.

Mr. EVINS. We want it on the record that this committee backs the Federal Home Loan Bank Board. We are backing the Board and we want to help the Board. We have always made this clear. We are trying to strengthen the Board.

Mr. HORNE. You certainly have been extremely helpful.

Mr. EVINS. Again, we point out here that you are 172 jobs below the authorized employment and 100 below the average funded level. You are 100 below the average funded level. Your obligation for 1967, therefore, should be less than they show. Why are you spending as much as you are in view of the actual employment record?

Mr. HORNE. Well, some of these——

UNFILLED POSITIONS

Mr. EVINS. Your spending is up, but your jobs are not up.

Mr. TREVAS. I can make one explanation.

Last year, when we got an authorization for 26 additional positions,

they could only be filled on six-tenths of a year basis. So even if there had been no job freeze, we could not have started hiring until November 1. If we include the same position for the succeeding year and put it on a full-year basis, your dollar amount increases with the same number of positions. Almost $600,000 of the requested increase is related to filling these jobs on a full-time basis, plus salary increments to employees that the Congress has authorized. The employee gets his annual increase by statute, and on top of that the Board absorbs any pay increase. We find that most of the increase we have asked for this year is related to filling the jobs that you have authorized the year before on a full-year basis, plus the built-in increments in salaries.

Mr. JONAS. That does not quite answer it, because we were talking about your 100 under average employment. You were funded on the basis of average employment. You are 100 under average employment.

Mr. EVINS. You were funded for that amount.

EFFECT OF FREEZE ON EMPLOYMENT

Mr. TREVAS. This is true. Of course, we were subject to a freeze which tied our hands in employment.

Mr. EVINS. This is the point I tried to make earlier. It did not freeze you from your average, it was above the average that the freeze was on. So you did not even fill them up to the average.

Mr. HORNE. We were in the process of recruiting until the freeze came on. But then, when the freeze came on, it said stay where you are at this time.

Mr. JONAS. What we want to know, has that crippled your operations any?

Mr. HORNE. It has in some respects.

Mr. JONAS. If you are getting along all right in that and everything is OK, why cannot we go along and keep the freeze in?

Mr. HORNE. Congressman, for several reasons. It has crippled our operations. We are behind right now in the Office of Applications, over 200 applications. As I tried to explain a few moments ago, when the staff gets things processed for Board action, we take Board action.

But we cannot take action until it is processed by the staff. This is where we are handicapped.

We also are behind in much of our housekeeping operation. In our payroll, for example, we are behind with keeping our records straight. We are terribly understaffed there.

Mr. JONAS. Let me understand that; you mean you are behind in payroll?

Mr. HORNE. We are not behind in making payments to the employees. We are behind in keeping the records up to date.

We in this agency, Congressman, do not do one-tenth of the research and the economic discovery to keep the industry as well informed as is done by the Federal Reserve Board. The same thing is true in comparison with the Federal Deposit Insurance Corporation.

Many of our people work overtime. I am not complaining about it. I am trying to answer your question. There is not a person on my immediate staff, for example, that does not have much overtime, much of which they never claim.

ANALYSIS OF POSITIONS

Mr. EVINS. Mr. Chairman, let us look at this chart to see if this is correct. This is our own staff study of your budget.

In 1967, you are authorized 354 positions. You only used 309.8. So you will actually use about 50 less for the Board than you are authorized.

Examination and supervision, you were authorized 953, and you will actually use 875.6. This was also below what you were authorized.

In the Savings and Loan Insurance Corporation, you were authorized 19, and you will use 15. This is in 1967.

This comes down to, in the totals of your overall operations, you were authorized 1,326 positions, and you will use 1,200.9, which is 175 below now and 100 below the average.

Is that analysis by the staff of your budget about right?

RECRUITING PROBLEMS

Mr. HORNE. Yes, sir; it is about right.

But, as we have explained, the reason all these positions are not all filled is, one, the delay in recruiting them, and, second, the job freeze.

Congress last year gave us what I think was a minimum adequate program. Unfortunately, we were not able to utilize the leeway that Congress did give us, I will repeat, for two primary reasons: One is the fact that it takes time to get the right kind of people to do these technical jobs; and, secondly, the job freeze was, has in fact impaired our recruitment effort.

Mr. JONAS. Where do you recruit?

Mr. HORNE. Well, like other Government agencies, we hire from other Government agencies. We go to colleges, we go to other places to recruit, particularly at the lower level.

Mr. JONAS. What are you looking for? Accountants?

Mr. HORNE. People with accounting and business backgrounds are particularly good, particularly so far as starting them off in the examination and supervision field.

Mr. JONAS. Lawyers?

Mr. HORNE. Yes, sir; we have to recruit lawyers. The General Counsel's load has increased and will increase more because of the new authority given us, the cease-and-desist authority.

We are trying to recruit people for Mr. Schwartz' office to enable him to do a better job of keeping up with questions that come in from associations, that come from Congress as to what is the housing outlook, what is the savings flow, what is your estimated increase in assets, and many other things.

REVIEW OF BUDGET

Mr. EVINS. Miss Reporter, place in the record this staff review of the Federal Home Loan Bank Board budget.

(The document referred to follows:)

	Amount	Positions
Board and staff offices:		
1967 limitation	$4,410,000	354.0
Will use	4,155,000	[1] (309.8)
1968 budget	4,540,000	356.0
		[1] (343.3)
Increase	+130,000	+2.0
Over 1967 usage	(+385,000)	[1] (+33.5)
Examination and supervision:		
1967	13,465,000	953.0
Will use	13,220,000	[1] (875.6)
1968 budget	13,650,000	953.0
		[1] (893)
Increase	+185,000	0
Over 1967 usage	(+430,000)	[1] (+17.4)
Federal Savings and Loan Insurance Corporation:		
1967 limitation	285,000	19.0
Will use	265,000	[1] (15.5)
1968 budget	298,000	20.0
		[1] (18.4)
Increase	+13,000	1.0
Over 1967 usage	(+33,000)	[1] (+2.9)
Total:		
1967 limitations	18,160,000	1,326.0
Will use	17,640,000	[1] (1,200.9)
1968 budget	18,488,000	1,329.0
Increase	+328,000	+3.0
Over 1967 usage	(+848,000)	[1] (+53.8)

[1] Average.

NOTE.—Actual employment, Jan. 31, 1967, in 1,154; below authorized employment, 175; below average employment level, 100.

MEMBER INSTITUTIONS

Mr. EVINS. Take a look here at your page 12, the member institutions. Membership in the Federal home loan bank system has shown a continuing increase in numbers and continuing increase in assets, its assets rising from $9.4 billion in 1946 to $159.3 billion, a $150 billion increase in 20 years.

The bottom of the page shows the totals of the figures.

The chart on page 13 shows the number and assets of member institutions and graphically projects the growth. This is a very good chart.

MORTGAGE LOANS BY MEMBER ASSOCIATIONS

This chart on page 15 shows the loans made by member associations. In 1946, they made about $2,636 million; in 1968, they are estimated to make $24,800 million. That is a tremendous amount of credit.

Mortgage loans are expected to reach $23.3 billion in the current fiscal year and $24.8 billion in 1968.

On page 16, there is a breakdown as to the type of loans. Construction represents about 23 percent, home purchase about 45 percent, and other purposes, 31 percent.

What are included in other purposes?

Mr. TREVAS. Reconditioning, rebuilding, renovating——

Mr. EVINS. Rehabilitation?

Mr. TREVAS. And also refinancing.

Mr. EVINS. Any type of business loans in this?

Mr. TREVAS. No, sir; this is all housing.

Mr. EVANS. Rehabilitation in housing. Would there be a loan for rehabilitation of a business?

Mr. TREVAS. No, sir.

Mr. EVINS. Only housing.

Mr. TREVAS. Yes, sir.

Mr. JONAS. May I ask a question?

Mr. EVINS. Mr. Jonas.

INCLUSION OF PERSONAL PROPERTY IN MORTGAGE LOANS

Mr. JONAS. I understand that FHA now is permitting the addition of certain personal property items in mortgage loans value. Do you permit your associations to do that?

For example, do they include in the value of a house, to determine the percentage, whether they can make a loan of $10,000 or $9,000, rugs and carpets and things of that sort?

Mr. RAND. The regulations permit anything that is an integral part of a building. This may vary with laws in various States. In most States, I think it is permissible to put wall-to-wall carpeting, for example, in the house and consider it as part of the real improvement. Therefore, it is specifically shown in most of the instruments used by the associations in the various States, and it is permissible.

Built-in items, such as ranges and ovens, that are an integral part of the house, not freestanding but built in, are included as part of the security and therefore, a loan is made on the basis of those. These things are all taken into consideration in the total appraisal, and a percentage is based on that total appraisal.

Mr. EVINS. I had a complaint come to my attention from the hardwood people, the people that manufacture hardwood flooring. They wanted the hardwood flooring to be part of the appraisal, but not the carpeting. They did not want the hardwood flooring to be covered by the carpet.

Mr. HORNE. That is typical of the problems we get into, Mr. Chairman.

Mr. EVINS. Page 19 shows you the costs of various activities for the years 1968, 1967, and 1966.

Mr. HORNE. You know, too, the whole thing, Mr. Chairman——

Mr. EVINS. You have a wealth of information. It is broken down in many categories.

Mr. HORNE. So far as the personnel changes are concerned, you will note they have not changed nearly so much as the responsibility and the growth of the industry. Neither have they changed nearly so much as the cost. We give salary increases and this makes our costs go up much more than our increase in number of employees.

FUNCTIONS OF THE BOARD

Mr. EVINS. You point out that the functions of the Board are (1) issuance of regulations covering their operations, (2) appointment of four public interest members of each regional bank's Board of Directors, (3) review, analysis, and approval of the operating budget of each bank. You look over those to see if they are sound. Does the Board do this or is this done by staff?

Mr. HORNE. You mean checking of the banks?

Mr. EVINS. Review of the bank's operating budget.

Mr. HORNE. Yes, sir, the Board reviews them. This is done under Mr. Bob Day's department.

Mr. EVINS. And you have an examination of each bank at least once a year and the issuance of consolidated obligations.

Mr. HORNE. That is where we make all our loans and make advance loans to the associations.

INTEREST RATES OF MEMBER BANKS

Mr. JONAS. Would you put in the record the difference between the bank interest and the lending rates in your banks? Interest rates charged to the member banks of the System?

For example, the Greensboro bank's rate to its member banks on loans is a certain percentage, which is higher than in some banks.

Mr. SCHWARTZ. I do not think that is true at the moment. What you do is get some lags in changes, where one bank will go up because it has an earlier board of directors meeting than the others, but they usually follow along pretty much.

Mr. JONAS. They told me it was because of the difference that they had to pay for their own money.

Mr. SCHWARTZ. That occurs from time to time, but it is not usual.

Mr. HORNE. What we will do is supply you with a list over whatever period you want, over the last 2 or 3 years, of what each of the banks charge.

Mr. JONAS. I think I would like to have that, because I had some letters last autumn during the tight-money situation complaining that the Greensboro bank rate was higher than elsewhere in the United States.

Mr. HORNE. I do not think that was the case, sir. If it was, it was for a very temporary period.

Mr. JONAS. I checked it at the time and was told that the rate was based on the last sale of debentures.

Mr. HORNE. The average cost of the last four issues.

Mr. JONAS. Yes.

Mr. HORNE. Yes, sir. It may be. You may be entirely right. The person who wrote you may be entirely right that for a very limited period of time, that was the case. But they equalize themselves over a period of time. Today, all the banks are charging exactly the same.

Mr. JONAS. It is supposed to be the same? That is desirable I know.

Mr. HORNE. Generally, it is.

(The information follows:)

Interest rates on advances, Federal home loan banks, 1964–67

Boston		New York		Pittsburgh		Greensboro	
Date established	Rate (percent)	Date established	Rate (percent)	Date established	Rate (percent)	Date established	Rate (percent)
Sept. 13, 1963	4	Aug. 15, 1963	4	Oct. 1, 1963	3¾	Nov. 1, 1963	4
Apr. 8, 1964	4¼	Jan. 16, 1964	4⅛	Mar. 16, 1964	3⅞	June 22, 1964	4¼
Apr. 9, 1965	4⅜	Jan. 21, 1965	4¼	May 16, 1964	4	July 1, 1965	4½
July 23, 1965	4½	Apr. 13, 1965	4⅜	July 16, 1964	4⅛	Feb. 1, 1966	4¾
Dec. 9, 1965	4¾	July 15, 1965	4½	Feb. 15, 1965	4¼	Mar. 9, 1966	5
Mar. 14, 1966	5	Nov. 18, 1965	4⅝	May 17, 1965	4⅜	Mar. 30, 1966	5½
Apr. 14, 1966	5¼	Feb. 1, 1966	5	July 16, 1965	4½	Sept. 1, 1966	5¾
July 1, 1966	5½	Mar. 28, 1966	5¼	Oct. 25, 1965	4⅝	Nov. 1, 1966	6
Sept. 1, 1966	5¾	June 16, 1966	5½	Dec. 20, 1965	4¾	Jan. 15, 1967	5¾
Nov. 1, 1966	6	Sept. 1, 1966	5¾	Mar. 1, 1966	5		
Jan. 15, 1967	5¾	Nov. 1, 1966	6	Apr. 1, 1966	5⅛		
		Jan. 15, 1967	5¾	May 1, 1966	5½		
				Aug. 1, 1966	5¾		
				Nov. 1, 1966	6		
				Jan. 17, 1967	5¾		

Cincinnati		Indianapolis		Chicago		Des Moines	
Date established	Rate (percent)	Date established	Rate (percent)	Date established	Rate (percent)	Date established	Rate (percent)
Jan. 1, 1964	4⅛	Dec. 1, 1963	4	Nov. 19, 1963	4	Oct. 1, 1962	3¾
June 1, 1964	4¼	June 20, 1964	4⅛	May 26, 1964	4¼	Mar. 1, 1964	3⅞
July 1, 1965	4½	Oct. 1, 1964	4¼	Apr. 21, 1965	4⅜	July 1, 1964	4
Oct. 1, 1965	4⅝	July 1, 1965	4⅜	July 20, 1965	4½	Jan. 1, 1965	4⅛
Feb. 1, 1966	4¾	Oct. 1, 1965	4½	Nov. 23, 1965	4¾	Mar. 15, 1965	4¼
Mar. 1, 1966	5	Jan. 1, 1966	4⅝	Mar. 22, 1966	5¼	June 15, 1965	4⅜
Apr. 1, 1966	5¼	Feb. 15, 1966	4¾	May 1, 1966	5½	Oct. 1, 1965	4½
June 1, 1966	5½	Apr. 1, 1966	5⅛	Sept. 1, 1966	5¾	Dec. 15, 1965	4⅝
Aug. 1, 1966	5¾	July 1, 1966	5½	Nov. 1, 1966	6	Mar. 1, 1966	4¾
Oct. 1, 1966	6	Sept. 1, 1966	5¾	Jan. 15, 1967	5¾	Apr. 1, 1966	5⅛
Jan. 15, 1967	5¾	Nov. 1, 1966	6			May 9, 1966	5¼
		Jan. 17, 1967	5¾			July 1, 1966	5½
						Sept. 1, 1966	5¾
						Nov. 1, 1966	6
						Jan. 15, 1967	5¾

Little Rock		Topeka		San Francisco		Spokane	
Date established	Rate (percent)	Date established	Rate (percent)	Date established	Rate (percent)	Date established	Rate (percent)
Oct. 15, 1963	4	Sept. 16, 1963	3⅞	Dec. 11, 1963	4⅛	Apr. 6, 1964[1]	4⅛
July 1, 1964	4⅛	Jan. 15, 1964	4	July 15, 1964	4¼	May 15, 1964	4¼
Jan. 4, 1965	4¼	Apr. 15, 1964	4⅛	Mar. 12, 1965	4⅜	Apr. 15, 1965	4⅜
Apr. 1, 1965	4⅜	May 20, 1964	4¼	May 24, 1965	4½	June 1, 1965	4½
June 23, 1965	4½	Mar. 22, 1965	4⅜	Nov. 15, 1965	4⅝	Oct. 1, 1965	4⅝
Nov. 24, 1965	4⅝	June 15, 1965	4½	Feb. 15, 1966	4¾	Feb. 1, 1966	4⅞
Feb. 1, 1966	4¾	Nov. 15, 1965	4⅝	Mar. 15, 1966	5	Apr. 4, 1966	5½
Mar. 3, 1966	5	Jan. 17, 1966	4¾	Mar. 28, 1966	5¼	Sept. 1, 1966	5¾
Apr. 4, 1966	5¼	Feb. 1, 1966	5	May 17, 1966	5⅜	Nov. 1, 1966	6
July 1, 1966	5½	Mar. 21, 1966	5½	July 1, 1966	5½	Jan. 15, 1967	5¾
Sept. 1, 1966	5¾	July 18, 1966	5¾	Sept. 1, 1966	5¾		
Nov. 1, 1966	6	Nov. 1, 1966	6	Nov. 1, 1966	6		
Jan. 15, 1967	5¾	Jan. 15, 1967	5¾	Jan. 15, 1967	5¾		

[1] Bank established Apr. 6, 1964.

Mr. JONAS. What controls the rate that the bank charges its members?

Mr. DAY. We have a regulation that says that rates on advances shall be between 5¾ percent and 7 percent. The banks are free to establish a rate within that range. At the present time, each bank has a floor of 5¾ percent.

Now, back in 1966, the range was 6 to 7 percent, and all banks charged 6 percent. When the Board changed the regulation to permit them to charge a quarter of 1 percent less, all of the banks came down 5¾ percent and that is the rate across the board currently.

Mr. JONAS. That is a pretty high rate for a local savings and loan association to have to pay for money.

Mr. HORNE. I think before you came in, sir, I explained that when we make money available through our 12 banks to their members, it has to be based in part on what it costs us to raise this money in the open market. We paid, for example, over 6 percent last year, for some of our issues. We never did go above 6 percent so far as the rate at which we reloaned that money to individual members. Today, just for your information, our average cost of all issues outstanding is 5.74 percent.

Mr. JONAS. Are you breaking even there on it?

Mr. HORNE. We are charging our members 5.75, and we are absorbing a little of the administrative cost through the 12 banks—not through our budget here.

Mr. JONAS. You mean the banks themselves absorb that difference?

Mr. HORNE. Yes, sir. We hope that as money becomes less expensive, and presently as you know, the trend is down—that is, the money from the market—we hope to be able to reduce our interest charges again in loans we make to individual members.

Mr. JONAS. They cannot pay 5.75 and lend at 6 and make any money, can they?

Mr. HORNE. This is right, sir. This is where these points come in sometimes, in a State like North Carolina, for example.

Incidentally, this is where points come in even outside the usury law States, because to tell a person that you are going to charge him 7.5 percent, some of them would just rather say, we are going to charge you 6 percent or 6.5 percent and charge you some points, rather than say, we are going to charge you 7.50 percent.

LOANS TO MEMBER INSTITUTIONS

Mr. EVINS. Mr. Chairman, on page 22, you have loans to members, loans or advances to member institutions in fiscal year 1966 aggregated $4.5 billion; they repaid $3.3 billion.

This is not quite up to date. Bring it up to date if you will, for 1967 and 1968.

Mr. HORNE. Yes, sir.

Mr. EVINS. We have already pointed out that all the capital structure has been repaid.

CHARTERING FEDERAL SAVINGS AND LOAN ASSOCIATONS

The table on page 28 shows the membership, the aggregate assets, and the reserves and undivided profits of the Federal associations.

That is impressive. It shows that as the memberships increase, the assets increase and the reserve continues to increase.

Do you think that is on a sound base?

Mr. HORNE. Reasonably so; yes, sir.

Mr. EVINS. The Division processed 27 applications for new charters, 33 applications for conversion from State to Federal charter, and 101 applications for branches, or a total of 161 applications in fiscal 1966, and it expects to process approximately 207 applications in the current fiscal year and 237 applications in 1968.

You are still being very active in new companies being chartered. I think that you might want to hold the line a little bit. With the tight-money situation some are in an impaired capital situation and you have numerous problem cases. I do not think you have to just approve all these. You want to look at them very closely, Mr. Chairman. I know your Board will do what is right.

Mr. HORNE. We do, Mr. Chairman. You might be interested to know that we have not chartered nearly as many associations in most places as the States have chartered in the State-chartered associations.

Last year in California, we granted, I think, two Federal branches and the State granted 34 State branches. We do not have any control over the granting of branches of State-chartered institutions. The FDIC does have control over the State-chartered banks which they insure; we do not have.

Mr. EVINS. You told us about the special study underway. When will we get this initial report? Or when will it be finalized?

Mr. SCHWARTZ. The schedule for completion is the end of 1968.

Mr. EVINS. Acquisition and construction of a building in the District of Columbia—you have talked about that.

JUSTIFICATION MATERIAL

Place in the record pages 36 through 41. (Pages 36 through 41, inclusive, follow:)

ADMINISTRATIVE SERVICES

The following offices and positions are included in this activity for fiscal 1968: Office of Audits (3); Comptroller's Division (46); Office of the Secretary—Files and Dockets Section (15), and Administrative Services Division (37).

This activity is composed of fiscal and housekeeping services. The fiscal services are carried on by the Office of Audits and the Comptroller's Division; the housekeeping services are carried on by one section of the Office of the Secretary and by the Administrative Services Division.

Fiscal.—The fiscal portion of this activity includes auditing, accounting, budgetary and financial reporting, internal budget control, and fiscal organization and management. The estimate provides for 49 positions, the same as for the current fiscal year.

Housekeeping.—Some of the staff units of the Board, in addition to rendering services to the Board, also render services to the Office of Examinations and Supervision and to the Insurance Corporation. Included in such common services are: Office Services (mail and supply), Files and Docket, and Printing and Reproduction Services; printing and reproduction services are also furnished to the Department of Housing and Urban Development and its constituents on a reimbursable basis. The estimate provides for 52 positions, the same as provided for in the current fiscal year.

Personnel requirements.—Experience shows that the workload in both phases of this activity increases each year. The increase is usually in accounting activities and in docket files, and is associated with the continuing growth of and activity in the savings and loan business.

The estimate of 101 positions for this joint activity is the same as provided for in the current fiscal year.

On a man-year basis there are 97.6 man-years in 1968 and 90.8 in 1967, an increase in 1968 of 6.8 man-years. The increase represents delay in filling positions in the current fiscal year.

Special studies of the savings and loan industry

The Board is authorized by Public Law 89–426, 80 Stat. 141, 143, approved May 13, 1966, to conduct special studies of the savings and loan industry to be completed by December 31, 1968.

Pursuant to this authorization, the Board established an Advisory Panel and negotiated a contract in July 1966 with the University of Pennsylvania, Philadelphia, Pennsylvania, to conduct a study of the savings and loan industry. The purpose of the study is to evaluate the role of the industry as a financial intermediary and its position in the money and capital markets, particularly in the light of recent developments, and to determine methods for streamlining and improving the industry's operations, the functions of the Federal Home Loan Bank Board, and the operations of the Federal Home Loan Bank System in its role as a credit reservoir for the industry.

For this purpose, the Board expects to expend up to $100,000 in the current fiscal year and $175,000 in fiscal year 1968.

Acquisition and construction of a building in the District of Columbia

The Board is authorized by Public Law 89–754, 80 Stat. 1255, 1293, approved November 3, 1966, to acquire property and construct a building in the District of Columbia to provide quarters and facilities for the Board. Beginning with the first fiscal year after the date of the enactment of the law the Board is required to annually prepare and submit a budget program for the building as provided in title I of the Government Corporation Control Act.

The law requires the Board to utilize the services of the Administrator of General Services Administration to acquire the real property and to construct, develop, furnish and equip such building thereon and such facilities as in its judgment may be appropriate to provide.

Preliminary discussions are now under way with officials of the General Services Administration with a view of selecting an appropriate site for the building.

It is anticipated that the Board may expend up to $5,200,000 in the current fiscal year in connection with site selection, appraisal and related matters, and an advance to the General Services Administration for review of drawings in connection with awards for architectural and engineering contracts. During fiscal year 1968, it is anticipated that $1,500,000 will be needed for payments on architectural and engineering services and award of construction contract. Actual construction is not anticipated to begin before fiscal year 1969.

The law provides for the financing of these expenditures by allowing the Board to obtain advances from the Federal Home Loan Banks. It further provides that each such advance shall bear interest at the rate of 4½ per centum per annum from the date of the advance and that repayment of each such advance shall be made by the Board in such installments and over such period, not longer than twenty-five years, from the making of the advance, as the Board may determine.

ADMINISTRATIVE EXPENSES

The administrative expenses of the Board are paid from assessments against the Banks, the Office of Examinations and Supervision, and the Federal Savings and Loan Insurance Corporation.

Administrative expenses for fiscal 1968 are estimated at $4,540,000. They reflect an increase in personnel of 2 positions and 33.5 man-years over the current fiscal year, and an increase in funds of $385,000 over the estimated expenses for the current fiscal year.

Of the increase in funds, $349,000 is in Personnel Compensation, $26,000 in Personnel Benefits, $42,000 in Contractual Services and Supplies, and $3,000 in Acquisition of Capital Assets. These increases, however, are off-set by $35,000 additional reimbursements expected to be collected in fiscal year 1968.

A summary showing reimbursements to the Board for services rendered, for the 3 years included in the budget, will be found on page 118.

A comparative summary of administrative expenses for the Board and Staff Offices for the last prior, current, and budget years followed by an outline of personal services functions by offices and divisions, other object classifications by type of object, and including analyses and justification of the need for all increases will be found beginning on the following page.

Comparative summary of administrative expenses, fiscal years 1966, 1967, and 1968

	1966 actual			1967 estimate			1968 estimate		
	Gross positions	Net man-years	Amount	Gross positions	Net man-years	Amount	Gross positions	Net man-years	Amount
Personal services and benefits:									
Personnel compensation:									
Offices of the Chairman and Board members	15	13.7	$185,819	15	14.0	$190,943	15	15.0	$211,937
Office of the Executive Assistant to the Chairman	2	2.0	27,466	2	2.0	29,658	2	2.0	30,294
Office of International Home Finance	5	1.9	29,915	5	2.0	31,000	5	4.5	54,000
Office of Research and Home Finance	12	10.6	132,036	17	11.7	140,380	17	15.0	171,073
Office of Public Affairs	6	5.9	69,135	7	6.0	71,906	7	6.6	80,150
Office of Regulations	6	5.4	68,128	6	4.9	58,605	6	6.0	81,603
Office of the General Counsel	41	37.7	418,491	46	39.8	464,906	46	45.4	524,979
Office of Audits	12	11.9	140,575	13	11.8	147,201	13	12.6	158,880
Office of the Secretary	32	28.4	215,227	35	29.4	236,983	35	33.3	261,446
Office of Personnel Management	11	10.3	113,627	12	10.8	118,709	12	11.6	131,579
Office of FHLB Operations	13	11.8	135,281	14	13.2	152,417	15	14.4	177,406
Organization and Methods Division	3	2.2	28,725	3	3.0	35,975	3	3.0	36,868
Office of Applications	42	40.4	441,239	45	41.3	470,641	45	43.6	498,045
Administrative Services Division	35	31.7	257,873	37	33.8	260,075	37	35.6	270,197
Comptroller's Division	45	38.5	293,769	46	39.1	310,944	46	44.0	351,052
Operating Analysis Division (ADP)	51	43.1	324,626	51	47.0	373,657	52	50.7	403,491
Total, personnel compensation	331	295.5	2,881,932	354	309.8	3,094,000	356	343.3	3,443,000
Personnel benefits:									
Health benefits			14,917			21,000			24,000
Incentive awards						3,000			3,000
Life insurance			8,712			11,000			12,000
Retirement			177,042			193,000			215,000
Social security taxes (FICA)			2,729			3,000			3,000
Total, personnel benefits			203,400			231,000			257,000
Total, personal services and benefits			3,085,332			3,325,000			3,700,000

Comparative summary of administrative expenses, fiscal years 1966, 1967, and 1968—Continued

	1966 actual			1967 estimate			1968 estimate		
	Gross positions	Net man-years	Amount	Gross positions	Net man-years	Amount	Gross positions	Net man-years	Amount
Contractual services and supplies:									
Travel and transportation of persons			$100,873			$116,000			$125,000
Transportation of things			404			1,000			1,000
Rent, communications, and utilities			428,055			462,000			468,000
Printing and reproduction			10,236			15,000			38,000
Other services			108,082			102,000			112,000
Services of other agencies			83,839			76,000			65,000
Supplies and materials			89,279			87,000			92,000
Total contractual services and supplies			820,768			859,000			901,000
Acquisition of capital assets: Equipment			61,629			81,000			84,000
Total, gross expenses			3,967,729			4,265,000			4,685,000
Reimbursements from other accounts			−160,120			−110,000			−145,000
Total, net expenses			3,807,609			4,155,000			4,540,000
Estimated savings			152,391			255,000			
Actual, authorization and estimate			3,960,000			4,410,000			4,540,000

FEDERAL HOME LOAN BANK BOARD BUILDING

Mr. EVINS. I do not think you should proceed on that building without submitting your plans to the Congress.

Mr. HORNE. We have kept in touch with the congressional committees and others that we need on the congressional level on a step-by-step basis. We will continue to do that.

Mr. JONAS. I have noticed in the budget, it says on page 349, acquisition of land and plans for this building are provided for in the estimate. Do you have any estimate in here for the expenditure of any money for acquisition of land and plans for the building?

Mr. CALLAHAN. There is a total of $5,200,000. If you will look at the chart on page 2, the table, application of funds, you will see in the lower portion of the table that we are expecting to obtain a loan of $5.2 million in 1967 and an additional million and a half in 1968. These loans will provide the funds for acquisition of the site, preliminary design, architectural-engineering fees, and so forth.

Mr. JONAS. Have you negotiated that $5.2 million loan yet?

Mr. CALLAHAN. No; GSA has worked out an arrangement with us whereby they will not call upon us for money to cover the costs until at least 3 months prior to the actual need.

Mr. HORNE. The authority that was given by Congress requires that we work closely, hand in hand, with GSA. We do not move without GSA; as a matter of fact, the whole thing is being handled by GSA, but they are consulting with us.

Mr. JONAS. That was the question I intended to ask earlier, what these loans are for. I understand now they are for this building.

Mr. HORNE. Yes, and you understand also, too, I think, sir, that these are not publicly appropriated funds. They come from the 12 banks.

Mr. JONAS. I know.

OFFICE OF RESEARCH AND HOME FINANCE

Mr. EVINS. Place in the record pages 49 through 51.

(Pp. 49 through 51, inclusive, follow:)

Office of Research and Home Finance

	1966 actual	1967 estimate	1968 estimate
Positions	12	17	17
Man-years	10.6	11.7	15.0
Net salary	$132,036	$140,380	$171,073

FUNCTIONS AND RESPONSIBILITIES

This Office is responsible for economic analysis in areas that are vital to the development and execution of Board policy. These functions can be viewed as falling into three categories:

1. The development of an adequate research program to supply the Board with required economic intelligence; this includes providing guidance to the Operating Analysis Division as to data requirements.

2. The development of policy papers based on research to cover such matters as advances policy, reserve regulations, lending regulations, entry of new associations, merger policies; evaluation of economic aspects of legislation;

and other policy programs requiring an economic evaluation of the thrift industry, mortgage market, and housing.

3. Contacts with other agencies, including the Treasury, the Council of Economic Advisers, the Federal Reserve System, the Bureau of the Budget, and the Department of Housing and Urban Development; coordination of System-wide research projects; contacts with universities and other public and private organizations.

WORKLOAD AND PERSONNEL REQUIREMENTS

A detailed description of the three functions of the Office follows:

I. The development of research programs

A. General

1. *The economic situation in general.*—Since original research in this area is performed by a large number of organizations, monitoring of research elsewhere should suffice. Specific activities in this area include a monthly report to the Board, special reports, preparation and updating of charts used in oral presentations, contact with agencies that engage in original research in this area, and the perusal of a large number of statistical series and analytical reports on a continuing basis.

2. *Mortgage loan activity.*—This is an area requiring original research. It is critical to the development of Board policies and regulations. For example, policy on advances must take into account the volume of mortgage loan activity as affected by the state of the national and local housing markets. Specific activities include the perusal of a large number of reports on mortgage loan activity as affected by local and national housing market conditions, determination of the existence of surpluses or deficits of mortgage funds, analytical projections of the future demand for mortgage loans as determined, in part, by housing activity, and the analysis of foreclosures and their relationship to mortgage market conditions.

3. *Savings and loan structure.*—This involves the analysis of mergers, holding companies, branches, and entry. At least half a dozen mergers are analyzed by the Office each year. Guidelines have been developed for the economic analysis of mergers and chartering and must be periodically updated.

4. *Capital and credit markets.*—This area includes work of an original nature on the capital and credit markets, including current activity and operating conditions of savings and loan institutions and other financial intermediaries, and the soundness and stability of mortgage markets. Much of this is closely related to policy matters. Specific duties in these areas are numerous. They include a regular monthly report to the Board, special reports based on statistical surveys, frequent research reports on developments in savings markets and the soundness and stability of mortgage markets, continuous monitoring of a large number of statistical reports and analyses emanating from many sources, and analyses of the performance of savings and loan associations and the implications for policy.

II. The development of policy

This area must rely on the various research programs described above. As a review of the Board's policy actions will indicate, this Office has been involved in the discussion or development of many of the Board's policies in a number of areas.

The Office also develops, assembles, writes, and produces the Board's annual reports. Considerable time is also devoted to speech writing and special assistance rendered to Board members.

Functions have been increasing steadily in number and complexity as the Board has delved more vigorously into policy matters. The activity with reference to policy for advances continues to consume an increasing amount of time.

III. Contacts with other organizations

While this is time consuming the functions must be carried primarily by persons engaged in the work under I and II and merely represents an addition to duties of the same people. It is essential both for research and policy purposes. During the course of a year there are perhaps 20 to 25 interagency meetings that must be attended by the Director or senior staff, and there are many opportunities for participation in conferences organized by trade groups,

professional societies, and other organizations, participation in which is often advantageous to the Office and Board.

BUDGET SUMMARY

The estimate of 17 positions is the same as provided for the current fiscal year.

On a man-year basis there are 15.0 man-years in 1968 and 11.7 in 1967, an increase in 1968 of 3.3 man-years. The increase represents delay in filling positions in the current fiscal year.

Mr. EVINS. This is your office of research; its functions and responsibilities are all set out. And you going to use about 15 man-years.

OFFICE OF GENERAL COUNSEL

We will place pages 57 through 64 in the record.
(Pp. 57 through 64, inclusive, follow:)

Office of General Counsel

	1966 actual	1967 estimate	1968 estimate
Positions	41	46	46
Man-years	37.7	39.8	45.4
Net salary	$418,491	$464,906	$524,979

FUNCTIONS AND RESPONSIBILITIES

This Office renders legal services to and is responsible for the conduct and coordination of all legal matters, including litigation in the following areas:

Federal Home Loan Banks.—The Office is responsible for passing on all legal questions relating to operations of the Banks under the Federal Home Loan Bank Act and the regulations promulgated thereunder. It prepares suggested legislation, prepares or participates in the preparation of new regulations and amendments to existing regulations, reviews the opinions and rulings of counsel for the Banks which require action by the Board and generally advises the Board on all legal questions concerning the Bank system and Bank operations. In addition, the Office renders legal advice to the Board's Division of Federal Home Loan Bank Operations and to the Fiscal Agent of the Banks in connection with the issuance of consolidated obligations.

Federal savings and loan associations.—The Office provides legal services to the Board in connection with mergers or other corporate reorganizations of such associations and renders legal opinions on petitions for purchase or sale of assets, mergers, dissolutions, reorganizations, or conversion to State-chartered associations. Legal services in connection with mergers have, as a result of recent Supreme Court decisions, been expanded to include legal antitrust evaluations. The General Counsel advises the Board on all legal matters relating to the appointment of supervisory representatives in charge, conservators or receivers for such associations. Staff attorneys of the Office act as counsel for the Board in administrative hearings in connection with the appointment of conservators or receivers and in court review of decisions of the Board in such matters.

In addition, the Office renders opinions to the Board, its staff sections and the savings and loan industry, on a wide range of questions concerning the operations of Federal associations, including the creation and operation of agencies and branch offices, powers of directors, distribution of earnings, donations and contributions, loans and investments, powers, liquidity requirements, proxies and voting, issuance of securities and taxation.

Staff attorneys act as hearing officers in agency hearings with respect to applications filed for Federal charter and applications for branch offices of existing Federal associations. In such hearings staff attorneys also act as counsel for the agency, when required.

Federal Savings and Loan Insurance Corporation.—The Office acts as legal adviser to the Federal Savings and Loan Insurance Corporation and furnishes hearing officers, and counsel when necessary, for the Corporation in hearings held upon applications for insurance of accounts.

The Office renders legal opinions on matters arising out of the examination and supervision of insured institutions, including questions of lending limitations, sales plans and practices, advertising, reserve requirements, and lending territory. In addition, it furnishes legal services in connection with the liquidation of insured institutions both at the preparatory stage and during actual liquidation.

The Office prepares suggested legislation; prepares or participates in the preparation of new regulations or amendments to existing regulations; defends and prosecutes litigation; supervises the activities of fee attorneys and generally advises the Board on all legal questions concerning the operation of the Corporation.

Every year there are changes in the laws of a number of States which affect the operations of savings and loan associations, both State and Federally-chartered. These changes substantially affect the workload of the Office of the General Counsel.

Legislation.—This Section is responsible for the drafting of all legislation submitted by the Federal Home Loan Bank Board to the Bureau of the Budget and to Congress and performs all legal work in connection with the legislative activities of the Board.

The Section develops justifications for legislation proposed by the Board; reports to the Bureau of the Budget and to Congress on all proposed or pending legislation as well as testimony on such legislation for presentation before Congressional committees; and analyzes pending or proposed legislation which would affect Board operations or is otherwise of concern to the Board.

The workload of the Legislation Section at the present time is centered around five legislative proposals designed to (1) strengthen the statutory provisions on savings and loan holding companies by the amendment of section 408 of the National Housing Act, as amended (S. 2329 of the 89th Congress); (2) provide a more adequate supervisory climate as to savings and loan associations which are Federal Home Loan Bank members or are insured by the Federal Savings and Loan Insurance Corporation (S. 2561 and S. 3627 of the 89th Congress); (3) provide for the chartering and regulation by the Board of Federal savings banks (H.R. 11433, H.R. 11508, H.R. 12336, and S. 2598 of the 89th Congress); (4) provide for a system of certification of real property appraisers by suggested State legislation (submitted to the Council of State Governments for consideration by the State legislatures in their 1967 session); and (5) provide for the establishment and operation, under the supervision of the Board, of an International Home Loan Bank to encourage the formation and development in foreign countries of private enterprise savings and home financing institutions. The workload of the Section during fiscal year 1967 is at a high level because of these five proposals, and it is estimated that much of this workload will carry over into fiscal year 1968.

The assignment in the current fiscal year of an additional attorney to aid in performing the Section's assigned duties should enable it to meet its responsibilities in fiscal year 1968 without additional staffing.

Opinions and regulations.—This Section prepares or participates in the preparation of drafts of proposed regulations and proposed amendments to existing regulations as requested by the Board and other members and officials of the Board, reviews all such proposals for legal sufficiency and performs all legal services in connection with the preparation and promulgation of regulations or amendments thereof.

These regulations consist primarily of implementations of, or exercise of regulatory authority under, the three basic statutory provisions relating to the Board's operations, namely, the Federal Home Loan Bank Act, the Home Owners' Loan Act of 1933, and Title IV of the National Housing Act.

Fields covered by these regulations and amendments include the election and appointment of Bank directors and the organization and operations of the Banks including the handling of securities, investments, advances, and required liquidity; the chartering, operation, and regulation of Federal savings and loan associations; the conservatorship, receivership, and liquidation of such associations; the admission of applicants to Bank membership and to insurance by the Federal Savings and Loan Insurance Corporation, and the termination of such

membership or such insurance; the advertising, sales plans and practices, lending activities and reserves of insured institutions, and the practice and procedure in proceedings before the Board, including hearings.

Commencing soon after the beginning of fiscal year 1964, the Board entered a period that can only be described as the most dynamic regulatory period in its history. During fiscal year 1964 regulatory activity increased 50 percent over fiscal year 1963 and such activity increased an additional 40 percent in fiscal year 1965. The increase in fiscal year 1966 over 1965 was in excess of 100 percent.

Responsibility for the legal sufficiency of all regulations is unaffected by the creation of the Office of Regulations and remains the responsibility of the General Counsel. Since the primary mission of the Office of Regulations and one aspect of the operations of the Office of General Counsel are so closely related, there continues to be great reliance upon this Office in connection with the actual drafting of regulations. New regulations and amendments to existing regulations have not only greatly increased in number, but have, of necessity, been broadened in scope and effect and become more complex. Changes in basic legislation have required many of the regulatory changes; however, most have been required as a result of adjustments in the national economy, the growth of the savings and loan industry and the increased complexity of savings and loan operations. In addition, the Board has found it necessary to regulate areas of operations which heretofore have not required regulatory restriction. These factors have required substantial adjustments in the Office of the General Counsel in order to meet the increased workload in the field of regulation.

During fiscal year 1966 the Section prepared 130 items relating to regulations. Sixty-eight new regulations and amendments to existing regulations were adopted by the Board. During the present year, additional regulatory amendments will be required to implement anticipated new legislation and to continue to meet the required changes in operational programs.

At the present time, in addition to the 68 percent recent amendments to the regulations noted above, there are pending before the Board additional proposals upon which final action has not been taken and additional regulatory proposals are being prepared in response to the Board's requests.

Changes in basic legislation governing the investment powers of Federal savings and loan associations and changes in the necessary implementing regulations have, in recent years, resulted in a substantial increase in the variety and complexity of the problems presented to the Section for opinion. Federal associations, originally created primarily to provide mortgage financing for homes, have been authorized to broaden their operations to permit investment in service corporations and in real estate located within urban renewal areas and to broaden their lending operations to include such specialized fields as loans for a college or university education, loans to finance the acquisition and development of land, loans to provide housing facilities for the aging, and loans to business development credit corporations. Such additional investment authority, coupled with extensions of lending authority geographically, both as to whole and participation loans, have increased the complexity of the operations of Federal associations and resulted in the submission of more complex operational plans and programs to this Office for legal review and analysis.

Like Federal savings and loans associations, State-chartered savings and loan associations insured by the Corporation have had their investment and lending authority broadened and the geographic limitations governing their operations extended. Utilization by the institutions of such new tools has brought them into more highly competitive areas, inevitably producing a greater number and greater complexity of supervisory and legal problems directly affecting the risk of the Corporation.

Because of the foregoing, it is anticipated that the workload of the Opinions and Regulations Section will continue to increase during the present fiscal year and in fiscal year 1968 both in the preparation of regulations and in the volume of requested legal opinions.

Litigation.—This Section is responsible for litigation involving the Board and the Federal Savings and Loan Insurance Corporation.

During fiscal year 1966, the Section opened 7 cases under Section 407 of the National Housing Act, as amended, and one case under Section 5(d) of the Home Owners' Loan Act, as amended; it closed 12 Section 407 cases and 2 Section 5(d) cases. Pending as of July 1, 1966, were 10 Section 407 cases, an increase of 4 cases over July 1, 1965.

During the current fiscal year it is estimated that 9 Section 407 cases and one Section 5(d) case will be opened. This estimate is based upon the fact that as of July 1, 1966, there were pending in the Office of Examinations and Supervision 17 serious problem cases on which neither 407 nor 5(d) proceedings were in progress. If drastic action were required during the year, 15 of the foregoing would be Section 407 cases and 2 would be prosecuted under Section 5(d).

It is estimated that the average 5(d) or 407 case, if carried through all the administrative and judicial steps possible, involves approximately 300 man-days of work. The time would be consumed in preliminary consultations with the supervisory authorities, research of the facts, preparation of the 407 letter or 5(d) resolution, preparation of the case for hearing, conduct of the hearing, handling of the appeal, if any, at the United States District Court, handling of the appeal at the court of appeals and any conferences or negotiation for settlements taking place during the period.

There were pending, as of July 1, 1966, 42 litigation cases, including matters relating to the liquidation of assets acquired by the Insurance Corporation under Section 406(f). In addition, there are approximately 500–600 cases in which the Insurance Corporation has elected to accept deeds in lieu of foreclosure rather than proceed through judicial foreclosure.

An increase in the Litigation Section's workload in fiscal year 1968 is expected because of the large number of problem cases and the huge volume of assets owned by the Insurance Corporation which must be liquidated. In fiscal 1968 the volume of assets managed by the Corporation could aggregate anywhere from $150 to $300 million.

General.—In addition to its responsibility for conducting the hearings on the chartering of new Federal associations, the establishment of branch offices of existing Federal associations and insurance of accounts of State-chartered institutions, the General Section is responsible for advising the Office of Applications in connection with applications for permission to organize and applications for branch offices. Assignments to this Section are also drawn from the Office of the Secretary and, to some extent, the Office of Examinations and Supervision. Near the end of fiscal year 1966, the Hearing Unit of the General Section was able to overcome personnel and administrative problems which had caused serious delays earlier in the fiscal year and it is anticipated that the present Hearing Unit staff, consisting of 3 attorneys and 2 clerk-stenographers, will be adequate to meet its responsibilities during the forthcoming fiscal year.

Because of the precise eligibility and other requirements in the regulations governing the chartering of new Federals and the establishment of branch offices, the Office of Applications is requesting a legal opinion on each application for permission to organize or establish a branch office. It is estimated that, on the average, each such application requires an hour of an attorney's time and one half hour of secretarial work. At the present time approximately 300 applications of this type are being received annually by the Office of Applications.

Approximately 9 legal antitrust evaluations in connection with merger applications, each requiring approximately 10 man-days, are prepared annually in the General Section. Each evaluation requires a thorough examination of detailed information, primarily statistical, which the applicants are required to submit. Examination of such data, which requires approximately 3 man-days, is designed to disclose the salient points and any deficiencies in the submission so that additional information can be sought before the analysis itself is commenced. The initial phase of the analysis is a determination and a recording of relevant geographical data to provide a basis for the evaluation. This step, requiring approximately 2 man-days, is followed by an evaluation of a proposed merger in the light of the antitrust statutes and court decisions, particularly the six leading cases in the Supreme Court. The evaluation itself, involving an analysis of competitive overlap, degree of market concentration produced and amount of competition eliminated, requires approximately 4 man-days, which time includes the actual writing of the evaluation. An additional man-day is required for review by the Section Chief and General Counsel and for related consultation.

Despite the existing high level of the workload of the General Section, and allowances for reasonable growth during the fiscal year, it is anticipated that the Section can meet its responsibilities in fiscal year 1968 without the assignment of additional personnel.

BUDGET SUMMARY

The estimate, which provides for 27 lawyers and 19 clerical positions, is the same as provided for the current fiscal year.

On a man-year basis there are 45.4 man-years in 1968 and 39.8 in 1967, an increase in 1968 of 5.6 man-years. The increase represents delay in filling positions in the current fiscal year.

Mr. EVINS. This is concerned with the Office of General Counsel and other operations.

OFFICE OF FEDERAL HOME LOAN BANK OPERATIONS

Turn to page 73. This is the Office of Federal Home Loan Bank operations. Your functions are set out there, through to page 77, and you expect to use 15 positions; one new position.

(Pages 73 through 77, inclusive, follow:)

OFFICE OF FEDERAL HOME LOAN BANK OPERATIONS

	1966 actual	1967 estimate	1968 estimate
Positions	13	14	15
Man-years	11.8	13.2	14.4
Net salary	$135,281	$152,417	$177,406

FUNCTIONS AND RESPONSIBILITIES

The Office of Federal Home Loan Bank Operations coordinates and supervises the operations of the twelve Federal Home Loan Banks and the activities of the Office of the Fiscal Agent in New York. Due largely to the tremendous growth of the savings and loan industry, the complexity of operations of the Banks have increased substantially as have their assets which at the present total of over $8.9 billion are more than double the total of five years ago. Because of this expansion and the addition of new services offered to the member institutions, the Banks have instituted many procedural changes over the past few years.

A major responsibility is the supervision of the extension of credit by the Federal Home Loan Banks. The member savings and loan associations have exerted heavy pressures in their demands for credit, and which have increased greatly as a result of a tight money situation. It has been necessary to establish standards of credit worthiness and to develop qualitative limitations to assure that loans for expansion purposes will be properly reinvested in satisfactory housing market areas and in properties providing adequate security. By restraining excessive use of Federal Home Loan Bank credit during periods when the economy experiences pressures on available resources, the Board discharges its responsibility for maintaining sound and economical home financing by members of the System. The time involved in policy formulation, operational review, and advisory endeavor has added immeasurably to the workload of the Office.

The ever-increasing volume of activity and the need by management to obtain more timely financial information upon which to base important management decisions have induced several Banks to install data processing equipment. Other Banks have not instituted such changes, and this Office, in fulfilling its advisory and supervisory function, should initiate procedural studies which would also involve improved equipment utilization. A comprehensive management survey would provide the means of determining exactly what differences exist among the Banks and provide a basis for prescribing changes in accounting systems and procedures where needed.

The major duties and responsibilities of the Office include:

Supervisory

1. Submission of recommendations to the Federal Home Loan Bank Board on general policies relating to the operation of the Federal Home Loan Banks.
2. Supervision of compliance by the Banks with the provisions of the Federal Home Loan Bank Act, the regulations for the Federal Home Loan Bank System, and the policies of the Federal Home Loan Bank Board.
3. Analysis of all phases of the Banks' operations and actions of the board of directors and executive committees, before making recommendations to the Federal Home Loan Bank Board with respect to actions requiring approval such as election of officers and appointment of counsel, officers' salaries, interest rates, budgets, dividends, leases, and bylaw amendments.

Financing and Investments

1. The Office either approves or disapproves requests of the Federal Home Loan Banks for the purchase, sale, or exchange of securities in the open market. It also instructs the Fiscal Agent for the Federal Home Loan Banks as to purchases, sales, and exchanges of securities to be made in behalf of the Federal Home Loan Banks. During the fiscal year 1966 such purchases and sales aggregated $16.0 billion through approximately 2,650 transactions.
2. Recommends to the Board, at such times as the Director deems appropriate, new issues of consolidated Federal Home Loan Bank obligations, the refunding in whole or in part of outstanding consolidated obligations, as well as the retirement in full of maturing obligations. The Office is also responsible for all financial arrangements which are necessary for the sale, issuance, and retirement of, or payment of interest on, consolidated Federal Home Loan Bank obligations. During the twelve-month period ending June 30, 1966, there were fifteen issues of such consolidated obligations totaling $6,533 million, and maturities aggregated $4,981 million.
3. Maintains close liaison with top officials of the Treasury Department and obtains clearance from the Secretary of the Treasury with respect to the offering date, term, amount, and rate of consolidated obligations as required by Section 303(a) of the Government Corporation Control Act.
4. Makes all necessary arrangements for acceptance and release by Federal Reserve Banks of government securities held in custody for the Federal Home Loan Banks.
5. Has full responsibility for the transfer of funds from one area of the country to another through interbank borrowing and in connection therewith designates the Bank or Banks which are to lend to other Federal Home Loan Banks.

Accounting, Procedures, and Reports

1. The Office develops and prescribes the accounting system for the Federal Home Loan Banks and the form and type of weekly, monthly and other periodic reports.
2. Maintains controls and tests the reporting accuracy of the Banks on a continuing basis.
3. Prepares consolidated financial reports on the Federal Home Loan Banks periodically.
4. Maintains complete records by Banks and by issues of all securities owned, purchased and sold, or exchanged in order to exercise proper supervision over investment transactions of the Banks and in order to make complete reports to the Treasury Department under the provisions of the Corporation Control Act.

Advisory

1. As requested, or as initiated, advises the Federal Home Loan Bank Board with respect to the effect of, or need for, policies, regulations or legislation with respect to all phases of the operations of the Banks.
2. Provides daily advice, guidance, and counseling to the Federal Home Loan Bank Presidents and other Bank officers on the many phases of the operations of the Banks, interprets policy directives of the Board in the several functional areas of the Banks, and engages in discussions of contemplated actions by the officers or boards of directors.
3. Develops and maintains an operating manual reflecting all legislative actions, policies and regulations, and legal opinions affecting the operations of the Banks.

WORKLOAD AND PERSONNEL REQUIREMENTS

In addition to the Immediate Office of the Director consisting of five positions, the Office presently includes nine other positions.

Five existing positions relate specifically to bank operations and have the responsibility for making analyses and recommendations on many phases of the operation of the twelve Federal Home Loan Banks. Such matters include the approval or disapproval of budgets, dividends, leases, surety bonds, and various types of insurance, the analysis of reports from the Banks and the preparation of consolidated financial statements.

Presently, the Bank Operations Analyst, GS–14, and a clerk make the highly technical arrangements necessary in the issuance of consolidated Federal Home Loan Bank obligations, review the minutes of the stockholders, the Banks' board of directors, and executive committee meetings for conformity with applicable statutes and regulations, and the making of supervisory recommendations following a review of the examination report on each of the Banks. In addition, Banks' bylaw amendments, interest rate changes, appointment of public interest directors, the election of Bank officers and salaries are analyzed and submitted to the Board with pertinent recommendations as to approval, disapproval, or modified approval. Policy and procedural matters are studied and recommendations are made for changes looking toward improved Board and Bank operations.

The remaining two positions are immediately concerned with the purchase and sale of securities by the Banks and the incumbents make analyses and recommendations on investment transactions for the twelve portfolios which, when considered together, constitute one of the largest concentrations of United States Government securities in existence.

One major area of responsibility to which specific reference was made is the supervision of the administration of Federal Home Loan Bank credit. With the increased emphasis given to all phases of credit policy, a Financial Analyst, GS–14, is required to serve as a liaison between this Office and the Federal Home Loan Banks. It is necessary to insure that all Board policies relating to credit are strictly adhered to by the Banks, that evaluation procedures are carried forth in a prescribed manner, and that new credit policies are formulated when needed by changing economic conditions. Since April 1, 1965, when the Board adopted certain restraining policies in regard to credit, this Office has processed many evaluation reports. Each evaluation involved an analysis of the association's financial position, its flow of funds, scheduled items ratios, and foreclosure rates. Another important factor in the evaluation process is an analysis of the mortgage market in which the associations operate.

BUDGET SUMMARY

The estimate of 15 positions for fiscal year 1968 reflects an increase of 1 position over the current fiscal year. The new position is a GS–14 Financial Analyst.

On a man-year basis there are 14.4 man-years in 1968 and 13.2 in 1967, an increase in 1968 of 1.2 man-years. Of the increase, 0.6 man-year represents delay in filling positions in the current fiscal year; the remaining 0.6 man-year represents the new position requested.

OPERATING ANALYSIS DIVISION

Mr. EVINS. Data processing is shown on page 102; 52 positions. Place in the record pages 102 through 107.

(Pages 102 through 107, inclusive, follow:)

OPERATING ANALYSIS DIVISION (DATA PROCESSING)

	1966 actual	1967 estimate	1968 estimate
Positions	51	51	52
Man-years	43.1	47	50.7
Net salary	$324,626	$373,657	$403,491

FUNCTIONS AND RESPONSIBILITIES

The Division provides a wide variety of data analysis services to the Board and its staff, the savings and loan industry, the financial community, and Federal

agencies whose programs are related to the home loan financial market. These services run the gamut from the collection of simple reports to the development of sophisticated statistical analyses.

In addition to compiling financial information on member institutions, the Division conducts a continuing study of mortgage financing, home mortgage holdings and foreclosures activities throughout the United States. It also collects data for and processes a basic study of interest rates and terms on conventional loans for all major home-mortgage lending institutions.

Beginning in fiscal year 1964, the Division's responsibilities were expanded to provide ADP services to other offices of the Board; in fiscal 1967 these services are being further expanded and in fiscal 1968 an even greater number of offices will be provided with ADP services.

In order to increase its value, effectiveness, and efficiency, the Division is adopting procedures which will ultimately permit the relation of any element of information in the files, whether current or historical, to any other element or set of elements for the purpose of rapidly providing needed information summaries at the lowest possible cost. To do this the Division must make more effective use of electronic data processing equipment, appropriate techniques of systems design and systems management, and appropriate techniques of statistical summarization and estimation.

WORKLOAD AND PERSONNEL REQUIREMENTS

Some progress has been made during the past year in developing more comprehensive data on various elements of the industry which the Board supervises and regulates. In addition to providing regular listings of associations receiving large advances, and providing district bank presidents with detailed information on foreclosure rates as an aid in administering Board policy on advances, the Division has collected and processed detailed information on dividend rate practices, and changes in advances and liquidity. However, not all of the goals set for the Division have been met.

The 1967 budget justification, along with previous justifications, were geared to establishing a position ceiling which would provide a minimum for carrying on the regular program of the division. This program has been focused in the past on the processing and cursory analysis of a variety of statistical reports relating to the markets of the savings and loan industry. Very little by way of statistical analysis was performed. For the most part, vital information was processed to meet the current need of a report. Outside computers were used as processors in an old-fashioned way, as tabulators, and systems and programs were developed in a mad scramble for deadlines too often missed.

This situation has been changing dramatically this year. By June 1966, the Board had installed its own computer, the staff had been organized and centrally located, plans had been laid to systematize the regular surveys and statistical data to serve the Board's mission more purposefully. All of these steps have been taken without an increase in staff ceiling and the existing levels are adequate to carry out these objectives, from the point of view of mere processing and cursory analysis during fiscal 1967 and ensuing years.

These projects, however, come a long way from exhausting the potential of the Board's computer. While its initial use was to be directed toward these fundamental areas, it was planned at acquisition that the computer's power would be expanded to support many other programs throughout the Board. The new positions requested are required (1) to plan and execute this expansion and (2) to enhance the computer's potential as an analytical tool.

Before detailing more specifically the nature of this planned expansion and sophistication, an important strategy and its consequent economies should be pointed out. One way to attack the list of projects given below is to hire a large staff of junior systems analysts and programmers and turn them loose. They would solve the problems, but in the same old way, designing rigid systems requiring many programs which would be constantly modified, thus creating a familiar circle of pressure, delays and "dirty" solutions and the ultimate frustration and confusion experienced by many agencies.

The strategy recommended is to acquire a staff of experienced technical personnel who will provide thoughtful, flexible solutions and hence reverse the trend. This will require more than the usual skills of work-a-day systems analysts and programmers. Sophisticated use of the Board's computer calls for broader knowledges of mathematical and statistical techniques, operations research and professional familiarity with the function of financial intermediaries and their

relationship with the community. If the Division is to offer the full force of the computer to help the Board make intelligent, informed, internal and external management decisions, the time to start is during fiscal 1968 when plans for the expansion of the existing computer's potential will be formulated. To assist in this planned expansion, a GS–14 Statistician is requested for fiscal 1968.

NEW APPLICATIONS

A. Program Activities

1. *Office of Applications.*—The Division plans to devise data systems which will assist the Office in quantifying its recommendations concerning applications for new members and branches. This will involve designing data systems to develop guidelines and numerical weights about the financial market of the community and institutions concerned. The Office already possesses manually a quantitative questionnaire which can be handled by the computer for a start, but it often needs to go deeper, particularly since associations have hired market research firms with sophisticated computer data capabilities to justify their claims. the computer can provide ways and means for the Board to make objective judgments in these cases.

2. *Examination and Supervision.*—The bulk of the Board's staff is working on the problem of examination and supervision. Decisions made at the examining level can vitally affect the future course of an association. Quantitative guidelines need to be developed through data systems which will help examiners make sound analyses concerning the condition of an association. The Division will plan a flexible system designed to assist examiners, by providing them with numerical analyses and sampling criteria to use in their work. Former guidelines will be tested against experience. Comparisons with the history of associations with the same experience will be made.

Additionally, the sheer administrative and management reporting burden of a far-flung field staff can be eased by the computer. The evaluating and scheduling of workloads are other areas which can be systematized.

3. *FSLIC.*—The Division has been asked to explore the insurance claim pay-off system when associations fail. This will entail the design of a flexible, responsive system capable of accepting a variety of formats of accounts information and assembling claims and pay-offs rapidly and accurately.

In addition, the premium billing system needs re-designing in the light of a computer facility to improve efficiency and quality as well as deliver comprehensive reports as by-products. The staff will also assist the Corporation in its task of managing hundreds of real estate properties acquired by default.

4. *Bank Operations.*—The operations of the Bank System need to be quantified systematically and automated to provide rapid and accurate information and analyses for advance policy, profile margins, rates and obligations. As several Banks are contemplating automation, coordination to insure maximum equipment integration will be required. Division staff must be available for consultation, planning, and where desirable, execution.

B. Staff Support

1. *Personnel Information.*—The Division plans to work with the Office of Personnel Management in developing a badly needed personnel information system, not only to prepare many internal and external reports, but to assist in plans for staffing, training, promotions and re-assignment. Often personnel with special qualifications are needed for temporary duties, thus entailing a long exhaustive search through personnel records. The computer can be used to improve efficiency, cut costs, and free staff for vital personnel services.

2. *Payroll.*—Although the basic voucher preparation for payroll is partially automated on small scale equipment, the whole system needs to be revamped so as to use the speed and capacity of the computer to develop periodic and special reports now not possible or done by hand. Integration with its fiscal accounting process and with the personnel system will offer full management information, cut costs, increase efficiency. A sophisticated analysis based on experience gained by other agencies will be required.

3. *Program Planning and Budgeting.*—The Computer will be used to assist in developing and presenting information about the future plans and budgeting of the agency wherever possible. If feasible, a simulation technique will be developed to help in assessing various assumptions about the Board's program and their impact on budget, staffing, etc. In this connection, the Division is working with the Office of Research and the PPBS Committee, beginning to assemble possible components of a model of the Savings and Loan Industry as an aid to

policy making, as part of our support to the special contractual study of the industry and in cooperation with agencies assembling broader models.

4. *Office of the Secretary.*—During the course of its history, the Board has made thousands of decisions and resolutions concerning people, institutions and policies. The Secretary has the enormous task of recording these actions and having them available as necessary background for new actions. Actions have accumulated so that the present hand and memory retrieval system imposes an impossible burden on an overworked staff. The Division has promised to work with the Office in the development of an Information Retrieval System which will be responsive to the needs of the Board.

Similarly, the Division needs to explore regulations and legal decisions with the appropriate staffs to ease the burden of researching background material with the computer.

5. *Division of Operating Analysis.*—The Division needs to reexamine its own surveys. Up to the present, vital data has been accumulating in an unorganized way with little or no effort given to data integration, quality control, timely and pertinent reports. Sophisticated sampling and estimating techniques need to be developed. Statistical analyses, almost non-existent, should be installed. These tasks are essential to a useful and informed statistical program. They cannot be performed with existing staff skills.

All of these projects will not be executed in fiscal 1968. Some of them may not be feasible. Some may be feasible but of lower priority. But, to the extent possible, they will be studied and, where feasible, planned carefully with an eye toward maximum efficient use of the computer, by experienced technical personnel.

BUDGET SUMMMARY

The estimate of 52 positions for fiscal 1968 reflects an increase of 1 position over the current fiscal year. The new position is a GS–14 Statistician.

On a man-year basis there are 50.7 man-years in 1968 and 47.0 in 1967, an increase in 1968 of 3.7 man-years. Of the increase, 3.1 man-years represent delay in filling positions in the current fiscal year; the remaining 0.6 man-year represents the new position requested.

TRAVEL, RENT, SUPPLIES, PRINTING, AND SO FORTH

Mr. EVINS. Contractual services of $42,000 are made up of traveling and transportation—that goes up to $125,000. In addition, rent, communication, and utilities, go up from $428,000 to $468,000 in 2 years.

That is too high, Mr. Chairman.

This is page 113. We have a new item there, $23,000 for printing. You did not have it the last 2 years.

Mr. CALLAHAN. Yes, we did.

Mr. TREVAS. We had it in this budget, but we did not have it printed.

Mr. CALLAHAN. The $23,000 was a request included in our 1967 estimate.

Mr. EVINS. It shows zero on this table.

Mr. CALLAHAN. In the revised estimate, nothing is shown because of action taken by the Bureau of the Budget.

Mr. TREVAS. They took it out for that year.

Mr. EVINS. What is the nature of this review? Whom does it go to?

Mr. TREVAS. We have something now that is published that is called a digest. This would be a better form of report. The extra cost over the year to us to put this out would be $23,000. It would be more legible, and more inclusive.

Mr. EVINS. This goes to all your member institutions?

Mr. HORNE. Yes, sir.

Mr. EVINS. All the banks?

Mr. HORNE. Yes, sir.

Mr. EVINS. Why have you not had this before?

Mr. TREVAS. We have something now that is not the kind of thing we would like to have, but it has been a question of money. This $23,000 would permit us to have the kind of publication we would like.

Mr. HORNE. As I remember correctly, Congress approved it before, but we were not allowed to use it because of the cuts by the Bureau.

Mr. EVINS. What is the cost of the digest? Where is it shown before?

Mr. CALLAHAN. The cost of the digest, Mr. Chairman, is buried in the costs of our duplicating section; included are such costs as salaries, supplies, and various other expenses. The cost is not shown separately, since we do not pay for this as a special expense.

Mr. EVINS. How much does the digest cost when you are publishing it?

Mr. CALLAHAN. I would not know.

Mr. EVINS. You just come out of the air with $23,000 for a new pamphlet?

Mr. CALLAHAN. This is the estimated cost of printing the new 32-page pamphlet.

Mr. EVINS. You know what this is going to cost. What did the old one cost?

Mr. CALLAHAN. We could get it for the record, sir.

Mr. EVINS. Then you had better supply it for the record.

Mr. TREVAS. OK, we'll supply it.

(Information requested is as follows:)

Cost of printing the present digest through facilities of the Board's printing plant amounts to approximately $3,000 per year. The Estimate of $23,000, originally approved in our 1967 Budget, is to cover printing costs by the Government Printing Office of the new and expanded 32-page Review.

Mr. EVINS. Place pages 110 through 113 in the record.

(Pp. 110 through 113, inclusive, follow:)

TRAVEL AND TRANSPORTATION OF PERSONS

Unit	1966 actual	1967 estimate	1968 estimate
Chairman	$6,639	$7,500	$7,500
Board members	14,365	11,000	11,000
Executive assistant to the Chairman	200	1,000	1,000
Office of International Home Finance	789	1,500	3,500
Office of Research and Home Finance	3,316	4,500	4,500
Office of Public Affairs	1,002	1,000	1,000
Office of the General Counsel	7,675	10,000	10,000
Office of Audits [1]	37,959	44,000	45,000
Office of the Secretary	537	1,500	1,500
Office of Personnel Management	3,279	2,000	4,000
Office of FHLB Operations	3,902	4,000	8,000
Organization and Methods Division	102	1,000	1,000
Office of Applications	300	1,000	1,000
Administrative Services Division:			
Immediate office	281	1,000	1,000
Auto rental	3,229	3,500	3,500
Security [1]	2,517	5,000	5,000
Comptroller's Division	570	500	500
Operating Analysis Division	681	0	0
Advisory Council [1]	13,530	16,000	16,000
Total	100,873	116,000	125,000

[1] Mandatory.

The estimate reflects an increase of $9,000 when compared to the current fiscal year. Mandatory travel amounts to $66,000, an increase of $1,000 over the current fiscal year, leaving a balance of $59,000 for all other travel.

Section 20 of the Federal Home Loan Bank Act, as amended, requires the Board to make examinations of the 12 Federal Home Loan Banks at least annually. For this purpose $45,000 is provided.

Section 8A of the same Act, as amended, created a Federal Savings and Loan Advisory Council consisting of one member for each Bank district, and 6 members appointed by the Board. Members are entitled to reimbursement from the Board for traveling expenses incurred in attending meetings of the Council in the District of Columbia. The Council must meet at least twice a year and more often if requested by the Board; the Council now meets 4 times a year. Members are paid not to exceed $25 per diem in lieu of subsistence. The estimate includes $16,000 for this type of travel .

The sum of $5,000 is provided for travel costs associated with the Board's Security program.

Transportation of things

1966 actual	$404
1967 estimate	1,000
1968 estimate	1,000

This item provides for the cost of shipment of supplies and equipment to and from the Board.

It also includes $100 for transportation associated with the Board's Security program.

Rent, communications, and utilities

Description	1966 actual	1967 estimate	1968 estimate
Rent and utilities:			
Office and storage space	$248,927	$278,000	$278,000
Equipment	45,447	45,000	45,000
Total, rent and utilities	294,374	323,000	323,000
Communications:			
Switchboard and other fixed charges	46,879	54,000	54,000
Long distance calls	398,811	35,500	38,000
Telegrams and teletype	10,556	12,500	13,000
Postage	36,435	37,000	40,000
Total, communications	133,681	139,000	145,000
Total	428,055	462,000	468,000

The estimate reflects an increase of $6,000 when compared with that for the current fiscal year. This increase is in Communications.

Rent and Utilities.—Provision is made for 74,270 square feet of office space at $3.68 per square foot and 5,960 square feet of storage space at $1.38 per square foot. This space is all located at 101 Indiana Avenue, N.W.

The estimate also includes $1,400, the same as for the current fiscal year, for space associated with the Board's Security program.

The rent and utilities estimate also includes $45,000 for rental of equipment as follows:

Number and description	*Annual rental*
2 IBM 6420 Accounting Machines	$28,000
6 Xerox Copying Machines	13,500
3 Key Punch Machines with 2 Verifiers	3,500
Total	45,000

This estimate is the same as that provided for in the current fiscal year.

Communications.—The estimate reflects an increase of $6,000 over the current fiscal year. Of the increase, $2,500 is for Long Distance Calls, $500 for Telegrams and Teletype, and $3,000 for Postage. The increases provide for expansion of activities in 1968.

Printing and reproduction

Item	1966 actual	1967 estimate	1968 estimate
Monthly review	0	0	$23,000
Annual report	$3,797	$6,500	6,500
Certificates, etc.	408	1,000	1,000
Security	0	500	500
Statistical data forms	6,031	7,000	7,000
Total	10,236	15,000	38,000

The estimate of $38,000 is $23,000 more than is provided for in the current fiscal year. The additional amount is for the printing of the Federal Home Loan Bank Board Review. This publication will replace the current Monthly Digest.

Provision is made in the amount of $6,500 for the printing of the Board's Annual Report.

The item of $1,000 provides for the printing of Federal Charters, Certificates of Insurance, etc.

The item of $500 is for printing associated with the Board's Security program.

The item of $7,000 is for the printing of Statistical Data Forms used in connection with the automatic data processing work carried on by the Operating Analysis Division.

OFFICE OF EXAMINATIONS AND SUPERVISION

Mr. EVINS. Let us turn to the Office of Examinations and Supervision. We know that you do; you conduct regular periodic and special supervisory examinations in State and federally insured institutions. The institutions bear the cost of examination. The fees charged are calculated to defray the operating expenses of the examination function.

The Office is also responsible for the supervision of institutions insured by the Federal Savings and Loan Insurance Corporation. The purpose of such supervision is to prevent the development and/or continuance of unsafe and unsound financial practices.

The table reflects the work of the Office. Examinations completed in 1966 were 4,567; in 1968, they are estimated to be 4,654, about 1,000 more examinations.

The average volume of new loans made by insured institutions is supposed to have increased from $4.9 million—read those figures on page 121, the bottom of the page.

Mr. SCHWARTZ. That is $4.9 million.

Mr. EVINS. The average volume for new loans made will increase from $4.9 million to $5.2 million. Is that right?

For 1968 the budget of the Office is based on the assumption that the current rate of growth in the number and size of insured institutions will continue through fiscal 1968. It is also based on the need to maintain examining and supervising schedules in a current status.

The cost of examination and supervision is shown on page 123. This is the large bulk of your costs, $13,650,000.

Place in the record pages 121 through 137, Madam Reporter.

(Pp. 121 through 137, inclusive, follow:)

OFFICE OF EXAMINATIONS AND SUPERVISION

PROGRAM HIGHLIGHTS

The Office of Examinations and Supervision under the general direction of the Director of the Office conducts regular periodic and special supervisory ex-

aminations of all Federal savings and loan associations, of insured State-chartered savings and loan associations, other institutions of the savings and loan type insured by the Federal Savings and Loan Insurance Corporation, and of noninsured member institutions of the Federal Home Loan Bank System not subject to State supervision. The Office also examines and analyzes the financial condition of institutions which apply for membership in the System, for insurance of accounts, or for conversion from a State to a Federal charter. The institutions examined bear the costs of examinations, and the fees charged therefor are calculated to defray all of the operating expenses of the examination function.

The Office is also responsible for the supervision of institutions insured by the Federal Savings and Loan Insurance Corporation. The purpose of such supervision is to prevent the development and/or continuance of unsafe and unsound financial practices in these institutions and the correction of such practices where found. In carrying out the supervisory function, the Office reviews and analyzes the examination reports forwarded by the Chief Examiners of the respective District Offices.

The following table reflects the work of the Office:

[Dollars in millions]

Description	1966 actual	1967 estimate	1968 estimate
Examinations completed or to be completed	4,567	4,604	4,654
Average assets of insured institutions (start of year)	$26.7	$28.3	$29.9
Average volume of new loans made by insured institutions during year	$4.9	$5	$5.2

Introduction

The 1968 budget of the Office of Examinations and Supervision is based on the assumption that the current rate of growth in the number and size of insured institutions will continue through fiscal 1968; it is also based on the need to maintain examining and supervisory schedules in a current status.

The examining and supervisory programs are designed to protect the financial risk and other interests of the Federal Savings and Loan Insurance Corporation, thus carrying out some of the statutory responsibilities vested in the Federal Home Loan Bank Board. Such responsibilities at June 30, 1966, involved 4,514 insured institutions with aggregate assets of $127.8 billion and with reserves and undivided profits of $8.6 billion. These insured institutions had 39.6 million savers with savings accounts totaling $108.1 billion.

The potential liability of the Insurance Corporation at June 30, 1966, was $109.6 billion; it guaranteed financial protection of their savings to 39.6 million savers who carried their savings in insured institutions of the savings and loan type.

Summary

The 1968 estimates of expenses of the Office of Examinations and Supervision, the revised estimates for the current fiscal year, and actual expenses for 1966 are summarized in the table on the following page.

Description	1966 actual	1967 estimate	1968 estimate
Positions	953	953	953
Man-years	853.4	875.6	893
Personnel compensation	$8,328,568	$9,070,000	$9,414,000
Personnel benefits	617,041	683,000	719,000
Total, personal services and benefits	8,945,609	9,753,000	10,133,000
Contractual services and supplies	3,296,175	3,436,000	3,486,000
Acquisition of capital assets	30,246	31,000	31,000
Total gross expenses	12,272,030	13,220,000	13,650,000
Reimbursements from other accounts	−68,252	0	0
Total, net expenses	12,203,778	13,220,000	13,650,000
Estimated savings	951,222	245,000	0
Actual, authorization, and estimate	13,155,000	13,465,000	13,650,000

As shown, the Office of Examinations and Supervision requests authority to expend $13,650,000 for nonadministrative expense in fiscal 1968.

The estimate reflects the same number of positions as provided for in the current fiscal year but an increase of 17.4 man-years, and an increase in funds of $185,000 over the approved budget for the current fiscal year. In percentage terms, there is an increase in man-years of 2.0% and in funds of 1.4%

However, because the Office expects to save $245,000 of the amount authorized for the current fiscal year, the estimate reflects an increase of $430,000 over the estimated expenses for the current fiscal year. Of this increase, $344,000 is in Personnel Compensation, $36,000 in Personnel Benefits, and $50,000 in Contractual Services and Supplies. Justification of the need for the increases will be found beginning on the following page.

FUNCTIONS AND RESPONSIBILITIES—HOME OFFICE

The Office of Examinations and Supervision, which consists of a Home Office staff and field offices in twelve Federal Home Loan Bank Districts, carries out the Board's statutory responsibilities for:

1. The examination of the financial condition, operations, policies, and practices of all Federal or insured State-chartered savings and loan associations, as well as of uninsured member institutions at the request of a Federal Home Loan Bank, insured institutions for which a conservator has been appointed, and any institutions of which the Federal Savings and Loan Insurance Corporation has been appointed receiver; and
2. The supervision of all Federal savings and loan associations and of all State-chartered savings and loan associations insured by the Federal Savings and Loan Insurance Corporation. The purpose of such supervision is to prevent the development and/or continuance of unsafe and unsound financial practices in these institutions and the correction of such practices where found.

It advises and makes recommendations to the Board regarding new or revised policies and procedures and such amendments of statutes and regulations as are made necessary or desirable by experience, public interest, the welfare of the business, or changing conditions; it carries out the Board's decisions and actions on such matters with and through the staff of the Office, the Supervisory Agents, and other officers of the Board.

It directs and advises the chief examiners in the examining work in the twelve Federal Home Loan Bank Districts. It also directs and advises the twelve Federal Home Loan Bank Presidents and other officers, who are designated as Supervisory Agents for the Board, in the supervisory work in the field.

It reviews and analyzes examination and other reports (1) to insure the quality and effectiveness of examinations and examination procedures, (2) to evaluate and contribute to the promptness, quality and effectiveness of supervisory efforts, and (3) to achieve uniformity in general terms, in approach, in techniques, and in philosophy of the functions.

It recommends to the Board that insurance of accounts of an insured institution be terminated or that the institution be ordered to show cause why insurance should not be terminated, whenever it is believed the facts warrant such action.

It recommends to the Board whether institutions found to be impaired or close to impairment, should be liquidated or assisted or made whole by a contribution or purchase of assets and, if the latter, the amount of the contribution or purchase, the terms and conditions, and requirements as to future management and policies.

It confers with the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board regarding matters of mutual interest and concern, and with Members of Congress regarding inquiries made by them or through them from their constituents; meets with groups of directors and officers of associations regarding local problems of general interest; attends and addresses State, regional, and national conventions of trade organizations and meetings of State supervisory authorities.

WORKLOAD AND PERSONNEL REQUIREMENTS—HOME OFFICE

The staff required for the adequate and timely discharge of this responsibility is determined by the number, size, and business volume of insured institutions and by economic conditions affecting their operations. Information relating to the workload of the Office is set forth below:

[Dollars in millions]

Description	1966 actual	1967 estimate	1968 estimate
Examinations completed or to be completed	4,567	4,604	4,654
Average assets of insured institutions (start of year)	$26.7	$28.3	$29.9
Average volume of new loans made by insured institutions during year	$4.9	$5	$5.2

For fiscal 1968, the staff of the Office will include the Director and a staff of 71.

Despite the estimated increase in the 1968 workload, as indicated in the table on the preceding page, the Office plans and hopes to absorb the additional workload with the same number of positions provided for fiscal year 1967.

On a man-year basis there are 72.0 man-years in 1968 and 69.4 in 1967, an increase in 1968 of 2.6 man-years. The increase represents delay in filling positions in the current fiscal year.

FUNCTIONS AND RESPONSIBILITIES—FIELD

The Office, in carrying out its examining responsibility, conducts regular periodic and special supervisory examinations of all Federal savings and loan associations and those State-chartered savings and loan associations, homestead associations ,and co-operative banks, the savings or share accounts of which are insured by the Federal Savings and Loan Insurance Corporation.

Noninsured member institutions of the Federal Home Loan Bank System are examined by the Office if they are not subject to State examination and supervision or have not been examined by the State authorities.

The Office also examines applicant savings and home-financing institutions to determine their eligibility for membership in the Bank System, insurance of savings or share accounts, or conversion from State to Federal charter.

Public Law 895, approved July 3, 1948 (62 Stat. 1239), considers all necessary expenses of the Office, in connection with the making of examinations, nonadministrative.

Growth of Institutions Subject to Examination

The combined assets of insured institutions reached the approximate total of $128 billion on June 30, 1966. The continued asset growth in the fiscal years since 1963 is shown below:

Fiscal year	Assets (billions)	Increase					
		Last year		Last 3 years		Last 5 years	
		Amount (billions)	Percent	Amount (billions)	Percent	Amount (billions)	Percent
1968 [1]	$145.3	$8.9	6.5	$25.6	21.4	$49.1	51.0
1967 [1]	136.4	8.6	6.7	27.5	25.3	53.0	63.5
1966	127.8	8.1	6.8	31.6	32.8	55.3	76.3
1965	119.7	10.8	9.9	36.3	43.5	56.5	89.4
1964	108.9	12.7	13.2	36.4	50.2	53.1	95.2
1963	96.2	12.8	15.3	33.0	52.2	48.6	102.1

[1] Estimated.

The average size of insured institutions as of June 30, 1966, was $28.3 million, an increase of $1.6 million (6.0%) during fiscal 1966, and an increase of $12.7 million (81.4%) during the past five years. It is estimated that the average size will increase $1.6 million in fiscal 1967 and $1.5 million in fiscal 1968, reaching $31.4 million at June 30, 1968, an increase of 11% in this two-year period.

Many of these institutions have grown to great size. The three largest associations at June 30, 1966, had assets in excess of a billion dollars. The largest association had assets of approximately $2.2 billion; the other two had assets of $1.5 billion and $1.3 billion, respectively. As shown by the following table, associations with assets of $100 million or over have increased in number from

179 at December 31, 1963, to 211 in 1964 and 225 in 1965, an increase of 29.3% in two years:

Assets	Number of associations		
	1965	1964	1963
At Dec. 31:			
Over $300,000,000	35	31	24
$200,000,000 to $300,000,000	41	33	33
$150,000,000 to $200,000,000	47	44	31
$100,000,000 to $150,000,000	102	103	91
$75,000,000 to $100,000,000	90	79	81
$50,000,000 to $75,000,000	237	204	184
$25,000,000 to $50,000,000	632	590	554
Total	1,184	1,084	998

New Loans

The dollar volume of new loans made in fiscal 1966 amounted to $22.0 billion, a decrease of 6.4% below the $23.5 billion in fiscal 1965. The average volume per association exceeded $4.9 million. Mortgage loans made by insured institutions in fiscal years 1963 through 1966 totaled $92.3 billion; this compares with total mortgage holdings of these institutions of $70.3 billion at June 30, 1962. It is estimated that the annual new dollar loan volume of insured institutions will increase to $23.3 billion in fiscal 1967 and to $24.8 billion in fiscal 1968. It is expected that these institutions will continue to make approximately 43% of new loans made by all lenders on one-to-four family dwellings while continuing to lend in volume on multi-family dwelling units.

The following table evidences the extent to which the industry has been increasing. (The data on loan volume is shown because this is a significant workload factor):

Insured institutions	1965 actual	1966 actual	1967 estimate	1968 estimate
Number [1]	4,443	4,483	[2] 4,514	4,564
Assets [1] billions of dollars	108.9	119.7	[2] 127.8	136.4
Average size [1] millions of dollars	24.5	26.7	28.3	29.9
New loans made billions of dollars	23.5	22.0	23.3	24.8
Loans to finance construction (included in above) do	6.1	5.1	5.5	5.9
Average volume new loans millions of dollars	5.2	4.9	5.0	5.2
Savings capital [1] billions of dollars	92.8	102.0	[2] 108.1	114.6

[1] Beginning of year.
[2] Actual.

Status of Examinations

Examinations of insured institutions were maintained on a current basis in fiscal 1966 (See Workload table on page 134). The average period between examinations of Federals was approximately 11.8 months. The average period between examinations of State institutions was approximately 12.1 months.

There were only 2 Federal associations which had not been examined within 13 months as of June 30, 1966; an additional 28 Federal associations reached the 12-month group at the close of the year. Offsetting these 30 examinations were 90 examinations made ahead of schedule.

There were only 18 State institutions which had not been examined within 13 months as of June 30, 1966; an additional 46 institutions reached the 12-month group at the close of the year. However, there were 64 examinations made ahead of schedule. The minor delay in scheduling the examinations of State institutions was necessary to coordinate the joint program with State schedules. Some schedule adjustments of both Federal and State institutions are necessary to make the best use of the examining staff and to preserve the surprise element in examinations.

Examination Workload

It is estimated that there will be 4,654 examinations made in 1968, an increase of 50 over 1967.

Experience in fiscal 1966 showed a reduction in average time from 42.6 days to 40.1 days required to examine Federal institutions and 24.8 days to 24.2 days in State institutions in spite of the growth and greater complexity of such institutions. This reduction at a time when the volume of activity reached record levels was largely due to further realization of benefits of revised examination program.

Examination Time

The average man-days-per-examination is influenced by the growth and activity of the institutions, constant revisions of examining procedures, and effective utilization of examining personnel. Average examination time per million dollars of assets continues to decline as shown in the following summary:

Fiscal year:	*Man-days*	Fiscal year—Continued	*Man-days*
1959	2.45	1963	1.72
1960	2.26	1964	1.51
1961	2.24	1965	1.29
1962	2.06	1966	1.15

It is believed that some further reduction in average man-days per million dollars of assets may be achieved because of additional changes in recently inaugurated techniques of examining and increased productivity which may help to absorb the increasing volume of work. The Workload table on page 134 shows additional workload information.

The actual average man-days per examination of Federals in 1966 as shown in the Workload table on page 134 was 40.1, a reduction of 2.5 average man-days from fiscal 1965. It is estimated that the examination of Federals will not decline appreciably because of economic climate and competitive factors in savings and real estate loan market.

The actual average man-days per examination of State institutions in 1966 was 24.2 as compared to an average 24.8 for 1965. Again, it is estimated that this will not decline. This estimate is based upon the assumption that the State authorities will be able to furnish examiners equal in number to the Federal examiners on joint assignment. Any shortage of State examiners necessarily would increase the average Federal time.

The actual average man-days per examination (eligibility) of institutions applying for insurance was 24.9 in fiscal 1966, an increase of 5.2 man-days from fiscal 1965. This average fluctuates, depending on the size of the institutions examined during the year. The estimate for fiscal 1967 and 1968 is 25 average man-days.

The man-days required in fiscal 1968 for examinations in each of the three classifications shown in the Workload table total 146,597. It is estimated that each examiner will work an average of 206 days in 1968 in making examinations. Dividing 206 into the total workload of 146,597 man-days, a need for 700 field examiners and 12 chief examiners is shown.

The Workload table does not include "Special examinations" and other special assignments which are legally not chargeable to the limitation. During fiscal 1966, there were 9 man-years required for this purpose. It is apparent, from the competitive situation in the lending and savings market, that substantially more special examinations will be required in fiscal years 1967 and 1968. In July and August, 1966, 38 special examinations were commenced. These special assignments must be conducted promptly and effectively without retarding the regular examination program.

Examining Staff

The workload analysis for fiscal 1966 showed the need, on an annual basis, for approximately 708 field examiners excluding 12 chief examiners. However, increased productivity and economies resulting from revision of examining procedures made it possible to hold the staff at a level substantially below the original workload estimate for fiscal 1966. During fiscal 1966 there was a net decrease of 21 examiners resulting from 58 appointments, 77 terminations, and two transfers to the home office. The ratio of terminations to the average examining staff was 11%. This ratio is reduced to 9.1% if confined to voluntary resignations. The revised workload analysis for fiscal 1968 as shown in the Workload table on page 134 shows the need, on an annual basis, for 700 examiners, excluding the 12 chief examiners. This number is 30 man-years (4.11%) less than the original estimate provided for fiscal 1967.

On the assumption that the present level of the economy and competitive environment continues through fiscal 1968 and that no further changes in the basic duties and responsibilities of the examiners will be needed or desired, the fiscal 1968 workload, including the increase in the number, assets, and volume of activity in insured institutions is expected to be met with a staff of 700 field examiners and 12 chief examiners (see page 134). Continued emphasis will be placed on the training and development program to further increase productivity.

WORKLOAD AND PERSONNEL REQUIREMENTS—FIELD

Staffing requirements for the field offices are based on the assumption that the current rate of growth in the number and size of insured institutions will continue through fiscal 1968. They are also based on the need to maintain examining and supervisory schedules in a current status (See Workload table on page 134.)

In computing examiner requirements, 207 examination working days for each examiner are estimated for 1967 and 206 for 1968.

As shown in the Workload table, an average of 700 field examiners, excluding the 12 chief examiners, will be needed to meet the constantly increasing workload and maintain examinations on a current 12-month average basis. Clerical man-years in the field for fiscal 1968 are estimated at 109.

To summarize, the field estimate provides for 881 positions, the same as for the current fiscal year. Of this number, 772 represent positions for field examiners including the 12 chief examiners; the remaining 109 positions are for the clerical staff. The table shown on page 140 reflects a distribution of these positions by District office.

On a man-year basis there are 821.0 field man-years in 1968 and 806.2 in 1967, an increase in 1968 of 14.8 man-years. The increase represents delay in filling field positions in the current fiscal year.

On an overall basis the estimate for both the Home Office and Field provides for 953 positions, the same as for the current fiscal year.

On a man-year basis, for the Office as a whole, there are 893.0 man-years in 1968 and 875.6 in 1967, an increase in 1968 of 17.4 man-years. The increase represents delay in filling positions in the current fiscal year.

75-491—67—pt. 1——15

Examination workload table

	1966 actual	1967 estimate	1968 estimate
Federal associations:			
Number of associations (beginning of year)	1,993	2,031	2,071
New associations and additional examinations	90	85	85
Total examinations to be made	2,083	2,116	2,156
Examinations made	2,053	2,096	2,136
Examinations not made	30	20	20
Insured State associations:			
Number of associations (beginning of year)	2,490	2,483	2,493
New associations and additional examinations	64	60	60
Total examinations to be made	2,554	2,543	2,553
Examinations made	2,490	2,483	2,493
Examinations not made	64	60	60
Eligibility	24	25	25
Federal associations:			
Examinations made	2,053	2,096	2,136
Average man-days per examination	40.1	40.0	40.0
Total man-days required	82,325	83,840	85,440
Insured State associations:			
Examinations made	2,490	2,483	2,493
Average man-days per examination	24.2	24.0	24.0
Total man-days required	60,258	59,592	59,832
Eligibility:			
Examinations made	24	25	25
Average man-days required	24.9	25	25
Total man-days required	598	625	625
Man-days required:			
Federal associations	82,325	83,840	85,440
Insured State associations	60,258	59,592	59,832
Eligibility	598	625	625
Miscellaneous services	373	700	700
Total man-days required	143,554	144,757	146,597
Examiner working days each year	209.3	207	206
Man-years required: [1]			
Examining personnel	686	699	712
Less: Chief examiners	12	12	12
Field examiners	[2] 674	687	700

[1] Total man-days divided by examiner working days.
[2] Does not include 9 man-years used in special examinations and special services to the FHLBB and FSLIC.

Operating Expenses

A Comparative Summary of Nonadministrative Expenses for fiscal years 1966, 1967, and 1968, and 3 tables, one showing Home Office and Field positions, one showing Field positions by grade, and one showing Field examiner and clerical positions by Districts for the same 3 years follow. These are followed by an analysis of Personnel Benefits, and all Other Expenses by object classification.

Comparative summary of nonadministrative expenses, fiscal years 1966, 1967, and 1968

	1966 actual			1967 estimate			1968 estimate		
	Gross positions	Net man-years	Amount	Gross positions	Net man-years	Amount	Gross positions	Net man-years	Amount
Personal services and benefits:									
Personnel compensation:									
Home office	72	60.6	$693,206	72	69.4	$832,278	72	72.0	$870,454
Field:									
Boston	33	31.1	311,900	32	30.0	323,507	32	30.0	327,865
New York	62	57.2	564,787	63	59.0	616,323	63	63.0	671,157
Pittsburgh	68	60.5	613,580	67	60.8	645,815	67	61.0	668,801
Greensboro	137	123.2	1,115,056	141	122.0	1,227,138	141	123.0	1,257,870
Cincinnati	92	85.0	848,260	90	86.8	888,132	90	87.0	903,993
Indianapolis	57	48.0	462,920	56	47.0	488,629	56	48.0	517,578
Chicago	97	91.0	844,345	97	92.8	919,682	97	96.0	959,246
Des Moines	49	45.7	432,641	48	46.8	476,660	48	47.0	485,515
Little Rock	73	64.1	621,094	74	66.8	664,919	74	68.0	692,606
Topeka	47	42.9	430,112	48	44.8	458,610	48	45.0	474,759
Los Angeles	120	106.3	993,505	120	111.6	1,114,445	120	115.0	1,160,784
Spokane	46	37.8	397,162	45	37.8	413,862	45	38.0	423,372
Total field	881	792.8	7,635,362	881	806.2	8,237,722	881	821.0	8,543,546
Total personnel compensation	953	853.4	8,328,568	953	875.6	9,070,000	953	893.0	9,414,000
Personnel benefits:									
Health benefits			57,589			67,000			68,000
Incentive awards			0			2,000			2,500
Life insurance			27,509			30,500			31,000
Retirement			530,660			582,000			616,000
Social security taxes (FICA)			1,283			1,500			1,500
Total personnel benefits			617,041			683,000			719,000
Total personal services and benefits			8,945,609			9,753,000			10,133,000

Comparative summary of nonadministrative expenses, fiscal years 1966, 1967, and 1968—Continued

	1966 actual			1967 estimate			1968 estimate		
	Gross positions	Net man-years	Amount	Gross positions	Net man-years	Amount	Gross positions	Net man-years	Amount
Contractual services and supplies:									
Travel and transportation of persons			$2,470,162			$2,537,000			$2,584,000
Transportation of things			5,352			17,000			17,000
Rent, communications and utilities			396,812			422,000			396,000
Printing and reproduction			77,989			80,000			80,000
Other services			16,682			18,000			18,000
Services of other agencies			8,260			11,375			11,500
FHLBB services			285,571			311,625			340,500
Supplies and materials			35,347			39,000			39,000
Total contractual services and supplies			3,296,175			3,436,000			3,486,000
Acquisition of capital assets: Equipment			30,246			31,000			31,000
Total gross expenses			12,272,030			13,220,000			13,650,000
Reimbursements from other accounts			−68,252			0			0
Total net expenses			12,203,778			13,220,000			13,650,000
Estimated savings			951,222			245,000			0
Actual, authorization, and estimate			13,155,000			13,465,000			13,650,000

CONTRACTUAL SERVICES AND PERSONNEL BENEFITS

Mr. EVINS. You have some contractual services and personnel benefits, pages 141 through 146.

(Pages 141 through 146, inclusive, follow:)

OFFICE OF EXAMINATIONS AND SUPERVISION

Personnel benefits

	1966 actual	1967 estimate	1968 estimate
Health benefits	$57,589	$67,000	$68,000
Incentive awards	0	2,000	2,500
Life insurance	27,509	30,500	31,000
Retirement	530,660	582,000	616,000
Social security taxes (FICA)	1,283	1,500	1,500
Total	617,041	683,000	719,000

The item of $68,000 provides for the Board's (Employer) share of the cost of the Federal Employees' Health Benefits Act of 1959 (P.L. 86–382); it is based upon actual cost in the current year.

The item of $2,500 provides for cash awards to employees for suggestions, inventions, superior accomplishments, or other personal efforts which contribute to efficiency, economy, or other improvements in the Board's operations.

The item of $31,000 represents the Board's (Employer) portion of the premiums payable under the Federal Employees' Life Insurance Act of 1954; it is based upon the number of employees expected to be on the payroll in fiscal 1968.

The item of $616,000 provides for the Board's (Employer) share of mandatory contributions to the Civil Service Retirement and Disability Fund pursuant to Section 4(A) of P.L. 854, approved July 1, 1956; it is at the rate of 6½% of employees' basic salaries. The figure is based upon the number of employees expected to be on the payroll in fiscal 1968.

The item of $1,500 provides for the payment of the Board's (Employer) share of contributions under the Federal Insurance Contributions Act. Payment is made for all employees who do not contribute to the Civil Service Retirement and Disability Fund.

CONTRACTUAL SERVICES AND SUPPLIES

The total of this category reflects a net increase over the current fiscal year of $50,000 made up as follows:

Item	*Increase Amount*
Travel and transportation of persons	$47,000
Rent, communications, and utilities	−26,000
Services of other agencies	125
FHLBB services	28,875
Total	50,000

Review and analyses of these items and all other items in this category follow; comparison of each item with that for the current fiscal year is also made:

Travel and transportation of persons

Description	1966 actual	1967 estimate	1968 estimate
Field examiners	$2,458,296	$2,516,500	$2,563,500
Home office	11,866	18,000	18,000
Security, relocation	0	2,500	2,500
Total	2,470,162	2,537,000	2,584,000

The estimate reflects an increase of $47,000 over the current fiscal year. It is needed to provide travel funds for the 13 additional field examiners required in fiscal 1968 to cover the workload of the field offices.

The item of $2,563,500 provides for the travel costs of field examiners, including the 12 Chief Examiners, at an annual average cost of $3,600 per examiner. The average for 1967 is also estimated to be $3,600; actual average for 1966 was $3,584.

The item of $18,000 provides for the travel costs of the Director, his assistants, and the supervisory staff.

The item of $2,500 provides for travel costs associated with the Board's Security program.

Transportation of things

1966 actual	$5,352
1967 estimate	17,000
1968 estimate	17,000

This item provides for the shipment of supplies, equipment, and the moving of furniture and personal effects to and from the respective field offices and the Home Office in Washington, D.C.

The estimate, the same for the current fiscal year, includes $13,000 for the moving of furniture and personal effects of field examiners transferred from one district to another or to the Home Office in Washington, D.C.

Actual cost for moving expenses in fiscal 1966 was $3,453.

Rent, communications, and utilities

Description	1966 actual	1967 estimate	1968 estimate
Rent and utilities	$240,036	$254,000	$257,000
Communications:			
Fixed telephone charges	31,698	36,000	39,000
Long-distance calls	27,625	32,000	35,000
Telegrams	792	1,000	1,000
Postage	96,661	99,000	64,000
Total	396,812	422,000	396,000

The estimate reflects a net decrease of $26,000 over the current fiscal year. It reflects an increase of $3,000 in Rent and Utilities; $3,000 in Fixed Telephone Charges; $3,000 in Long Distance Calls, and a reduction of $35,000 in Postage. The reduction in postage is due to the curtailment in the mailing of verification notices by the field offices.

Rent and Utilities.—Provision is made for the rental of 39,952 square feet of office space, the same as for the current fiscal year, at varying rates, in the 18 field offices amounting to $198,500. The estimate includes $2,000 for adjustments in rental contracts for fiscal 1968.

The estimate also includes $43,500 for the rental of 11,835 square feet of office space for the Home Office in the District of Columbia. This is $1,000 more than the amount provided for in the current fiscal year and is needed to cover full year cost of 745 square feet of space assigned to the office for a portion of the current fiscal year.

There is also included $15,000 for rental of Xerographic equipment. Of this amount $8,500 is for field equipment, the same as for the current fiscal year. The $6,500 provided for the Home Office is also the same as for the current fiscal year.

Communications.—The estimate reflects a net decrease of $29,000 when compared with the current fiscal year. There is an increase of $3,000 in Fixed Telephone Charges; it provides for increase in basic charges made by General Services Administration and some private utility companies in the field. The increase of $3,000 in Long Distance Calls is due to the increase in the number of examiners expected to be employed in order to cover the increased workload of the office. The decrease of $35,000 in Postage allows for reduction in the

number of mailings relating to verification of accounts. This is a continuation of the downward trend in this activity due to an increasing number of insured institutions having independent audits.

Printing and reproduction

1966 actual	$77,989
1967 estimate	80,000
1968 estimate	80,000

Provision is made for the printing of letterheads, envelopes, and other printed matter. The estimate also provides for the reproduction of examination reports in most of the field offices.

The cost of this service went up from $22,224 in fiscal 1965 to $25,425 in fiscal 1966. The reason for the increase is in the increasing use by the field offices in employing private organizations to reproduce their examination reports. This method saves the hiring of additional clerical help and is considered more economical.

Other services

Description	1966 actual	1967 estimate	1968 estimate
Training program	$2,887	$3,000	$3,000
Repairs to furniture, fixtures, and equipment	4,804	6,000	6,000
Miscellaneous	8,991	9,000	9,000
Total	16,682	18,000	18,000

Provision is made for the cost of training field examiners in the area of ADP Operations and real estate appraisal in order that these examiners may be more fully informed on the technological advances being made in this important area of work.

Provision is also made for the cost of repairs to furniture, fixtures, and equipment in the Home and field offices, and for other services.

The Miscellaneous item provides for the rental of space within the respective districts for regional meetings of field examiners, mail delivery service in one district, and other services obtained on a contractual basis.

Services of other agencies

Description	1966 actual	1967 estimate	1968 estimate
Training program	$2,660	$3,000	$3,000
Emergency room services (D.J.)	1,772	2,000	2,000
Labor, etc, (G.S.A.)	3,828	4,375	4,500
Security investigations	0	2,000	2,000
Total	8,260	11,375	11,500

The item of $3,000 provides for Cost of Training Program authorized under the Government Employees Training Act—P.L. 85-507. The estimate allows for the same level of participation in fiscal year 1968 as provided for in the current fiscal year.

The item of $2,000, the same as for the current fiscal year, provides for Emergency Room services furnished by the Bureau of Prisons to the employees of the Office. Cost is based on the number of employees to whom this service is available.

The item of $4,500 provides for the furnishings of labor to move furniture, fixtures, and equipment. It also includes provision for relocating doors, ducts, patching and painting, installing or moving electrical outlets and similar work associated with tenant changes.

The item of $2,000 provides for security clearance by the Civil Service Commission of 5 employees.

Federal Savings and Loan Insurance Corporation

Program and financing

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Program by activities:			
Administrative expenses: Insurable interest and insurance settlement operations	222	265	298
Financing:			
Unobligated balance lapsing	17	20	
Limitation	239	285	298

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	160	180	214
11.3	Positions other than permanent	1	1	1
11.4	Special personal service payments	4	8	3
11.5	Other personnel compensation			1
	Total personnel compensation	165	189	219
12.0	Personnel benefits	12	14	16
21.0	Travel and transportation of persons	1	5	5
22.0	Transportation of things		1	1
23.0	Rent, communications, and utilities	22	31	31
24.0	Printing and reproduction	7	7	7
25.1	Other services	2	3	4
25.2	Services of other agencies	11	12	12
26.0	Supplies and materials	2	3	3
93.0	Administrative expenses included in the fund as a whole	−222	−265	−298
	Total accrued administrative expenses—cost			

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	16	19	20
Average number of all employees	14	16	18
Average GS grade	10.1	9.8	10.0
Average GS salary	$11,676	$11,512	$11,662

FUNCTIONS OF THE BOARD AND THE CORPORATION

Mr. Evins. Take a look at your Federal Savings and Loan Insurance Corporation. It says here that the Federal Home Loan Bank Board provides a number of services to the Federal Savings and Loan Insurance Corporation. They include insurance underwriting? They do the insurance underwriting; you just set the policy.

Mr. Trevas. The colonel's office does the underwriting, the Office of Applications.

Mr. Evins. This is the Board, the Federal Home Loan Bank Board. This is the supervisory function of the Insurance Corporation, is it not?

Mr. Trevas. The underwriting is done by the Office of Applications.

Mr. Evins. That is what I am talking about. The Federal Home Loan Bank Board. I am looking at this chart on page B under your

last tab, Federal Savings and Loan Insurance Corporation. The Board supervises these activities, it says.

Mr. TREVAS. Right, sir.

Mr. HORNE. And the Division, the Office that Si Trevas is talking about comes under the Board. So that it is the Board.

Mr. EVINS. Besides insurance underwriting, they include examination and supervision of insured institutions. You also take a look at them, too?

Mr. TREVAS. Yes, sir.

Mr. EVINS. You do not leave this all up to the Insurance Corporation?

Mr. HORNE. No, this is where the meshing and consolidation is left out.

Mr. EVINS. Development of rules and regulations; legal services, personnel functions; auditing; accounting; budgeting; analysis of financial and other operating information; public information; office management analysis; and such housekeeping services as procurement, files and records—you do all this for the Insurance Corporation?

Mr. HORNE. Yes.

Mr. EVINS. The Insurance Corporation has a lot of help.

Mr. HORNE. That is the point I was making earlier.

Mr. EVINS. I thought they were on their own. You were giving a picture of what a fine budget they have, but they are being subsidized by the Board.

Mr. HORNE. It is under one agency. Whereas in the regulatory agencies for the banks, the authorities thereabout are under three agencies.

Mr. EVINS. Here is what the Office of FSLIC does: It reviews all proposed actions directly affecting the interests of the Federal Savings and Loan Insurance Corporation and advises the Board concerning such matters. It implements the payment of insurance and the development of plans for settlement of insurance—they do not pay out any insurance until the Board approves it?

Mr. HORNE. Right, sir.

EFFORTS TO RESTORE INSTITUTION TO NORMAL OPERATIONS

Mr. EVINS. Take steps authorized by law to prevent default or restore institutions to normal operations. How many have you restored to normal operations?

Mr. WORTHY. This year, we were involved with 12 institutions. Two of them were receiverships—that is, in default. In the other 10 we were able to prevent default by one of the three methods available to us.

Mr. EVINS. Tell us again what those three methods are.

Mr. WORTHY. Loan, contribution, and purchase of assets.

Mr. EVINS. The biggest thing is to keep putting money into them. They get a little short on money, call on the banks, and you loan money to them. As long as you can supply money to them, they can keep going.

TYPES OF LOANS MADE

Mr. HORNE. We have two types of loans. One is the kind we were talking about earlier, where we help them meet withdrawals

and provide money for expansion mortgage lending purposes. The kind of lending we are talking about here is a much more cautious, much smaller—we do not just loan an assocation money to keep it going, but where we have reason to believe that this is——

Mr. EVINS. Well, the institutions make loans for housing, for construction of homes, and their resources are depleted. They come to the bank and say, we need more cash to be liquid.

Mr. HORNE. That is the first kind of loan we were talking about. The other kind is this kind right here. The first kind you are talking about is done through the respective 12 banks. The kind of lending Mr. Worthy is talking about is done by the corporation for another purpose and is a lesser amount.

Mr. EVINS. Manages assets acquired by the Corporation in the prevention of default; acts as receiver for insured assocations; and manages investment portfolio.

SOURCES AND APPLICATION OF FUNDS STATEMENT

Here is the budget on page 150, statement of sources and application of funds.

Look at the third item down under "To Operations," subrogated accounts purchased in insured institutions. There is nothing shown in 1966, nothing estimated in 1968, but you have $34 million in 1967. What does that represent?

Mr. WORTHY. That represents the two receiverships we had during the fiscal year 1967. We did not have any in fiscal year 1966.

Mr. EVINS. These were depositors that the insurance company paid off?

Mr. WORTHY. Yes, sir, in insured institutions.

Mr. EVINS. They had $34 million in deposits. Did they pay off 100 percent?

Mr. WORTHY. There were some uninsured savings there.

Mr. HORNE. We paid off the amount that it was legally insured to, yes, sir; $10,000 at that time. Congress has raised it to $15,000.

Mr. EVINS. If a fellow had, in these particular banks, a Federal savings and loan association, an account of $12,000, they would get $10,000 back?

Mr. WORTHY. Right. There were only about 2 percent uninsured funds in these institutions.

Mr. EVINS. What about the loans to insured institutions, $68,400,000? What is the nature of that item?

Mr. WORTHY. A $48 million loan was made in California to facilitate a merger of a problem institution with another institution. The other two loans were made to existing institutions. I think it would be best for me not to include in the record the location of them, but if we go off the record——

Mr. EVINS. Off the record.

(Discussion off the record.)

Mr. EVINS. Tell us about this item on the bottom of the page, "By financing," decrease in cash with Treasury, $50,931,138,000.

Mr. WORTHY. At the end of fiscal year 1966, we were about to make the $48 million loan in California and we had converted special series notes to cash. As of June 30, it was in cash and it was disbursed as

a loan, I believe the next day or a couple of days later. We ordinarily would not carry that amount of cash. This was probably a 1- or 2-day item.

Mr. EVINS. Off the record again.

(Discussion off the record.)

FINANCIAL STATEMENTS

Mr. EVINS. Here is the statement of income and expenses on page 151. We shall place in the record pages 150 and 151.

(Pages 150 and 151 follow:)

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

A. Statement of sources and application of funds

	1966 actual	1967 estimate	1968 estimate
Funds applied:			
To operations:			
Acquisition of assets:			
Assets purchased from insured institutions	$46,515,607		
Furniture, fixtures, and equipment	4,742	$5,000	$5,000
Subrogated accounts purchased in insured institutions		34,000,000	
Loans to insured institutions		68,400,000	
Contribution to insured institutions	2,691,000	1,500,000	
Expenses	35,954,155	42,010,898	45,090,706
Loss on sale or exchange of securities	1,046,945		
Increase in selected working capital	5,571,594		
Total applied to operations	91,784,043	145,915,898	45,095,706
To financing:			
Increase in investments in U.S. securities held (par)	204,079,000	181,000,000	318,000,000
Increase in cash with Treasury	51,344,310		
Total applied to financing	255,423,310	181,000,000	318,000,000
Total funds applied	347,207,353	326,915,898	363,095,706
Funds provided:			
By operations:			
Realization of proceeds from assets acquired from insured institutions	20,409,015	25,000,000	30,000,000
Additional premiums credited to secondary reserve	152,126,600	45,940,000	108,000,000
Return on additional premiums—prepayments	29,257,964	34,782,269	37,402,128
Gain on assets acquired from insured institutions	173,448		
Income	145,240,326	158,285,115	173,933,170
Decrease in selected working capital		1,995,376	2,807,312
Realization of proceeds from subrogated and insured accounts in insured institutions		10,000,000	10,000,000
Total provided by operations	347,207,353	276,002,760	362,142,610
By financing: Decrease in cash with Treasury		50,913,138	953,096
Total, funds provided	347,207,353	326,915,898	363,095,706
Budget expenditures:			
Funds applied to operations	91,784,043	145,915,898	45,095,706
Funds provided by operations	347,207,353	276,002,760	362,142,610
Net budget expenditures	−255,423,310	−130,086,862	−317,046,904
The above are credited to net receipts of the fund	−255,423,310	−130,086,862	−317,046,904

B. Statement of income and expense

	1966 actual	1967 estimate	1968 estimate
Income:			
Insurance premiums and admission fees earned	$88,671,257	$93,401,544	$99,729,621
Interest earned on U.S. securities	51,095,190	58,583,571	67,503,549
Interest earned on loans	305,548	1,300,000	1,700,000
Income on assets acquired from insured institutions	4,886,939	5,000,000	5,000,000
Gain on assets acquired from insured institutions	173,448		
Total income	145,132,382	158,285,115	173,933,170
Expense:			
Administrative expense	222,216	265,000	298,000
Payments to Federal Home Loan Bank Board for services and facilities	2,616,948	3,077,629	3,390,578
Liquidation and other expenses	3,431,027	3,886,000	4,000,000
Accrued return on additional premiums, prepayments	29,257,964	34,782,269	37,402,128
Subtotal	35,528,155	42,010,898	45,090,706
Depreciation	3,269	3,000	3,000
Loss on sale or exchange of securities	1,046,945		
Provision for contributions to insured institutions	5,691,000	1,500,000	
Provision for losses on assets acquired from insured institutions	17,748,496		
Provision for losses on subrogated and insured accounts in institutions in liquidation	−188,811		
Total expense	59,829,054	43,513,898	45,093,706
Net income for the year	85,303,328	114,771,217	128,839,464
ANALYSIS OF RETAINED EARNINGS [1]			
Retained earnings, beginning of year	689,992,353	775,295,681	890,066,898
Retained earnings, end of year	775,295,681	890,066,898	1,018,906,362

[1] In addition to retained earnings which are credited to the primary reserve, additional premiums (prepayments) and return on additional premiums are credited to a secondary reserve. See statement C.

Mr. EVINS. The statement of financial position on page 152; also pages 153, 154, on through 163, place in the record.

(Pp. 152 through 163, inclusive, follow:)

C. Statement of financial condition

	1965 actual	1966 actual	1967 estimate	1968 estimate
ASSETS				
Cash with banks	$144,516	$807		
Cash with U.S. Treasury	7,965,807	59,310,117	$8,397,786	$7,444,690
Investments	1,312,622,000	1,516,701,000	1,697,701,000	2,015,701,000
Accounts receivable	32,858,352	41,225,844	42,475,261	46,185,286
Assets acquired from insured institutions (net)	97,153,704	105,937,800	80,937,800	50,937,800
Loans to insured institutions	18,000,000	15,000,000	83,400,000	83,400,000
Subrogated and insured accounts in insured institutions in liquidation (net)	64,855,910	64,763,330	88,763,330	78,763,330
Deferred charges	8,148	29,389	30,000	30,000
Furniture, fixtures, and equipment (net)	19,227	20,700	22,700	24,700
Total, assets	1,533,627,664	1,802,988,987	2,001,727,877	2,282,486,806
LIABILITIES				
Current liabilities	4,716,766	4,890,919	2,068,704	2,107,333
Deferred credits: Unearned insurance premiums	41,692,172	44,191,450	50,259,069	56,737,777
Total, liabilities	46,408,938	49,082,369	52,327,773	58,845,110
INSURANCE RESERVES				
Primary reserve	689,992,353	775,295,681	890,066,898	1,018,906,362
Secondary reserve (additional premiums)	785,326,071	959,437,602	1,039,906,826	1,183,698,895
Reserve for accrued return on additional premiums	10,091,448	14,308,010	17,561,055	19,171,114
Reserve for unpaid additional premiums, prepayments	1,808,854	4,865,325	1,865,325	1,865,325
Total, insurance reserve	1,487,218,726	1,753,906,618	1,949,400,104	2,223,641,696
Total, liabilities and insurance reserves	1,533,627,664	1,802,988,987	2,001,727,877	2,282,486,806

Federal Savings and Loan Insurance Corporation

Program highlights

[In millions of dollars]

Description	1966 actual	1967 estimate	1968 estimate
Insured institutions (June 30):			
Number	4,514	4,564	4,624
Assets	$127,849	$136,400	$145,300
Potential liability	$109,564	$117,200	$125,200
Reserves and undivided profits	$8,588	$9,300	$10,000
Insurance Corporation: Reserve for insurance losses	$1,754	$1,949	$2,224

Introduction

The Federal Savings and Loan Insurance Corporation insures savings accounts up to $15,000 for each saver in Federal savings and loan associations and in approved State-chartered savings and loan or building and loan associations, known in some sections of the country as co-operative banks and homstead associations.

The 1968 budget of the Insurance Corporation is based on the need for maintaining its operations in a current status and on the assumption that there will be no basic change in economic conditions during the budget year.

The budget program is designed to permit the Corporation to handle adequately and with dispatch its various insurance activities and to protect the savings of people invested in insured associations of the savings and loan type.

Summary

The 1968 estimates of administrative expenses of the Federal Savings and Loan Insurance Corporation, the revised estimates for the current fiscal year, and actual expenses for fiscal 1966 are summarized in the following table:

Description	1966 actual	1967 estimate	1968 estimate
Positions	16	19	20
Man-years	13.8	15.5	18.4
Personnel compensation	$165,372	$189,000	$219,000
Personnel benefits	11,355	14,000	16,000
Total, personal services and benefits	176,727	203,000	235,000
Contractual services and supplies	45,317	61,750	62,750
Acquisition of capital assets	172	250	250
Total, administrative expenses	222,216	265,000	298,000
Estimated savings	16,784	20,000	0
Actual, authorization and estimate	239,000	285,000	298,000

As shown, the Corporation requests authority to expend $298,000 of its corporate funds for administrative expenses in fiscal 1968.

The estimate reflects an increase of 1 position and 2.9 man-years over the current fiscal year and an increase in funds of $13,000 over the approved budget for the current fiscal year.

However, because the Corporation expects to save $20,000 of the amount authorized for the current fiscal year, the estimate reflects an increase of $33,000 over the estimated expenses for the current fiscal year.

Of this increase, $30,000 is in Personnel Compensation, $2,000 is in Personnel Benefits, and $1,000 is in Contractual Services and Supplies. Justification of the need for the increases will be found beginning on page 171.

Creation and Growth

The Corporation was created in 1934 to insure savings accounts up to $5,000 in all Federal savings and loan associations and in approved State-chartered savings and loan or building and loan associations, co-operative banks, and homestead associations. In 1950, the insurance limit was raised to $10,000 by

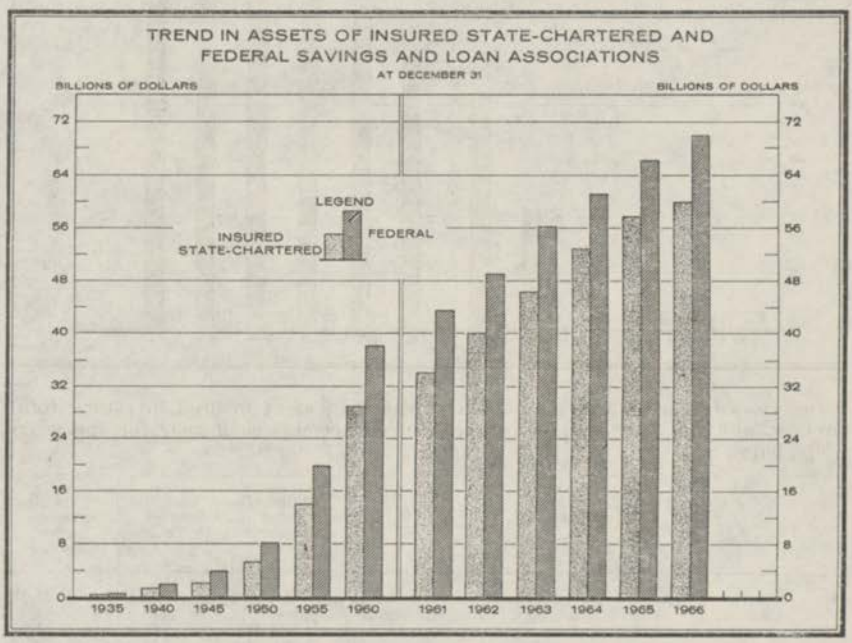
Public Law 797, Eighty-first Congress. In 1966 the insurance limit was raised to $15,000 by Public Law 695, Eighty-ninth Congress.

As intended by Congress, the insuring of the accounts of individual investors creates an incentive for the investment of savings in institutions of the savings and loan type thus stimulating the flow of private credit for home-financing into institutions specifically created for home-financing. Insurance has also proved to be a stabilizing force in this segment of the financial structure of the Nation.

Public demand for protection of its savings has greatly increased the growth of insured institutions as reflected in the chart appearing on the following page showing trend in assets of insured State-chartered and Federal savings and loan associations through December 31, 1966. This growth is also reflected in the following table showing the number, assets, and average size of insured institutions at June 30 of the years indicated.

At June 30—	Number of members	Assets (billions)	Average size (millions)
1946	2,490	$6.7	$2.7
1950	2,799	12.5	4.5
1955	3,472	31.6	9.1
1960	4,044	63.3	15.7
1961	4,160	72.5	17.4
1962	4,267	83.4	19.6
1963	4,386	96.2	21.9
1964	4,443	108.9	24.5
1965	4,483	119.7	26.7
1966	4,514	127.8	28.3
1967 [1]	4,564	136.4	29.9
1968 [1]	4,624	145.3	31.4

[1] Estimate.



As indicated, membership reached 4,514 at June 30, 1966, an increase of 31 for the year. It is expected to increase by 50 in the current fiscal year and 60 in fiscal 1968 bringing the total to 4,624 by June 30, 1968.

Membership assets of insured institutions aggregated $127.8 billion at June 30, 1966, an increase of $8.1 billion or 6.8%. An increase of $8.6 billion is expected in the current fiscal year and $8.9 billion in fiscal 1968 bringing the total to

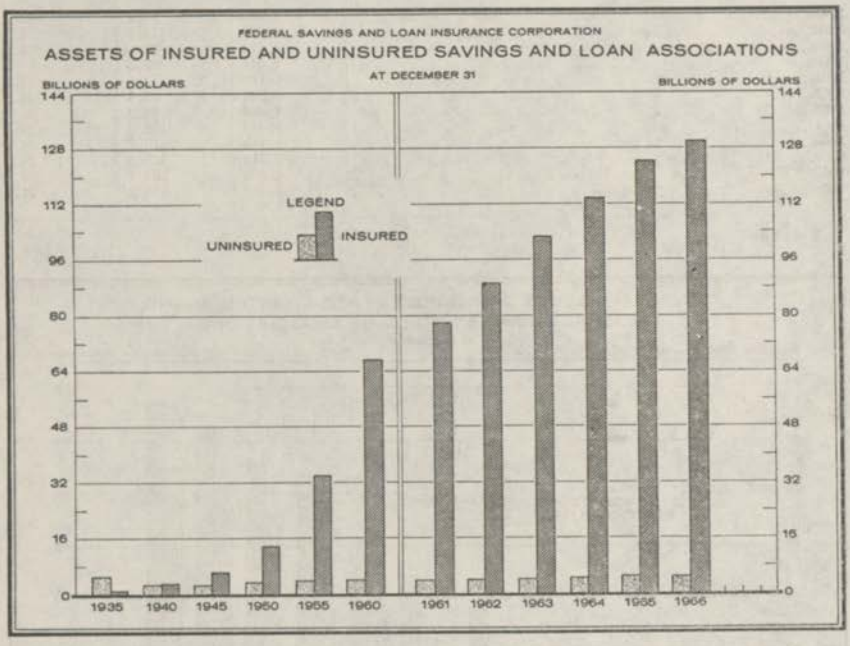
$145.3 billion at June 30, 1968, an estimated increase of $17.5 billion or 13.7% in two years.

The average size of the institutions increased from $26.7 million at June 30, 1965, to $28.3 million at June 30, 1966, an increase of 6.0%. It is expected to reach $31.4 million by June 30, 1968, an increase of 11.0% since June 30, 1966.

The estimated number of insured and uninsured savings and loan associations at December 31, 1966, was 6,220. Of this number, 4,517 or 72.6% were insured, while 1,703 or 27.4% were not.

The chart on the following page indicates that estimated assets of insured savings and loan associations at December 31, 1966, aggregated $130.0 billion. Assets of uninsured savings and loan associations on the same date aggregated $4.9 billion; percentage-wise, insured associations held 96.4% of the assets while uninsured associations held 3.6%.

In summary, insured associations represented 73% of all savings and loan associations and held over 96% of the assets of all savings and loan associations.



Investors.—The following table shows the number of insured investors, total savings, and the size of the average insured account each year for the years indicated:

At June 30—	Number of insured investors	Savings (billions)	Size of average insured account
1946	4,644,000	$5.7	$1,132
1950	7,663,000	10.6	1,389
1955	14,700,000	27.0	1,837
1960	25,869,000	54.9	2,122
1961	28,502,000	63.1	2,214
1962	31,013,000	71.9	2,318
1963	33,338,000	82.7	2,481
1964	35,460,000	92.8	2,617
1965	37,407,000	102.0	2,727
1966	39,597,000	108.1	2,730
1967 [1]	41,900,000	114.6	2,735
1968 [1]	44,300,000	121.4	2,740

[1] Estimate.

The number of insured investors at June 30, 1966, reflected an increase of 5.9% over the number at June 30, 1965. This figure is expected to increase by 5.8% in the current fiscal year, and reach 44,300,000 by June 30, 1968, an increase of 11.9% in the two-year period.

Aggregate savings or investments of investors totaled $108.1 billion at June 30, 1966, an increase of $6.1 billion or 6.0% since June 30, 1965; an increase of $6.5 billion or 6.0% is expected during the current fiscal year. Aggregate savings are expected to reach $121.4 billion by June 30, 1968, an increase of $13.3 billion or 12.3% since June 30, 1966.

The size of the average insured account was $2,730 at June 30, 1966. It is expected to reach $2,740 by June 30, 1968, an increase of 0.4% in the two-year period.

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

[In millions of dollars]

At June 30—	All insured institutions	Federal Savings and Loan Insurance Corporation		
		Total	Primary	Secondary
1946	425	67.3	67.3	
1950	844	88.2	88.2	
1955	2,037	170.7	170.7	
1960	4,307	354.0	354.0	
1961	4,934	410.0	410.0	
1962	5,660	639.0	471.0	168.0
1963	6,440	902.2	543.3	359.1
1964	7,125	1,197.7	617.2	580.5
1965	7,907	1,487.2	690.0	797.2
1966	8,588	1,753.9	775.3	978.6
1967 [1]	9,300	1,949.4	890.1	1,059.3
1968 [1]	10,000	2,223.6	1,018.9	1,204.7

[1] Estimate.

The reserves and undivided profits of insured institutions aggregated $8.6 billion at June 30, 1966, an increase of 8.6% over the figure at June 30, 1965. It is expected to reach $10.0 billion by June 30, 1968, an increase of 16.4% in the two-year period.

The Corporation's Reserve for Insurance Losses was $1.8 billion at June 30, 1966. The basic law required the Corporation to build up a reserve until it was equal to 5% of all insured accounts plus all creditor obligations of all insured institutions. The enactment of Public Law 87–210, approved September 8, 1961, revised the reserve requirements. This law, effective January 1, 1962, requires each insured institution to pay the Corporation annually an additional premium in the nature of a prepayment at a rate equal to 2% of the increase in savings for the previous calendar year less an amount equal to any requirement for the purchase of Federal Home Loan Bank stock during such period. The law further requires the Corporation to establish a Primary Reserve, which shall be the general reserve of the Corporation, and a Secondary Reserve to which shall be credited the amounts of the prepayments made by the insured institutions. When the sum of these two reserves equals 2% of total savings plus creditor obligations, the prepayments will cease and the Corporation will commence transferring the Secondary Reserve to the Primary Reserve by crediting each insured association's accumulated prepayments to its regular premium liability. Based upon current projections, it is estimated that the aggregate of the Primary and Secondary Reserves will reach 2% or $3.2 billion by June 30, 1971. The combined Primary and Secondary Reserves are expected to reach $2.2 billion by June 30, 1968, an increase of $470 million or 26.8% since June 30, 1966.

Section 110(d) of Public Law 89–117, effective August 10, 1965, enables the Corporation to obtain additional liquidity, if necessary, by calling upon insured institutions to make deposits in the Corporation up to one percent of their withdrawable savings. The Board has not found it necessary to invoke this authority to date.

Insurance Liability.—The following table shows the potential liability of the Corporation as of the dates indicated:

At June 30:	*Potential liability in billions*	At June 30—Continued	*Potential liability in billions*
1946	$5.7	1963	$82.3
1950	10.5	1964	93.5
1955	27.4	1965	102.5
1960	54.7	1966	109.6
1961	62.6	1967 [1]	117.2
1962	72.0	1968 [1]	125.2

[1] Estimate.

The potential liability of the Corporation increased from $102.5 billion at June 30, 1965, to $109.6 billion at June 30, 1966, an increase of 6.9%. It is expected to be $117.2 billion by June 30, 1967, and $125.2 billion by June 30, 1968, an increase of 14.2% in the two-year period.

Insurance Claims.—Since its inception through June 30, 1966, the Insurance Corporation had only 57 settlement cases; 20 of these occurred in the last ten years. Losses, including provision for losses, aggregating $75.2 million were experienced as indicated in the following table:

[Dollars in thousands]

Method of settlement	Number of associations	Number of investors protected	Net insurance losses (including provision for losses)
Contribution	33	74,289	$10,939
Receivership	8	34,905	19,728
Acquisition of assets	15	107,719	44,507 (a)
Loan	1	25,099	---------- (b)
Total	57	242,012	75,174

As indicated, cash grants were made to 33 institutions; 8 institutions were placed in receivership and liquidated and in 15 cases the Corporation purchased the assets of 10 State-chartered institutions and 5 Federal-chartered institutions. The losses, including provision for losses, represent approximately 7.5% of cumulative gross income through June 30, 1966.

(a) Includes $3,000,000 loss on loan of $45,000,000 included under "Acquisition of Assets" since assets were acquired in settlement of loan.

(b) Represents loan in the amount of $15,000,000 on which no loss is anticipated.

Borrowing Position.—Under Public Law 576, approved June 27, 1950, the Corporation is authorized to borrow from the United States Treasury such funds, not exceeding $750 million outstanding at any one time, as in the judgment of the Federal Home Loan Bank Board are required for insurance purposes. As this authority has never been exercised, there are no obligations of this type outstanding.

Retirement of Capital Stock.—Pursuant to Section 5(h) of Public Law 576, approved June 27, 1950, the Corporation on July 1, 1958, completed the retirement of its entire capital stock.

Retirement of the stock, amounting to $100 million, began in fiscal year 1951. The amount of the capital stock retired each year was equal to 50% of the Corporation's net income for the fiscal year.

During the life of the stock, the Corporation paid out in the form of a return in lieu of dividends $42,976,000; almost the entire amount was paid to the Secretary of the Treasury.

INSURABLE INTERESTS AND INSURANCE SETTLEMENT OPERATIONS

Mr. EVINS. And place page 166, which is your other items, I believe, through page 168 in the record.

(Pages 166, 167, and 168 follow:)

Insurable Interests and Insurance Settlement Operations

This joint activity is carried on by the Office of Federal Savings and Loan Insurance Corporation.

Insurable Interests.—This activity includes the reviewing of all proposed actions directly affecting the interests of the Corporation, advising the Board thereon, and the development of policy guidelines for use by the Board and staff units in the handling of matters affecting insurance interests.

Insurance Settlement.—This activity calls for steps, authorized by law, to be taken when required, to prevent default and to restore insured institutions to normal operations. The activity also includes directing the liquidation of assets acquired in default-prevention actions and supervising liquidation of institutions where the Insurance Corporation is named receiver. Steps to be taken fall into the following categories:

Prevention of Default.—Section 406(f) of the National Housing Act authorizes the Corporation to purchase the assets of, make a contribution to, or make loans to, an insured institution in or threatened with default; these functions are summarized below:

Purchase of Assets.—To prevent default or minimize losses the Corporation may purchase all or a portion of the doubtful assets of an impaired or threatened institution. In addition to recommending corrective measures designed to prevent recurrence of financial difficulties, a primary responsibility of the Corporation is the orderly liquidation of the assets acquired.

Contributions.—Whenever the capital of an insured association is impaired, the Corporation may make, or commit itself to make, a cash contribution in an amount sufficient to cure the impairment. Throughout the life of such agreements—generally five years—the Corporation maintains close liaison with the institution involved, assisting in its rehabilitation and supervising the liquidation of risk assets.

Loans.—Another statutory power to forestall or minimize losses authorizes the Corporation to make loans to institutions in or threatened with default.

Mergers.—When in the best interest of insured savings accountholders involved, and when such action is not in conflict with the best interests of the Corporation, the Corporation may act as sponsor and negotiate the merger of an institution in or threatened with default with a strong insured institution. Where insured Sate-chartered associations are involved, the cooperation of State Authorities is necessary. Such mergers generally involve a purchase of assets by the Corporation.

Receivership.—When prevention of default is neither prudent nor economical and an insured institution is placed in receivership for liquidation, the Corporation, by law, must be appointed sole receiver if the association is operating under Federal charter. The Corporation may serve as receiver or co-receiver of insured State-chartered associations and the statutes of many States specifically provide for its appointment as such. In any event, the Corporation must make prompt payment of insurance to savings accountholders in all instances, either in cash or by transferred account in another insured association. The Corporation has full responsibility for all phases of liquidation for which it is receiver or co-receiver, and for maintaining vigilant liaison with other receivers for insured institutions in order to minimize the ultimate drain on the Corporation's loss reserves.

Workload.—The workload of this joint activity increased steadily in fiscal 1966. Further increases have occurred in the current fiscal year and additional increases are anticipated in fiscal 1968, largely the result of financial difficulties encountered by a small group of insured institutions. The continuing growth in the number and size of insured institutions, the steady rise in the Insurance Corporation's potential liability, and the growing complexity of the operations of the insured membership largely attributable to increasing competitive forces all serve to increase the responsibilities and the workload of the Corporation.

At the end of fiscal 1966, the Corporation was supervising the rehabilitation or directing the liquidation of purchased assets of seventeen institutions, defaults of which were prevented by Corporation aid. Four of these cases were the result of actions taken during fiscal 1966. In one of the latter cases, the Corporation purchased faulty assets to facilitate a voluntary liquidation, in two cases contribution commitments were made to facilitate mergers with sound institutions, and in the other case a purchase of assets was made to rehabilitate a

problem institution and to facilitate its continuance under strengthened management.

Mortgages, real estate, and other assets owned and being liquidated by the Corporation totaled $147.7 million before allowance for losses as of June 30, 1966. That the problems involved in managing and liquidating these mortgage loans are unusual is apparent from the fact that approximately $42 million of this amount was in the form of real estate as compared with approximately $15 million a year earlier.

In addition to the foregoing, as of December 31, 1966, the Corporation had taken the following actions with reference to problem institutions:

1. Paid insurance in two cases of default and acquired approximately $35 million in subrogated share accounts. In one of these associations the Corporation was named as receiver for the purpose of liquidation.
2. Agreed to purchase up to $2 million in assets from an association in order to facilitate a merger.
3. Made a loan of $48 million to an association to facilitate its merger with a sound institution.
4. Entered into standby contribution agreements with four associations in order to facilitate mergers. These associations had savings capital aggregating approximately $85.5 million.
5. Extended loans in the amount of $17 million to two associations in order to prevent their default.

As of December 31, 1966, two other cases are pending which will probably involve contribution to facilitate mergers.

Each of these actions will add substantially to the workload of the Corporation.

Personnel Requirements.—The estimate of 20 administrative positions reflects an increase of 1 position over the current fiscal year. The position is a GS–12 Financial Analyst.

A more detailed outline of the duties involved in this joint activity and justification of the need for the new position requested will be found beginning on page 171.

On a man-year basis there are 18.4 man-years in 1968 and 15.5 in 1967, an increase in 1968 of 2.9 man-years. Of the increase, 2.3 man-years represent delay in filling positions in the current fiscal year; the remaining 0.6 man-year represents the new position requested.

SUMMARY OF ADMINISTRATIVE EXPENSES

Mr. EVINS. The chart on page 154 shows the summary of the Federal Savings and Loan Corporation. The Corporation requests authority to expend $298,000 of its corporate funds for administrative expenses. Of this increase, $30,000 is in personnel compensation, $2,000 is in personnel benefits, and $1,000 for contractual services.

RESERVES

Corporation reserves for insurance losses of $1.8 billion. The basic law required the Corporation to build up a reserve until it was about equal to 5 percent of all insured accounts plus all creditor obligations. The enactment of Public Law 87–210 revised the reserve requirements. This law, effective January 1, 1962, requires each insured institution to pay the Corporation annually an additional premium in the nature of a prepayment at a rate equal to 2 percent of the increase in savings for the previous calendar year less an amount equal to any requirement for the purchase of Federal home loan bank stock during such period.

This was discussed earlier, to make the reserve account more liquid and solid.

Mr. HORNE. Yes, sir.

Mr. EVINS. How does the Board manage to protect the solvency of its membership institutions in—perhaps I should go off the record on this.

(Discussion off the record.)

Mr. EVINS. You have considerable tools, you have a big mission, Mr. Chairman. We wish you good luck and a lot of success.

Mr. HORNE. Thank you very much.

Mr. JONAS. Could I ask one question before they go?

Mr. EVINS. Mr. Jonas.

NEW OBLIGATIONAL AUTHORITY FOR BUILDING

Mr. JONAS. I am trying to find the page in the budget that I was referring to a minute ago. It shows that in 1966, there was a reduction in NOA, new obligational authority, of $13 million. There is no such figure in this budget. Why was there one in 1966?

Mr. CALLAHAN. You are referring to the new obligational authority of 13.2?

Mr. JONAS. Yes.

Mr. CALLAHAN. This has specific reference to the total cost of the building.

Mr. TREVAS. Authorized by Congress. 13.2 is the total amount authorized for Congress, so they carry it in the budget as new obligational authority.

Mr. JONAS. It was authorized but not appropriated.

Mr. HORNE. That is right, sir.

Mr. JONAS. That is why the reduction is shown in this amount?

Mr. TREVAS. Right.

Mr. HORNE. As I explained, Congressman, it never would be appropriated, but we did not want to bypass Congress for the authority.

Mr. JONAS. I understand.

Mr. HORNE. We came up here and went through every step we should have gone through.

INVESTMENT OF FUNDS

Mr. JONAS. I have one general question I would like to ask.

Does the law require you to put your funds, insurance funds, in obligations guaranteed by the Government, full faith and credit obligations?

Mr. HORNE. Yes, sir.

Mr. JONAS. That would be Treasury obligations and others that bear the full faith and credit?

Mr. HORNE. Yes, sir.

Mr. JONAS. Are you now planning to buy any new participating certificates?

Mr. HORNE. No, sir. We have no plans to. We have not discussed it.

Mr. WORTHY. Our laws provide that we can only invest in funds you mentioned.

Mr. JONAS. Yes. I understand, however, that the Attorney General has made a contrary ruling to what was made a year ago. He has now ruled that these participating certificates constitute direct general obligations.

Mr. HORNE. That is my understanding of the ruling, too.

Mr. JONAS. The ruling was made, I understand, to make these PC's eligible for trust fund investments.

Mr. HORNE. I do not remember the details, because that is not in our area of responsibility, as you know. I believe someone expressed the view that they were made full faith and credit, that the Department of Justice ruled that they had the full faith and credit of the Government back of them, because, if there should be any losses, Government agencies affected, such as the Small Business Administration, for example, would have to make it up. This is the explanation that was given to me.

But so far as your question is concerned, Congressman, do we contemplate or have we contemplated buying the participation through any funds at our disposal, we have not discussed it at all.

Mr. JONAS. All your funds are in direct Government obligations?

Mr. HORNE. Yes, sir.

Mr. EVINS. All requests here are for use of their own funds. The industry has grown, the insurance company is solid, sound, under good management.

Mr. JONAS. I have one other question.

When you raised the insurance to $15,000, did that increase the insurance premium?

Mr. WORTHY. No, sir.

Mr. JONAS. Do you absorb that with the old premium?

Mr. HORNE. Yes, sir.

Mr. JONAS. No increase?

Mr. HORNE. That is right.

Mr. JONAS. Thank you.

Mr. EVINS. Thank you again, Mr. Chairman.

Mr. HORNE. Thank you.

MONDAY, FEBRUARY 13, 1967.

U.S. CIVIL SERVICE COMMISSION

WITNESSES

JOHN W. MACY, JR., CHAIRMAN
ROBERT E. HAMPTON, COMMISSIONER
DAVID F. WILLIAMS, DIRECTOR, BUREAU OF MANAGEMENT SERVICES
W. B. UHLENHOP, CHIEF, BUDGET AND FINANCE DIVISION
JAMES A. HAMILL, CHIEF, BUDGET SECTION
CHARLES F. OVEREND, DEPUTY DIRECTOR, BUREAU OF RETIREMENT AND INSURANCE
CHARLES J. SPARKS, DEPUTY DIRECTOR, BUREAU OF MANAGEMENT SERVICES
WILLIAM F. SPECK, ASSISTANT CHIEF, BUDGET AND FINANCE DIVISION

Mr. EVINS. The committee will come to order.

We have with us this morning our friends of the U.S. Civil Service Commission, the Chairman, John W. Macy; Commissioner Hampton; Mr. Williams, Director of Management Services; Mr. Uhlenhop, Chief of Budget and Finance. His budget is getting bigger and bigger. He is not listening to the President to hold it down. He is listening to the employees to build it up. Mr. Hamill is the Chief, Budget Section.

Mr. Charles Overend, Deputy Director, Bureau of Retirement and Insurance; Mr. Sparks, Deputy Director, Bureau of Management Services; Mr. William Speck, Assistant Chief, Budget and Finance Division.

Mr. Chairman, we always listen to you with profit and will be glad to hear you now.

Mr. MACY. Thank you, Mr. Chairman.

Mr. EVINS. We have with us today Mr. Pryor, a new member of the committee, and Mr. Talcott, also a new member.

GENERAL STATEMENT

Mr. MACY. Nice to see you again, gentlemen.

Mr. Chairman and members of the committee, we are pleased to meet with you today to discuss the program goals and financial requirements of the Civil Service Commission for fiscal year 1968.

This past year has been a very significant one for the Commission in terms of its accomplishments and improvements made in the administration of Federal personnel programs. I would like to highlight some of those briefly for you, since they have a bearing on the level of our operations and the funding of our programs as reflected in the budget material before you.

MODERNIZATION OF THE RECRUITING AND EXAMINING PROGRAM

A year ago, when we appeared before this committee, I outlined a program which the Commission, at the direction of the President, was undertaking to improve the quality of recruiting and examining service to the Federal agencies and to the public. I am pleased to report that this new program is moving ahead right on schedule and we are extremely well satisfied with the results thus far.

INTERAGENCY BOARDS

The 65 interagency boards of examiners in the original plan have been established and are operating in principal metropolitan centers throughout the country. At least one board has been located in each State. These boards are under the supervision of the Commission and, except for employment in the Post Office Department, are responsible for the conduct of examinations, the evaluation of candidates, the establishment of lists of eligibles, and the certification of the best qualified for vacancies as they develop. Since these boards are interagency in character, the cost of their operations is financed by advances and reimbursements from the participating agencies. Contributions from the agencies this fiscal year amount to $10,678,000 and are estimated at $14,614,000 for fiscal year 1968.

Mr. EVINS. What was the cost of the multiple numbers of boards before you had the consolidated boards?

Mr. MACY. Prior to the time of the interagency boards, we did not have financial figures as to the costs incurred by the agencies in operating single-agency installation boards, except for estimates of the salary costs. My guess would be that the total cost was in excess of the figure that is reflected here as the cost of operating the interagency boards.

Mr. JONAS. May I ask another question?

Mr. MACY. Yes, sir.

Mr. JONAS. Do any other departments or agencies of the Government, except the Post Office Department, operate individual boards?

Mr. MACY. At the moment there are some boards that have not been consolidated into the interagency boards.

Mr. JONAS. Give us a list of those.

Mr. MACY. All right. I will provide that for the record.

(The information follows:)

Distribution by agency of boards of examiners being absorbed into interagency boards

Agency	Number of boards as of Apr. 1, 1966	Number merged into IAB system as of Feb. 7, 1967	Number yet to be merged
Department of Defense	276	92	184
Army	(112)	(28)	(84)
Navy	(65)	(20)	(45)
Air Force	(76)	(34)	(42)
Other defense activities	(11)	(1)	(10)
Joint Army, Navy, Air Force	(12)	(9)	(3)
Department of Justice	2	0	2
Veterans' Administration	163	95	68
Department of the Interior	35	16	19
Department of Health, Education, and Welfare	32	17	15
Department of the Treasury	33	7	26
Department of Housing and Urban Development	27	21	6
Department of Commerce	19	16	3
Department of Agriculture	17	6	11
General Services Administration	10	8	2
Federal Aviation Agency	8	4	4
National Aeronautics and Space Administration	8	2	6
Federal Home Loan Bank Board	6	4	2
Selective Service System	6	6	0
International Boundary and Water Commission	1	1	0
St. Lawrence Seaway Development Corporation	1	0	1
Civil Aeronautics Board	1	1	0
Government Printing Office	1	1	0
Interstate Commerce Commission	1	1	0
Department of Labor	1	0	1
National Mediation Board	1	1	0
Securities and Exchange Commission	1	1	0
Smithsonian Institution	1	0	1
U.S Information Agency	1	0	1
District of Columbia government	2	2	0
Federal Trade Commission	1	1	0
General Accounting Office	1	1	0
National Labor Relations Board	1	1	0
Federal Deposit Insurance Corporation	1	0	1
Central boards	3	3	0
Total	661	308	353

Mr. MACY. The intent is that by the first of 1968, all single agency boards will be consolidated into these interagency boards, with the exception of the Post Office Department.

Mr. JONAS. How about the Defense Department?

Mr. MACY. This will include all the Defense Department boards, Army, Navy, Air Force.

Mr. JONAS. They are not included now?

Mr. MACY. Some of them are included now. We are in a transition stage of bringing them into these interagency boards.

Mr. WILLIAMS. At the present time we have closed approximately 308 of the 661 individual agency boards. The balance of them will be closed by the end of this calendar year.

Mr. JONAS. We have a military installation in *x* State. They need some civilian employees. Do they go to the interagency board of that State or the closest one to it for their people or do they recruit themselves?

Mr. MACY. They go to the interagency board in the State or, where there are several in a state, to the one that is nearest.

The commanding officer of the particular post, who is a member of

the board of directors of that interagency board and participates in its planning, gives to the board an indication of the recruiting and hiring that is necessary for his installation. His people participate in the recruiting but the examining is conducted by the board staff.

Mr. JONAS. Would this apply in a State where you have 15 or 20 separate military installations?

Mr. MACY. Yes, sir.

Mr. JONAS. Would each installation have a representative on the board?

Mr. MACY. Each of the major Federal employers would. The head of such an installation or office would serve as a member of the board of directors of the board. The interagency board is run by an executive officer who reports to the board of directors and supervises the operations as a civil service employee.

Mr. JONAS. I am thinking of Virginia, for example, where we have a great concentration of military activities across the river and then another concentration around Norfolk and the Navy, Army, Air Force are all represented in the services.

Mr. MACY. Yes. Here in the Washington metropolitan area there is a central board which is housed in the Civil Service Building which has a board of directors made up of top people from the departments and agencies, including the field installations in the area.

There is a board in Norfolk which is concerned with the many military installations that are in the whole Hampton Roads area. They develop a program of recruiting and examining in order to meet the needs of all of the Federal activities in that area.

Mr. EVINS. Mr. Chairman, this consolidation has been underway for about a year and it is substantially completed, I understand?

Mr. MACY. Yes, sir. Substantially completed, as I will indicate here in my next paragraph.

Mr. EVINS. Proceed.

Mr. MACY. Concurrent with the establishment of these new interagency boards of examiners, we are phasing out the work of the 661 single agency boards which operated under the old system.

As of February 7, there were 308 single agency boards that had been abolished and by next January 1, the remaining 353 will go out of existence, with the transfer of their examining work into the new interagency boards.

In addition, each of the 65 interagency boards of examiners is operating a Federal job information center at which comprehensive information about employment opportunities in the Federal service can be provided for inquiring citizens. During the first 6 months of this fiscal year, almost 1.5 million inquiries, both written and oral, were answered at these information centers.

The modernization of the recruiting and examining program also involves a consolidation of much of the current examining activity into fewer, broader, and better coordinated examinations, with the Commission providing a central computerized examination processing

and test scoring service. The examination procedures are thereby being speeded up and more timely service is being rendered to both applicants and the Federal agencies.

As an example of the new approach being taken, the Commission has just recently announced a new junior Federal assistant examination, which is especially designed to attract junior college graduates. Through such a single examination, we hope to tap this expanding source of good talent to fill a wide variety of jobs in different fields at the GS–4 level. Similar "broad band" examinations will be announced from time to time as procedures are developed.

FEDERAL EXECUTIVE MANPOWER

With respect to upper level jobs, the President on November 17, 1966, issued Executive Order No. 11315, which amended the civil service rules to provide an executive assignment system for positions in grades 16, 17, and 18 of the General Schedule. The Commission has been given responsibility for this new system which is designed to assure staffing of upper level jobs in the Federal Government with the best talent available. It will broaden the search for executive talent, provide developmental opportunities for career executives, and make more efficient use of our topflight personnel. All of this points toward the objective of bringing the right talent to the right job at the right time.

The Commission is rapidly moving ahead to implement the new system. A new Bureau of Executive Manpower has been established to concentrate our responsibilities in one organization. Procedures are being developed and work is already underway to set up a central inventory of career executives. This inventory will cover about 25,000 Federal employees serving in positions at grades GS–15 and above and at equivalent salary levels, and will serve as a means to draw upon the available resources of the Government in filling executive positions. Other approaches are being developed for outside recruiting, and plans are being drawn up to provide training for executives already within the career service.

CAREER DEVELOPMENT AND TRAINING

The scope and variety of training activities conducted under the Government Employees Training Act of 1958 continues to increase under the impact of manpower shortages, technological changes, and new governmental programs. In July 1966 the Commission established a second executive seminar center at Berkeley, Calif. This center, together with the one previously established at Kings Point, N.Y., will provide training opportunities this year for 1,200 Federal managers in 33 separate 2-week courses. A new personnel management training center and an ADP center have been established in Washington by the Commission to meet increased agency demands for training in these fields.

LOCATION AND OPERATION OF SEMINAR CENTERS

Mr. JONES. May I interrupt there?

Mr. EVINS. Yes.

Mr. JONAS. I would assume that most of your students at these centers, or the one in Kings Point, would come out of the Washington area. Am I wrong about that?

Mr. MACY. I would say about 50 percent of them have been coming out of the Washington area. The rest are coming——

Mr. JONAS. Would it not be better to have it closer at hand, keep from having travel expense and subsistence?

Mr. MACY. The view has been that this is designed not just for Washington but for the entire eastern section of the country and, as I say, about 50 percent are coming from other parts of the country and from the field service. The establishment at Kings Point is on the reservation of the Merchant Marine Academy and it was possible for the Government to use existing facilities that were not in full use.

Our view is that the center there has worked out well both in terms of the quality of the training and the economy of the operation. The Berkeley center, which I referred to, was established on a somewhat different basis. It is located at the edge of the University of California campus in space that has been rented from a private company and the facilities for overnight accommodations and feeding are in a nearby hotel. This, too, we feel has worked out well and there is a high demand from the agencies for these 2-week seminars.

Mr. EVINS. Proceed, Mr. Chairman, if you will.

Mr. MACY. Yes, sir.

In addition, the Commission is providing interagency training courses, both here in Washington and in the field, on a cost-shared basis, covering a wide variety of subjects. Last fiscal year, nearly 22,000 employees from 65 Federal agencies attended these training sessions. Additional courses are being added this year to meet agency demands and particular emphasis is placed on financial management training and in programing, planning, and budgeting systems. Since July 1966, the Commission has conducted ten 3-week courses in PPBS alone, which were attended by 485 employees of Federal agencies.

EQUAL EMPLOYMENT OPPORTUNITY

The Commission is vigorously moving ahead on several fronts to strengthen the equal employment opportunity program in the Federal Government. We are seeking to improve the system for collecting data. Concerted on-site reviews are being made through our inspection process to identify problems and what needs to be done. Appropriate interagency training courses are being conducted; job standards and tests are being redesigned to insure that they do not unjustly discriminate against the disadvantaged including minority members; and we are helping Federal agencies initiate action programs designed to eliminate prejudice or discrimination because of race, creed, color, or national origin.

Mr. EVINS. This function has been transferred to the Civil Service Commission.

Mr. MACY. We feel that we are endeavoring to carry out the President's directive with respect to this program.

DOWNGRADING OF POSITIONS

Mr. TALCOTT. Mr. Chairman, may I ask if the job standards are being degraded to assist in placing disadvantaged people or minority groups?

Mr. MACY. Not degraded. What we have endeavored to do, Mr. Talcott, is to review all of our job requirements to make absolutely certain that the requirements that are called for are responsive to the tasks that must be performed in the job.

Mr. TALCOTT. We should be trying to upgrade them rather than degrade them?

Mr. MACY. No, I do not think it is a matter of up or down but a matter of making sure that the jobs are engineered so that they can be done most effectively.

We found, for example, that in some instances the qualification standards are too high for the tasks that actually have to be performed, and that consequently, instead of getting higher production by having higher qualified people, we get lower production.

Mr. TALCOTT. What is one example of that?

Mr. MACY. For example, in some of the professional fields we have found that there is a decided advantage——

Mr. TALCOTT. You are talking about doctors or lawyers now?

Mr. MACY. Let us take the medical field. We found that in some of the analyses that we have made there are certain tasks performed by a doctor that can be performed by a paramedical employee, by a nurse, or by an aid and by taking those functions out of the medical positions——

Mr. TALCOTT. Excuse me. Would a reduction of these help the disadvantaged people and the minority races?

Mr. MACY. This would in the instances where they receive training of this kind. They are able to compete for some of these aid and assistance jobs at the lower levels.

Mr. TALCOTT. Thank you.

Mr. MACY. Thereby permitting a higher utilization of the doctor's skills. At the other end of the scale——

Mr. TALCOTT. I think you picked some important examples.

Mr. MACY. I will be happy to develop it further.

Mr. EVINS. Proceed, Mr. Chairman, if you will.

Mr. JONAS. I have one question on this particular point, if I may.

Mr. EVINS. Surely.

Mr. JONAS. Do you mean that the Equal Opportunity Employment Commission is a separate office in Government and has nothing to do with the Federal employees?

Mr. MACY. That is right. It is concerned with private employment under title 7 of the Civil Rights Act of 1964.

Mr. JONAS. It has no function with respect to Federal employees. You have taken that over?

Mr. MACY. No, the civil rights statute left the Federal Government responsible for its own programs because the programs predated the civil rights requirements.

VOTING RIGHTS ACT OF 1965

The Voting Rights Act of 1965 placed an entirely new and unprecedented responsibility with the Civil Service Commission. Under the act and as directed by the Attorney General, the Commission assigns Federal examiners for listing of voters and provides personnel to serve as observers during elections in those States or other political subdivisions designated by the Attorney General. In addition, the Commission has certain responsibilities in connection with the hearing and challenge procedures under the act.

To date, 132,497 persons have been listed as eligible voters by Commission examiners in 44 counties pursuant to assignment and direction by the Attorney General. Observers have been dispatched on nine separate occasions at the request of the Attorney General in connection with primary, runoff, and general elections since April 1966. The November 8 general election required 610 employees for the observation function.

COORDINATING PAY RATES FOR WAGE BOARD POSITIONS

During this past year, considerable progress has been made in identifying the actions needed to achieve Government-wide equity in pay for wage board jobs. This effort affects approximately 700,000 employees in 61 Federal agencies involving 1,600 different lines of work. These are the so-called blue collar jobs covering the manual, trades, crafts, and labor workers employed by the Federal Government.

Extensive information has been gathered and analyzed about existing agency systems and the location of wage board employees. We have held numerous meetings with representatives of Federal agencies and of employee organizations on alternative ways of resolving issues and on wage survey problems. There have already been selected, defined, and graded, 34 proposed key ranking jobs which action establishes the framework for the classification of all wage board jobs. Plans have been developed that will sharply reduce the proliferation, duplication, and overlapping of job titles, job families, and different lines of work currently used by the agencies. Final decisions will be made shortly on several basic policy issues which will permit development of the details of the Government-wide system to provide equity in pay for wage board jobs.

RETIREMENT AND INSURANCE OPERATIONS

The workload in the retirement and insurance program continues to increase year after year due largely to the rising volume of annuity and death claims received for processing. The monthly benefit pay-

ment roll increased by more than 66,000 during fiscal year 1966 and, at the present time, there are about 800,000 annuitants and survivors receiving monthly benefit payment checks. The advent of medicare added complexity with 119,000 annuitants currently having medicare deductions made from their retirement checks.

Mr. EVINS. This is going to reduce your work, is it not, Mr. Chairman? You are going to have less work since medicare came along? This other work will not be as extensive?

Mr. MACY. Hopefully that will be the case because these two are interrelated. This is a problem of how they can be most appropriately related and reduce the cost.

Mr. EVINS. Do these figures relate to retired employees or do they relate to annuitants under benefit programs and survivors?

Mr. MACY. These are retirees and the survivors of Federal employees. The 800,000 figure represents the current number of people on the rolls to whom a monthly check is being issued under the civil service retirement system.

Mr. EVINS. Retired Government employees?

Mr. MACY. Right.

The Congress authorized $600,000 in the current year's budget to acquire new ADP equipment to modernize the maintenance of the annuity roll. After extensive evaluation of available equipment, the Commission selected an RCA Spectra 70 computer for this purpose. The new computer was delivered in December 1966, and acceptance trials of the equipment are now underway. This new equipment already has been helpful in processing the general retirement annuity increase and health benefits insurance changes which were effective January 1, 1967.

During the next year, we will eliminate manual updating of individual annuity cards, install a case control system for claims processing, extend automatic computation of pay adjustments, and step by step implement the conversion to a fully automated system. We are convinced that this system will effectively reduce the need to increase the staff performing these operations in future years.

COMPUTER UTILIZATION

Mr. PRYOR. May I ask a question?

Mr. EVINS. Mr. Pryor.

Mr. PRYOR. Mr. Chairman, last year your statement concerning the purchase of computers and the justification for it implied that with computers possibly one half of the number of employees would be necessary to operate this particular department. Does your present 1968 budget request reflect such a reduction in the number of employees and the cost to operate this particular department?

Mr. MACY. As I recall it, my testimony last year was to the effect that over a time a savings would be made by making it possible for the Commission to deal with the increases without a proportional increase in staff.

In answer to your question, the estimates for 1968 that are included in the budget before you do not reflect any reduction but do indicate

that an increased workload can be carried without an increase in staffing in our retirement operations. As I recall it, my statement last time indicated that over a 10-year period, where we anticipated a very substantial increase in the volume of names on the rolls, we would be able to do it with fewer employees than would be required without the computer.

Mr. EVINS. Generally, it has been our experience here that although there are claims of savings in personnel, it actually requires more personnel to operate the computer.

Mr. PRYOR. If I may, your statement said that at the beginning of fiscal year 1968 we would start saving in this area. I was wondering if in the fiscal year 1968 budget request this reflection is made, are you going to start saving now?

Mr. SPARKS. We show a reduction from 65 to 62 cents per annuity account. Part of the reason we won't realize all of these savings in 1968 is that we have a parallel operation to run in order to be sure that the new systems are working properly. There are also conversion costs which you incur when you put a new application on a computer.

Mr. EVINS. Proceed, Mr. Chairman. We will go into the details later.

FEDERAL EMPLOYMENT AND TURNOVER RATE

As of June 30, 1966, employment in the executive branch totaled 2,726,136, a net increase of approximately 230,000 over June 30 a year ago. This is the total executive branch employment, full time and part time.

Mr. EVINS. Civil service and noncivil service?

Mr. MACY. Correct. This is the gross figure for that date.

Mr. TALCOTT. Not the courts and legislative?

Mr. MACY. That is correct.

Mr. TALCOTT. Do you have the figures for January 1, 1967?

Mr. MACY. Yes; I do.

Mr. TALCOTT. So we can find out how much the increase is since then?

Mr. MACY. I think that I have that in the statement, if I may proceed. If it is not responsive to your question, I will pull out some additional statistics.

Mr. TALCOTT. All right, thank you.

Mr. MACY. This increase in employment—substantially due to the expansion in the Department of Defense and related agencies for support of our commitments in southeast Asia and in the Post Office Department—has had a significant impact on Civil Service Commission programs. For example, total hires into the executive branch in fiscal year 1965 totaled 541,600. In fiscal year 1966 they totaled 855,600. Part of this increase in hires is due to the employment increase already mentioned, but part of it is also due to the fact that we are experiencing an increase in our separation rate or turnover, which reflects the prevailing labor market conditions in the general

economy. In fiscal year 1966 the new hire rate was 25.4 percent as compared to the estimate of 14.5 percent reflected in our budget last year.

Mr. JONAS. When you say the new hire rate, do you mean replacement hires?

Mr. MACY. This is replacement hires. That is right.

Mr. JONAS. That does not relate to new employees, or is that included?

Mr. MACY. This is both the replacement and the incremental——

Mr. JONAS. We understood in here through the years that the Government had a turnover of about 15 percent. That is the figure you use, 14.5. Do you mean that has increased now to 25?

Mr. MACY. Yes.

Mr. JONAS. The rollover rate?

Mr. MACY. Yes.

Mr. EVINS. Turnover rate?

Mr. MACY. The turnover rate has gone up that much over the last year.

Mr. JONAS. That would be a 25-percent figure? You do not have that much turnover per year now, do you? I thought this included replacements as well as new hires.

Mr. MACY. The new hire rate includes replacement for turnover, plus the incremental hiring. This is computed on the basis of the number of new hires in relation to the average employment for the year.

SEPARATION AND ACCESSION RATES

Mr. EVINS. Relate that to separations.

Mr. MACY. Let me give you the separation rate. The separation rate for fiscal year 1966, for the entire Federal Government, was 24.8. The accession rate, and this is where the increase is particularly reflected, is 33.3.

Mr. TALCOTT. What is the accession rate?

Mr. MACY. The accession rate represents the total number of new hires for the year divided by the average employment during the year.

Mr. TALCOTT. Does this include not only new hires but replacements and also the change within the Federal Government, one man moving from one job to another job?

Mr. MACY. The transfers are included in the separation rate. It is a relatively small proportion of the separation rate, but it is also in here.

Mr. EVINS. Your figures show that you have one of the highest separation rates in years, 24.8 percent. On the other hand, you have an increased employment rate. There is a big activity and a big turnover. This is due to the economy at one point and the Vietnam war effort on the other; is that correct?

Mr. MACY. That is right. Our experience has been, over the years, that when the Federal Government is increasing its size and there is a tight labor market, that there is an accompanying increase in the separation rate. This tends to compound the Government's demand upon the labor market.

Mr. EVINS. If you just showed the employment rate without showing the separation rate, one would not see the total picture?

Mr. MACY. That is right.

Mr. EVINS. By showing the large increase in separations one gets a better understanding.

NEW HIRE RATE

Mr. MACY. The new hire rate we cited to you on previous occasions, which has been down around 13.6 and 14.5, was when the total strength of the Government was either stable or dropping so that the need for new hires was strictly replacement and sometimes less than total replacement because the total strength was dropping.

You now have the reverse of the situation. We have had a rapid increase in order to staff up for Vietnam and to meet the increased workload of the Post Office and this has been accompanied by an increase in separations which is largely a reflection of the tight labor market. Labor becomes much more mobile when there is a reduced supply.

Mr. EVINS. What about the future, Mr. Chairman?

Mr. MACY. We are forecasting that this picture will improve somewhat and we have estimated that the rate of new hires in the competitive service will be about 21.7 percent in 1967 and about 21 percent in 1968.

As I indicate in the next paragraph, at the time our 1968 budget estimates were prepared, there was no firm basis for predicting the future trend in Federal employment for fiscal year 1968 and therefore, we assumed a continuation of the past June 30 level. This is the level as of 1966. The President's budget, however, now forecasts further increases of 180,000 for fiscal year 1967 and 68,500 for fiscal year 1968 in full-time permanent employment in the executive branch.

Both of these conditions, that is, the increased turnover rate and the increase in employment level, means that Commission programs will continue at the high rate currently experienced. Our current forecast of total new hires in the executive branch is 830,600 for fiscal year 1967 and 788,000 for fiscal year 1968.

FISCAL YEAR 1967 SUPPLEMENTAL

Let me relate this high rate of hires to our specific activities:

With respect to the recruiting and examining program, most of the increased workloads in staffing the Federal agencies with qualified personnel will be accommodated through the interagency board of examiners. Since these boards are financed by reimbursement from the participating agencies, it will not be necessary for the Commission to seek additional appropriations for this work.

In the investigations programs, we are faced with a serious problem in keeping national agency check and inquiry cases current. The actual amount of work on hand, as of January 28, 1967, amounts to over 167,500 cases—about 17 weeks' receipts, which is 9 weeks above normal. The President's budget forecasts a supplemental request for this fiscal year of $595,000 for this item, which represents the maxi-

mum amount that we can effectively spend during the last 3 months of this fiscal year, rather than the amount actually required to become current by June 30. The remainder of our requirements are carried over and included in the regular 1968 budget estimate.

Mr. EVINS. We will talk about that a little later. We want you to be precise and forecast your budget so you do not need to submit these supplementals.

These interagency boards are being financed by the departments and that is a good thing to have in their budgets. Yet with your efficiency and expertise and your qualified men you have learned to do this check business mighty fast and should be able to speed up production?

Mr. MACY. We are trying to do that, Mr. Chairman. You will notice that the per-case cost is down slightly from last year. This is as a result of improved procedures, reduction of some of the coverage of the national agency checks that appeared to be the least productive. We will continue that analysis. This is an uncontrollable workload because the Commission, under the Executive order that set up this investigative program, is required to make these checks rather specifically required for all those that are being hired by the Federal Government.

Mr. ERVIN. Explain this next item to us.

Mr. MACY. Although not directly related to Federal employment and turnover conditions, supplemental funds will also be required this fiscal year for the retirement and insurance program. The increase in the Consumer Price Index last fall resulted in higher annuity benefits effective January 1, 1967, and therefore, provided an added inducement for many Federal employees to retire prior to December 31, 1966. As a result, 15,000 additional retirement claims are expected this fiscal year, requiring $196,000 in administrative expenses to be transferred from the retirement and disability fund to the salaries and expenses appropriation, to cover the cost of processing the additional work. An additional $134,700 is required for pay increase costs. In addition, may I insert a further explanation in response to the chairman's point?

COST-OF-LIVING INCREASE FOR ANNUITANTS

Under the existing provisions of the Civil Service Retirement Act, annuity benefits of retired employees and survivors are automatically adjusted by the Civil Service Commission when there has been an increase in the Consumer Price Index of 3 percent for a period of 3 continuous months.

Consequently, this year there was an increase automatically applied as of January 1, because the cost of living, as measured by the Consumer Price Index, had been over 3 percent since the previous increase for the months of September, October, and November.

Mr. EVINS. Does this apply to employees going off the rolls at the time or does it apply retroactively to those already retired?

Mr. MACY. It applies to those already retired. This is an effort on the part of the Government, as a matter of public policy, to preserve

the purchasing power of the annuity earned by the employee during his working life.

Mr. EVINS. You have 800,000 retired Government employees. If you had a 3-percent increase in the cost-of-living index and it continued for 3 months, then you have to recompute 800,000 employee benefits?

Mr. MACY. That is correct.

Mr. WILLIAMS. We have an automated process where we can do this, aside from the money aspect.

Mr. TALCOTT. You might have an automated process but it does not come cheap. You are looking for $330,000 more to do this.

Mr. MACY. The $330,000 you refer to includes processing the additional 15,000 annuity claims and $134,700 to cover pay increase costs. This is a large volume operation with each computation being different. Each annuity is based upon the individual past service and the salary of that service. Authorized increases must be computed for each particular annuity.

Mr. EVINS. Can't you utilize the computer for this type work?

Mr. MACY. In addition to the recomputation of the 800,000, this particular increase in annuity attracted an earlier retirement for approximately 15,000 individuals whom we had not predicted would be among those retiring during the year.

Mr. JONAS. That was not really contemplated by the proponents of the legislation, was it? It was not designed for that purpose?

Mr. MACY. No.

Mr. JONAS. The fact of the matter is I think we ought to be encouraging these people to stay on as long as they are able to work?

Mr. MACY. That certainly is the desirable policy.

Mr. JONAS. Instead of inducing them to retire earlier than they planned? I guess that was just accidental because it was a deadline?

Mr. MACY. There was a deadline and every time you have an effective date there tends to be an encouragement of those to beat the date in order to take advantage of it.

Mr. WILLIAMS. The same thing happened 1 year ago, the previous December, because of the change in the law which increased benefits. We had at that time approximately 25,000 people who retired on or before December 31, 1965, in order to acquire that additional increase in annuity.

Mr. JONAS. It looks as if we could still accomplish the overall objective and close up that little loophole some way.

Mr. MACY. There would be ways of doing it, Mr. Jonas, but I am not at all sure that those who are the proponents of doing something, for those retired would buy it. Let me add as a comment on your earlier point that the whole trend in legislation is to permit earlier retirement without any reduction in annuity. Last year Public Law 89-504 provided that employees with 30 years of service reaching age 55 can retire without any actuarial reduction in the annuity.

Mr. JONAS. That might be sound in a period where we have a lot of unemployment but it certainly is not efficient in periods when we have shortage of labor.

Mr. MACY. This is particularly true in the areas of shortage skills. Hopefully, agency managers are trying to encourage those people to stay on a little longer and not take advantage of the retirement situation.

In addition, a supplemental appropriation of $4,914,000 will be necessary to cover the increase in the Government's share of the cost of health insurance for annuitants under the Federal Employees' Health Benefits Act. This added requirement stems largely from Public Law 89–504, enacted July 18, 1966, which raised the Government's share of the subscription charge, effective August 1, 1966.

Perhaps an added word of explanation would be helpful. Again, in the omnibus salary and benefit bill last year, there was a provision that increased the Government's share of the subscription charge in meeting the cost of the Health Benefits Act. This is partially a reflection of the increased cost of health benefit programs that I am sure all of you found around the country.

This is an increased cost that we must anticipate not only this year but in future years as this kind of service in hospitals continues to be more possible.

PAYMENTS TO INSURANCE COMPANIES

Mr. EVINS. We will go into this in more detail later. Basically, this gives a larger payment to the insurance companies.

They are covering the employees and they bill the Government. These companies have cut off certain benefits, reduced certain options, and still their costs go up.

Do you have a statutory authority to set standards and examine these things? I think this is an important responsibility of the Commission.

Mr. MACY. It does indeed. Of course, the bulk of this money goes to two uniform plans. One is the service plan which is handled by Blue Cross-Blue Shield. The other is an indemnity plan which is carried by the industry with Aetna serving as the industry representative.

Mr. EVINS. You allow them to cut down certain of the options and the rates go up.

Mr. MACY. No, we have tried to keep the service at a given level and have actually urged the carriers to add some addtional services under the premium paid by the Government and the employee. I think it is important to point out that under the plan as it is operating now, the major portion of the premium is being paid by the employee. The Federal Government is paying less than 50 percent.

Mr. JONAS. While you are on that point, I think it is well established that you cannot continue to absorb higher hospital costs on the same premium. I remember when the charge cut at Bethesda was $20 a day. It is now $42 a day.

I know a carrier paid out a lot of money for me last year when I had two operations on my hands. It will take them a long time to get even with me.

Mr. EVINS. I am not shedding any tears for the carriers. I think we subsidize them pretty heavily.

Mr. JONAS. I am not shedding any tears for them either. I am just assuming that you consider their prospective earnings when the contract is made with them.

Mr. MACY. We review that very carefully. We watch the experience very carefully. I think that the increased costs in the premiums are clearly a reflection of the conditions you are describing, the increased costs of hospital care. This is occurring all over the country. You have had across the country in the last year very significant increases.

Mr. EVINS. While one individual may benefit, there are a great number of others who are paying into the fund and not receiving any benefits.

Mr. MACY. That is the insurance principle.

Mr. JONAS. That is like fire insurance. If I had all the premiums that I have paid for fire insurance I could build several houses. Of course, I am not going to drop it.

SUPPLEMENTAL FOR PAY INCREASES

Mr. MACY. The only remaining item, Mr. Chairman, requiring a supplemental appropriation for fiscal year 1967 is the one to cover general increase in salary rates which also results from Public Law 89-504, the Federal Salary and Fringe Benefits Act of 1966. The total additional costs to the Commission, for pay increase and related items, amounts to $1,320,000, of which $529,400 is applicable to the salaries and expenses appropriation. I am pleased to inform you that the Commission, by administrative action, is absorbing 58 percent of this latter amount, leaving only $223,000 to be requested of the Congress for this fiscal year.

This absorption is carried forward and reflected in the budget estimate for fiscal year 1968.

FISCAL YEAR 1968 BUDGET ESTIMATES

Now, I would like to comment more specifically on the Commission's budget for fiscal year 1968 and the material appearing in the document before you.

LANGUAGE CHANGES

COMBINING OF "INVESTIGATION OF U.S. CITIZENS FOR EMPLOYMENT BY INTERNATIONAL ORGANIZATIONS" WITH "SALARIES AND EXPENSES"

First of all, there are a few changes in appropriation language and in the structure of the budget that call for special attention. Let me enumerate them briefly:

Change No. 1: We are proposing that the appropriation, "Investigation of U.S. citizens for employment by international organizations," be combined with the salaries and expenses appropriation, thereby reducing the number of separate appropriation accounts.

Mr. EVINS. Mr. Chairman, why do you want to combine this? Why do we not keep them separate? Why do you not let us know what the cost of this investigation of U.S. citizens for international organizations is?

Mr. MACY. We will continue to give you an identification of the cost. The justification is that it reduces the number of separate appropriation accounts. For the most part it is a service function that the Commission performs for the State Department and the international agencies. The Commission uses regular personnel for this function.

We certainly would continue to give you the detailed justifications as to why the funds for this activity are necessary.

Mr. TALCOTT. Do these international organizations reimburse you for the cost of these investigations?

Mr. MACY. No, sir. This appropriation covers the entire cost. The cost is made up of really three elements: (1) the investigations conducted by the Civil Service Commission of the U.S. candidates for international agencies; (2) reimbursement to the FBI in instances where a case becomes an FBI investigation because some loyalty information is revealed; and (3) a very limited cost by the Commission in evaluating these reports and making recommendations to the international agency through the State Department.

Mr. TALCOTT. This particular account is different from most of the work you do for domestic agencies?

Mr. MACY. Yes, it is. Of course, it involves multilateral agencies, not agencies of the United States.

Mr. EVINS. In this personnel and administrative work, I can see where there is an administrative cost, but I still think we ought to know what the cost is of this particular function. It ought to be separated and not lumped where we cannot find it.

Mr. MACY. All right, sir.

COMBINING OF "PAYMENT TO CIVIL SERVICE RETIREMENT AND DISABILITY FUND" AND "GOVERNMENT PAYMENT FOR ANNUITANTS, EMPLOYEES' HEALTH BENEFITS"

Change No. 2. "Payment to civil service retirement and disability fund," with that for "Government payment for annuitants, employees' health benefits" into a single appropriation to be titled "Payments to trust funds." This proposal would further simply the appropriation structure, but at the same time would retain separate identity of the amounts to be appropriated.

Mr. JONAS. Do you wish to discuss that a little?

Mr. EVINS. Yes, I think you should explain this. Even though you are going to retain the separate identity of them, I do not know whether this is a wise practice. I know you have given a lot of consideration to this.

Mr. MACY. We have. The view is that this would simplify the appropriation structure.

Mr. EVINS. In other words, you have three trust funds: You have the employees' health benefits fund, the retired employees' health benefit fund, and the civil service retirement and disability fund. You have three trust funds which you propose to lump into one trust fund.

Mr. MACY. We are proposing to keep the funds separate, but for appropriation purposes there would be one appropriation which would be entitled "Payments to Trust Funds."

Mr. EVINS. Do you not think you are going a little far on that? We were kind to you last year and for the first time allowed you to transfer money from the trust funds for administrative purposes, and now you come back this year and want not only to have all three, but to add more. We never had permitted this before. I wondered at the time were we wise in our decision. The withdrawing of administrative funds is permitted in two instances which are specified by law. Is that correct? In the third instance it is not specified by law, but since you had the two that were provided, we thought this is the practice that Congress has approved and we said, "Go ahead." This is what you recommended and we approved it.

Now this year in your budget you are tapping it for an additional amount, including other items.

Mr. MACY. Perhaps I did not make that clear, Mr. Chairman. What is involved here is not transferring funds from the trust funds to pay for administrative expenses.

What is called for here is the consolidation into a single appropriation of amounts appropriated to these trust funds. This is merely a proposal to have one appropriation for this particular purpose.

Mr. JONAS. Yes, but you have not said why that would be advantageous.

Mr. MACY. It is advantageous only in simplifying the appropriations process.

Mr. JONAS. But is it not more advantageous to keep them separate so we can all take a look at the separate appropriations? You have a $48 billion deficit in the civil service retirement fund. What about the health fund? Does that run a deficit, too?

Mr. WILLIAMS. For accounting purposes, we would not do anything different.

Mr. EVINS. After we make the appropriation, would you then have to separate it into three different items?

Mr. MACY. We would put it into the separate trust funds. As I say, this is merely a device for, hopefully, simplifying the appropriations process. If in your judgment it does not do that——

Mr. EVINS. If we gave you one appropriation for the trust funds, you would have to take this and divide it into the three trust funds administratively.

Mr. WILLIAMS. I would say, Mr. Chairman, this has been the aim of the Bureau of the Budget for simplifying appropriation language. From an accounting point of view, from a structure point of view, from an accountability point of view, it would not make a single bit of difference.

Mr. JONAS. What would be the control that would determine what part of the appropriation you would put in the civil service retirement fund and what part in the health fund?

Mr. UHLENHOP. The proposed language specifies how much goes into the retirement fund and how much into the health benefits funds.

Mr. EVINS. Proceed, Mr. Chairman.

OFFICIAL RECEPTION AND REPRESENTATION EXPENSES

Mr. MACY. The third item is a new one, always an interesting one.

Change No. 3: Authorization is being requested in the language for the "Salaries and expenses" appropriation for official reception and representation expenses, not to exceed $2,500. This is not a request for additional funds, nor do we have any planned entertainment program in mind. Quite frankly, the increasing number of meetings, conferences, and other gatherings with advisory groups, committees, public officials, and foreign visitors has reached the point where we have a real problem in coping with the cost of luncheons and similar items of expense in keeping with accepted custom. Accordingly, we feel it is now appropriate to seek congressional approval to defray the cost of these expenses that heretofore have been met personally by the three Commissioners, the Executive Director, and other top officials of the Commission. Let me assure you that if such approval is granted, there will be very strict controls over expenditures in this area.

Change No. 4: Once again—this will be a familiar song—I am asking for removal of the language prohibiting the Commission from expending appropriated funds to examine applicants for attorney positions in the Federal service. The establishment of a career service for attorneys has significant advantages which we would be glad to discuss in more detail if the committee desires. I might add that this approach is gaining increasing support from interested parties, both within and outside of Government, and the Commission is anxious to proceed with development of the program.

SALARIES AND EXPENSES APPROPRIATION

Turning now to the specific money items in our budget estimates, the Commission is requesting $30,212,000 for the "Salaries and expenses" appropriation for fiscal year 1968. Of this amount, $6,129,000 is to be derived by transfer from the retirement and insurance trust funds leaving a net amount of $24,083,000 for direct appropriation. The total request, however, is $36,700 below the current year authorization, assuming enactment of the 1967 supplementals I mentioned earlier. Although the increases being requested in certain activities are more than offset by decreases in others, I would like to identify those items involving expansion from present levels of operation.

For activity 2, "Investigation of character and fitness for employment," we are requesting an increase of $663,900, which is for the sole purpose of liquidating backlogs of work principally in national agency check and inquiry cases and related functions. Even with the supplemental funds to be requested for this fiscal year, we cannot hope to reduce backlogs and keep abreast of receipts which are entirely uncontrollable and are averaging in excess of 10,000 cases per week, about 2½ times the level experienced during fiscal year 1965.

For activity 4, "Federal executive manpower," the budget request for fiscal year 1968 is $164,200 above the current year level. The major portion of this increase is for the maintenance and use of the career executive inventory, which is now being established. This inventory is the very heart of the new executive assignment system which I described earlier. It is estimated that the inventory will be searched about 1,000 times during the course of a year in the filling of executive positions in grades GS–16, 17, and 18. In addition, there will be extensive consultation with and assistance to agencies in the identification and development of executive talent.

For activity 7, "Career development and training," an additional $240,700 is requested for the purpose of correcting some deficiencies in the administration of the Government Employees' Training Act. As I indicated earlier, the scope, variety, and volume of training activities conducted by the departments and agencies has increased considerably in recent years and the Commission has not kept pace with the growing dimension of these operations. There is now an urgent need for a systematic evaluation of costs and effects of this training, for improved coordination to eliminate duplication and to maximize the use of resources, and for the establishment of data systems that will relate investments to valid priority needs. The increase in funds requested will permit the Commission to move ahead on a 3-year plan to achieve these purposes effectively.

The final area in which we are requesting an increase under the "Salaries and expenses" appropriation is for activity 9, "Administration of the Voting Rights Act of 1965." For this program, we are requesting for fiscal year 1968 an amount of $856,500, which represents an increase of $157,500 above the level authorized for this fiscal year. The increase in funds is for the purpose of handling additional workloads in both voter listing and poll observations expected to result from the fall 1967 elections. While we have no specific information, as yet, concerning places and times, these elections point to a greater workload than that we are experiencing this fiscal year.

ANNUITIES UNDER SPECIAL ACTS

This appropriation provides for (1) payment of annuities to persons who were employed on the construction of the Panama Canal or to their widows, and (2) benefit payments to widows of former employees of the Lighthouse Service.

Since funding requirements decrease each year, due to drops from the annuity rolls caused by death, the budget request of $1,336,000 for fiscal year 1968 reflects a decrease of $94,000 from the current year's appropriation.

PAYMENTS TO TRUST FUNDS

The appropriation request for fiscal year 1968, under this heading, totals $111,748,000 and represents the combined requirements for two separate appropriations formerly carried in the budget for the Government's payments to the health benefits funds and to the civil service retirement and disability fund.

With respect to the Government's contribution to the cost of health benefits for annuitants, we are requesting $40,748,000 which represents

an increase of $4,104,000 above fiscal year 1967 requirements. The amount of appropriation required is largely dependent on two factors: (1) The number of enrolled annuitants, and (2) the amount of the Government's contribution to subscription charges. A projection of experience data indicates there will be an increase of 53,000 enrolled annuitants with health benefits coverage in fiscal year 1967 and 54,000 in fiscal year 1968. In addition, as I mentioned earlier, Public Law 89–504 increased, effective August 1, 1966, the amount of the Government's contribution to subscription charges. The combination of these two factors form the basis for our computations and makes it necessary to request an increase in the appropriation level for this item.

The appropriation requested for payment to the civil service retirement and disability fund for fiscal year 1968 is $71,000,000 and is needed to pay for the increased benefits provided for in part III, "Adjustment of annuities" of Public Law 87–793. The payment of these benefits is contingent on specific annual appropriations for that purpose and involves increases in retirement annuities, survivor benefits and related matters provided for in that act.

APPROPRIATION TO RETIREMENT FUND

Mr. EVINS This appropriation would in no way reduce the bankrupt condition of the civil service disability and retirement fund, but would only take care of new increased benefits provided by law.

Mr. MACY. That is correct. This proposed appropriation would meet the legal requirement for funding certain annuity increases which were authorized in 1962.

Mr. JONAS. Is this $71 million a standoff which will be paid out?

Mr. MACY. It will be paid out.

Mr. JONAS. When it goes into the fund, it is for the direct liquidation of these increased benefits——

Mr. MACY. Correct.

Mr. JONAS. And will all be absorbed?

Mr. MACY. That is correct.

Mr. OVEREND. It does go into the retirement trust fund.

Mr. MACY. It goes into the fund, but it is then paid out.

We are requesting only an amount sufficient to meet the obligations authorized.

Mr. JONAS. It would have no effect whatever on the fiscal condition of the fund?

Mr. MACY. That is correct.

Mr. WILLIAMS. We do have a legal opinion that if the amount is not appropriated, we may not pay it out of the fund. It must be appropriated. The law requires that it be appropriated. If it is not, then the payments shall not be made.

Mr. JONAS. I am glad you mentioned that.

Mr. MACY. That is a modification of my earlier comment.

The amount requested is $2 million less than the appropriation for the current fiscal year, due principally to the removal of the appropriation for the current fiscal year, due principally to the removal of the appropriation requirement for payment of student-child benefits as provided in Public Law 89–504.

Mr. EVINS. They took one benefit out.

Mr. MACY. They took one benefit out and took care of it out of the fund.

This concludes my opening statement, gentlemen. Commissioner Hampton is here with me together with a number of staff members. We shall be glad to discuss any matters the committee may desire.

TRAINING PROGRAM

Mr. EVINS. Thank you, Mr. Chairman. That is a very fine and comprehensive statement. You have highlighted your budget. We have all taken a look at your budget. You have an important Commission with numerous programs and responsibilities.

Mr. Chairman, the press has reported and you have also alluded to new programs for the training of employees of Government agencies. Is it by statute that you do this, or is this an assumption of duties? Does not each agency have to train its employees, anyway, when it takes them aboard? If they are to be a specialist in the field of investigation, they must have an orientation course in the agency. Are they trained twice? Is your new program statutory, or is it by Executive order?

You have a center in New York, one in California, and one here in Washington. These are to carry on what you have been doing for some time, but in an amplified way.

Mr. MACY. This is the Commission's judgment as to the investment that is necessary by the Commission in order properly to carry out its responsibility under the Government Employees Training Act of 1958. We had a study made of our training activities. We felt we had made good progress in the type of program you have just described, but the Commission was not adequately supervising, reviewing, and reporting upon the training activities pursued by the agencies themselves—such actions as evaluating the effectiveness of those programs, determining whether or not more of them could be put on an interagency basis in order to save funds, the whole process of knowing how many people were trained and where they were trained.

We found we were deficient in this area. Consequently, we have projected a 3-year program which we feel is designed to give us the capability to oversee for the President and the Congress the training activities involved.

Mr. EVINS. The agencies welcome this, do they not?

They are glad for their employees to go to these schools for more training and instruction after they are already on board?

Mr. MACY. Yes. These are all what we call post-entry training. This is not training preparatory to taking on Federal employment.

Mr. EVINS. The agencies welcome this type training and are glad to cooperate?

Mr. MACY. They make a greater demand upon us than we are able to respond to at the present time.

Mr. EVINS. I have here a news story from yesterday's Washington Post which says the Civil Service Commission plans to train employees. This outlines your program. We generally have not had press clip-

pings in the record, but I believe it would be all right at this point to put the applicable portions in the record.

Mr. TALCOTT. How do they get the information before we do?

Mr. MACY. I do not subscribe that this is an accurate picture of what we are undertaking.

Mr. EVINS. It says a new Bureau of Training will be set up.

Mr. MACY. Sometimes I wish I knew where stories in these columns come from. There are three full-time reporters for the three papers here working on civil service matters, and they have ways of getting pieces of information and then developing their own stories.

Mr. EVINS (reading):

A new Bureau of Training will be set up in CSC to manage the expanded program, which will enable many thousands of Federal employees to qualify for better jobs.

If you said to improve the quality of their work, it would be better.

Mr. MACY. That certainly is the intent.

Mr. EVINS. It points out you have had a limited program for years, and this will be an expanded one. I think there is nothing wrong with it. We shall put that in the record.

(The clipping follows:)

[From the Washington Post, Feb. 12, 1967]

THE FEDERAL DIARY—CSC TO TRAIN U.S. EMPLOYES

(By Jerry Kluttz)

Look for the Civil Service Commission to be given broader authority by President Johnson to work with agencies on the training of Federal employes.

Generally, training authority will be centralized in CSC, and agencies will finance it by paying their proportionate share of the cost of its employes who are trained. A new Bureau of Training will be set up in CSC to manage the expanded program, which will enable many thousands of Federal employes to qualify for better jobs.

A group of bright young people will be trained here to take personnel jobs throughout the Federal service; another group will be trained in Government finances, in Philadelphia; a third group in computer management, in San Francisco, and there will be similar projects.

Mr. Johnson will ask Congress for funds to set up a Federal Executive Institute in the Washington area to train promising executives to assume heavier responsibilities. A branch of the Institute may be set up on the West Coast.

CSC also will prepare for extensive participation of state and local government employes in Federal training programs as proposed in the President's program of creative Federalism, and in the bill by Sen. Muskie (D-Maine).

Eventually, officials forsee the establishment of Federal training centers in a dozen regions to cover all areas of the Nation.

CSC has been operating a limited training program for the past dozen years. There have been Budget Bureau and other agency criticisms of it as lacking in imagination, of not going deep enough to attack the Government's troublesome manpower problems, and of failing to meet the Government's need for qualified personnel.

As a result, an interagency task force studied for months the broad field of employe-training, and it recommended to the President that training authority be centralized in CSC, and that CSC upgrade the program.

Incidentally, the principle of expanded Federal employe training should get the approval of Congressional Republicans who have introduced a score of bills to step up such a project in industry.

FEDERAL EMPLOYMENT LEVEL

Mr. EVINS. You have already discussed the overall employment situation in the Government. It is about 2,700,000. Is this the peak, or is this the general level of employment in Government civil service?

Mr. MACY. No, this is the high peak. It was about 2,800,000 in the executive branch as of December 31. This represents the highest employment that we have had in the Federal Government since Korea. It represents quite a reversal of the trend that had been in motion for a number of years. It is a reflection of the increased staffing in the Defense Department attributable to Vietnam and to an extended program of replacing military with civilians, a program initiated by Secretary McNamara in order to make more military personnel available for strictly military duty.

The other portion of the increase is largely attributable to the Post Office Department, where the increased staffing reflects an effort to reduce the amount of overtime that the Post Office has been forced to undertake and to staff up to meet increased workloads.

EXECUTIVE ASSIGNMENT SYSTEM

Mr. EVINS. Mr. Chairman, a few years ago we gave you an appropriation to set up a special executive management roster of grades 16, 17, and 18, high-level employees. You were supposed to establish such a roster. You have referred to it in your statement. Isn't this roster of high-level Government employees nearly completed? I know you will constantly be reviewing it and referring to it, but do you not have it compiled? Is not this work completed?

Mr. MACY. We have information, Mr. Chairman, with respect to the incumbents of the grades 16, 17, and 18 positions. The proposed inventory that I described in my statement would also include a much larger group that is presently in GS–15. Under the executive assignment system authorized by the President, agencies, before they fill any position authorized at those three top grades, will come to the Civil Service Commission to see if there are individuals qualified for such a vacancy in the inventory, and the Commission will make referral from that inventory. The increased staffing is proposed in activity 4, primarily to put that operation into being.

Our view is that this is long overdue, that there has not been a sufficiently systematic program in the past for taking advantage of well-qualified career people for transfer between agencies and between programs, and that this system will give us that capacity for the first time. We have talked to quite a number of private corporations that have executive programs of this type. We are trying to develop a system that will use the best techniques of automation for storing and retrieving this information.

I would hope that by this time next year, the inventory will be complete.

Mr. EVINS. How many names and numbers do you have on this inventory list?

Mr. MACY. The proposal would be for 25,000.

Mr. EVINS. Of the 25,000 on your list, how many are currently employees?

Mr. MACY. The current information we have is information with respect to those who are in the top three grades. This includes about 2,500. We are proposing to extend this.

Mr. EVINS. Many of those on the list are already employed. That is the point I am trying to make.

Mr. MACY. That is right. This is an attempt to have a record on those employees to determine whether or not they can be more effectively used in assignments other than those in which they are.

INVENTORY OF EXECUTIVES

Mr. EVINS. An agency needs a qualified man in a particular field, and they write or call the Commission and say, "This is the talent and the qualifications we need." You look on your list and say, "We have a man but he is employed." You do not have many on your list who are not presently employed. The top executives are, for the most part, employed.

Mr. MACY. These would be people who are employed. We would propose to see whether position X called for by the agency head was one that would represent a better use of that particular individual's experience. None of these assignments or transfers would be made without the individual's consent. This is not a mandatory transfer. But there are many people in the top levels who feel that they would be more effective if they were used in some other program. They feel that they have been in an assignment long enough, and that they are not able to contribute as fully to that as they might to a new experience.

Let me reiterate, there would be no mandatory move, but we would hope there would be more useful mobility, particularly in those skills that are present in a number of different agencies.

Beyond this, it would be our view that if the agency is seeking to fill a job where there are no individuals in the Government at the present time who possess the qualifications necessary for that job, the Commission would then assist the agency in seeking, outside of the Government, individuals who possess those particular qualifications.

Mr. EVINS. This leads into my next question. How many names on this list are outside of the Government service, in round figures?

Mr. MACY. Eventually, it would seem to me that we would accumulate up to an equivalent number, maybe 25,000 names. Many people come to the Government at this level and say, "I have worked in private enterprise. I would like to do something for my country." They are not people who would ordinarily be appointed at the Presidential appointee level. They are interested in a top job. They may possess a particular skill which the Defense Department needs or the new Department of Transportation needs.

At the present time there is no system for taking his background and evaluating it.

Mr. EVINS. You are speaking prospectively, again, of the future. I am asking, do you have many of these industry people on your list today?

Mr. MACY. No, we do not have a list of outsiders today. This is clearly a supplementary activity.

Mr. WILLIAMS. Mr. Chairman, the only list we have today is of the top three grades, about 3,000. Our job coming up is to take this group of about 20,000 grade 15 and equivalent and ascertain who they are, their qualifications, their experience, and get them into the list.

Mr. EVINS. If you find a man in a Government agency with the competence, qualifications, and skill, but he says, "I am employed here and I prefer not to transfer," and you cannot fill this particular agency's request, will you find a man in industry?

Mr. WILLIAMS. That is correct.

Mr. EVINS. Thus far you have not moved into this second step?

Mr. MACY. Thus far, that step has been possible only by individual agency action. We feel we can be more effective if we have a central system for this.

INCLUSION OF NONGOVERNMENT PEOPLE

Mr. JONAS. Is that what you plan to do—expand this list to include people outside of Government?

Mr. MACY. We would have a separate unit that would be concerned with applications from outside and working with the agencies in the search for people.

Mr. JONAS. Why have you not had such a list before?

Mr. MACY. Because the Commission has not been in the examining business for people at this level. The agencies have done it themselves. The Commission has approved their qualifications——

Mr. JONAS. What do you do when people write me, who for various reasons would like to work for the Government, and I tell them to write you and give their qualifications? What do you do with those letters?

Mr. MACY. If you send us the name of someone who would appear to be qualified in these top three grades, we will refer it now to the agency most likely to have use for such a person. We do not have an open civil service register.

Mr. JONAS. You do not maintain a roster on which you record these names?

Mr. MACY. We have merely a copy of the application. Our effort is to place this in the hands of the agency most likely to have a need for the skills that are involved. Under this system, we would keep more information. We would try to get some assessment from these people. We would move beyond just receiving the applications and assist the agencies in searching for people for these particular jobs.

For example, with the staffing of the new Department of Transportation, Secretary Boyd will need to search for some people with specialized skills that are not necessarily available within the Government.

RECRUITMENT FROM PRIVATE INDUSTRY

Mr. TALCOTT. Why do you not just pick up the telephone and call a private employment agency and ask what they have?

Mr. MACY. This is an approach. Ordinarily we have tried to utilize our own employment resources for other jobs. Most of those

agencies have pretty heavy charges, too. They are not likely to make referrals without making a charge.

Mr. TALCOTT. Your request for an appropriation is not cheap, either.

Mr. MACY. No, but we have no authority to pay fees to executive search agencies.

Mr. TALCOTT. Did you ever give any consideration to using the private employment agencies or working out an arrangement with them?

Mr. MACY. We have given thought to it, but the charges are terribly high in this area. They charge their private clients very substantial fees. These are important jobs to fill.

Mr. TALCOTT. That is right. Their private clients must think it worthwhile or they would not use it. They are interested in saving costs, too.

Mr. EVINS. Many top executives do not go to employment agencies. You have to get much of this knowledge and information from industry. I would judge, rather than from the employment agencies.

Mr. HAMPTON. These executive recruiting firms actually do not maintain too many active rosters. They actually go out and recruit on the basis of job requirements. This is where the cost and the time go in. Industry will spend 9 months to a year in filling a top job, mainly because of the recruitment effort.

Mr. TALCOTT. After you acquire this roster, will the roster be available to private industry? If there is somebody in a transportation company in New York looking for an executive, would you turn your list over to them?

Mr. MACY. On an informal basis, yes. We want to work just as closely with private enterprise as we can. We would like very much to work out at a lower level within Government, possibly some interchange of personnel as a part of a mutual development process.

Mr. TALCOTT. You are going to be competing with the private employment agencies and runing a lot of them out of business.

Mr. MACY. I do not think we will run them out of business.

Mr. TALCOTT. You don't?

SALARIES AND EXPENSES

Mr. EVINS. Let us take a look at your "Salaries and expenses" account. We will go down through these various activities again.

For 1967 your appropriation was $22.4 million. The trust fund appropriation was $6.1 million. For 1968 the requested appropriation is $24.083 million, and the request is $6.129 million to be appropriated to the trust fund, which is a $29,000 increased appropriation for the

trust fund, making total "Salaries and expenses" budget for 1968 of $30,212,000, as you have indicated.

Looking back over the years at your appropriation for salaries and expenses, in 1958, it was $18.3 million. Then you had a Pay Act increase, $739,500. In 1959, $18.2 million; 1960, $19.1 million; 1961, $19.4 million; 1962, $21.3 million; 1963, $21.3 million; 1966, $22.3 million with a supplemental and a Pay Act increase. Your last appropriation was $28.5 million.

You propose next year $30.212 million, the highest in many years. Could you make any reductions or cuts? Were you influenced by the guidelines of the Budget Bureau in making up your budget this year?

Mr. MACY. Yes, we were. We have tried, as I am sure other managers report to you, to keep costs down. The Commission has taken on new tasks. We have taken the additional workload reflected in the employment figures here. This is the central personnel agency for an employer with 2½ million employees. These are the services that are necessary in order to maintain that work force.

Mr. EVINS. Is this $750,000 that you are recommending for investigation of citizens employed by international organizations included in your $30.212 million?

Mr. MACY. The amount is $750,000, and was previously a separate appropriation. So that constitutes part of this increase.

Mr. EVINS. Then we have annuities under special acts of Congress, $1,336,000. This is reduced from last year's figure. Under payments to the trust funds, all three have been lumped into one, for $111,748,000. This makes a total appropriation for salaries and expenses and benefits and payments to the trust funds of $143,296,000. Again, the increase is $8,036,000 over the corresponding amount for last year.

CSC EMPLOYMENT LEVELS

Looking at your employment tables, Mr. Chairman, your budget shows that in 1966 you had 3,857 employees; and for 1967, 4,907, which is 1,050 over 1966. Did you fill all those positions? Do you have some vacancies over there? Next year you want 570 more.

Mr. MACY. I think the important thing to emphasize here is that the increase is almost exclusively attributable to the interagency boards programs.

Mr. EVINS. You are talking about the 1967 increase or the 1968?

Mr. MACY. Both. You will note that the interagency boards item there in parenthesis, on page iv, shows an increase from 1126 in 1967 to 1546 in 1968. This is attributable to the takeover of those 353 additional single boards and the consolidation of them in the interagency board. The salaries and expenses appropriation is up after a brief dip in 1967. This is attributable to those additional activities of executive manpower and training that I mentioned before, plus the additional staffing necessary for this increase in investigation to meet the national agency check and inquiry workload.

Mr. JONAS. Did Mr. Schultze's memorandum of September 1966 apply to the Civil Service Commission?

Mr. MACY. Yes, sir.

Mr. JONAS. Directing all agencies to cut down on employment?

Mr. MACY. Yes, sir. He applied in that letter the July 1966 level.

Mr. JONAS. You are away up from that. Did you get an exception approved by him?

Mr. WILLIAMS. No. We will operate within that ceiling for full-time employees.

Mr. JONAS. I do not gather that from the table on page iv.

Mr. MACY. Page iv shows the actual number of positions on June 30, 1966.

Mr. JONAS. That is the 3,857? You propose to go up to 4,907 by June 30, 1967.

Mr. MACY. The July figure was higher than the 3,857.

REASON FOR INCREASING EMPLOYMENT

Mr. WILLIAMS. Let me correct my statement. We did get an exception from the Bureau's request.

We submitted to them what our needs were. Then they made a considerable downward adjustment. So, we were not held actually to our existing employment level as of the 31st of July, but something higher, based upon the considerations of the interagency board program.

Mr. JONAS. Actually, I think every agency must have received an exception, because I have not found one yet where the employment levels have gone down to June 30, 1966, as contemplated.

Mr. WILLIAMS. Our exception was based primarily upon the growth in the interagency boards program.

Mr. TALCOTT. How do we know when you have an exception? Do you have it in writing?

Mr. MACY. Yes; the exception is in writing.

Mr. EVINS. These boards were in the other agencies and when you consolidated them, it was necessary that the Commission have these boards.

Mr. MACY. The view of the Budget Bureau on this was that this was on offsetting increase on the part of the Commission, of positions that would be eliminated in the agencies that were now staffing these single boards.

Mr. TALCOTT. Could be have a copy of your exception from the Bureau of the Budget?

Mr. MACY. Yes, I will be happy to provide that for the record.

Mr. EVANS. Just provide it to the committee.

(The requested information was supplied to the committee.)

Mr. JONAS. I see some increases that are not reflected in these interagency board consolidations.

Mr. MACY. Take the revolving fund——

Mr. JONAS. Several were down in 1967 in the "Salaries and expenses" appropriation, but they go right back up in 1968. What is the use cutting down to the 1966 levels and then expanding again? Any alleged saving is not permanent.

Mr. MACY. This is a reflection of the rising workload that the Commission has had. Going down the table on page iv, the overall increase is 1,050 from 1966 to 1967, and 570 from 1967 to 1968. Out of the latter figure, out of the 570, 420 are in the interagency boards program.

Mr. JONAS. There are 159 in the top figure.

Mr. MACY. Right.

Mr. JONAS. There are 44 in transfers from trust funds.

Mr. EVINS. Mr. Chairman, "Advances and reimbursements from other agencies" shows a significant increase, 207 to 1,730. Are these transfers of personnel?

Mr. MACY. The personnel are now on the Civil Service Commission's rolls, financed by the advances and reimbursements. The bulk of that, both the increase and the current total, is in the interagency boards.

Mr. EVINS. You pay for their expenses and then the agency reimburses the Commission?

REIMBURSEMENTS FROM OTHER AGENCIES

Mr. MACY. The agency puts into a working fund money to cover this operation. You will see on page v, the next page, the dollar representation of that, with the total.

Mr. EVINS. All these figures in parentheses are the breakdowns?

Mr. MACY. Yes. This shows the four different breakdowns under advances and reimbursements: $14,614,000 of the $17,840,000 is attributable to the interagency boards program; $2,062,000 is for reimbursable training, training performed by the Commission for the agencies, here in Washington and in the regional offices around the country. The third item is a similar one, but reflects the two seminar centers that are operating now.

Mr. EVINS. They are reimbursing you for seminar centers to the tune of $520,000?

Mr. MACY. That is correct. That is for the two centers.

Mr. EVINS. Your miscellaneous services are $644,000. All four of those items we have to appropriate for so you can meet the expenses, but then the agencies reimburse you in this amount?

Mr. MACY. The agencies will obtain the appropriations which will permit them to reimburse us in these amounts. So, really, we are seeking here only the first two items, the $24,083,000 in "Salaries and expenses," and the $6,129,000 in transfers from the trust funds. The revolving fund is financed by reimbursement for full field investigations by the agencies using the Commission's investigations in making employment determinations.

This is the first time, Mr. Chairman, we have presented our story in this fashion. It was my thought that this gave you and your committee members a more complete picture of the funds expended by the Commission than just giving you a picture of the "Salaries and expenses" amount. It shows that the Commission is using Federal funds at a higher level than the appropriation requested, but I think it is a more accurate picture.

Mr. EVINS. Actually, your appropriations will be for "Salaries and expenses" and transfers from trust funds.

Mr. MACY. That is right. Actually, the transfers from trust funds will not be new appropriations. This will be from the corpus of the funds now held. So, the new appropriation is the $24 million at the top of the page.

SUMMARY OF FISCAL YEAR 1968 BUDGET

Mr. EVINS. Mr. Reporter, we will place in the record pages i through v, which are a digest of the overall budget.

(The pages follow:)

JUSTIFICATIONS OF ESTIMATES OF APPROPRIATIONS FOR FISCAL YEAR 1968

INTRODUCTION

The Civil Service Commission submits herewith its estimates of appropriations and fund requirements for fiscal year 1968, together with detailed justifications therefor. A comparative summary of amounts requested for fiscal year 1968 to current year follows:

Appropriation or fund title	Fiscal year 1967	Fiscal year 1968	Change (+) or (−), 1968 estimates over 1967 request
Salaries and expenses:			
Appropriation	[1] $23,818,000	$24,083,000	+$265,000
Transfer from trust funds	[2] 6,430,700	6,129,000	−301,700
Annuities under special acts	1,430,000	1,336,000	−94,000
Payments to trust funds	[3] 109,644,000	111,748,000	+2,104,000

[1] Includes a pending supplemental request of $595,000 and a pay increase supplemental of $223,000 to be submitted later.
[2] Includes $134,700 supplemental for pay increase and $196,000 for processing additional retirement workloads; both requests to be submitted later.
[3] Includes $4,914,000 supplemental request to be submitted later.

The total cost of pay increases authorized by Public Law 89–504 to the Commission in fiscal year 1967 is $1,320,100. Of this amount the Commission will absorb $1,097,100 or 83%. A total of $962,400 will be absorbed by administrative action and $134,700 will be absorbed by requesting the Congress to increase the limitation on administrative expenses to be financed by transfers from trust funds. With respect to appropriated funds, the total pay increase cost is $532,400 of which the Commission will absorb $309,400 or 58% by administrative action.

Brief comments regarding each appropriation and fund request follows:

APPROPRIATION: SALARIES AND EXPENSES, CIVIL SERVICE COMMISSION

To perform its continuing functions and responsibilities in fiscal year 1968, the Commission is requesting $24,083,000 for the salaries and expenses appropriation. The request represents a net increase of $265,000 from the amount programed for fiscal year 1967 which includes a pending supplemental request of $595,000 and a pay increase supplemental of $223,000 to be submitted later.

In fiscal year 1968, it is proposed to combine the appropriation, "Investigation of United States Citizens for Employment by International Organizations" with the salaries and expenses appropriation. The 1968 request includes $750,000 for this item as compared to a requirement for the current fiscal year of $600,000. For purposes of comparability, the cost data for the investigation of United States citizens for employment by international organizations are included in the salaries and expenses account for all three years in the budget document.

TRANSFER FROM TRUST FUNDS: SALARIES AND EXPENSES APPROPRIATION, CIVIL SERVICE COMMISSION

The Independent Offices Appropriation Act, 1967 provides, for the first time, for financing the administration of the retirement and insurance programs by the transfer of funds from the applicable trust funds to the salaries and expenses appropriation account. The budget request for fiscal year 1968 for this purpose is $6,129,000, a decrease of $301,700 from the requirements for the current fiscal year.

APPROPRIATION: ANNUITIES UNDER SPECIAL ACTS

This appropriation provides for the payment of annuities to former Federal civilian employees under the Panama Canal Construction Annuity Act (48 U.S.C. 1373a) as amended, and to widows of formers Federal employees under the Lighthouse Service Widows Benefit Act (33 U.S.C. 771–775).

The request for fiscal year 1968 is for the continuation of annuities authorized in accordance with current legislation. However, since the net number of annuitants is declining the funds required for fiscal year 1968 ($1,336,000) are estimated to be $94,000 less than the fiscal year 1967 appropriation.

APPROPRIATION: PAYMENT TO TRUST FUNDS

For fiscal year 1968, this item proposes the merger of two former appropriations: (1) "Government Payment for Annuitants, Emloyees Health Benefits" and (2) "Payment to Civil Service Retirement and Disability Fund." The funds appropriated under this head provide for (1) the Government's contribution for health benefits for annuitants as authorized by the Federal Employees Health Benefits Act (P.L. 86–382, Chapter 89 of Title 5, U.S.C.) and the Retired Federal Employees Health Benefits Act (P.L. 86–724) and (2) payment to the Civil Service Retirement and Disability Fund to cover the cost of adjustment of annuities authorized by Part III of P.L. 87–793.

A total appropriation of $111,748,000 is requested for fiscal year 1968 for the above purposes. This represents a net increase of $2,104,000 above requirements for the current fiscal year. The increase results from the growing number of participating annuitants and survivors under the Federal Employees Health Benefits Act and by increased Government contributions for health benefits authorized by P.L. 89–504. Requirements for payment to the Civil Service Retirement and Disability Fund are reduced, due principally to the provision of P.L. 89–504 which removes the appropriation requirement for student child benefits.

FULL FIELD SECURITY INVESTIGATION PROGRAM

Pursuant to Title 5, U.S.C. 1304, other laws, and Executive Orders, the Civil Service Commission conducts full field security investigations for various agencies of the Government. Since this work is done on a reimbursable basis, the Commission is not requesting funds for this purpose. A statement of the status of this program is contained in this document.

CIVIL SERVICE COMMISSION PERSONNEL REQUIREMENTS

The following table shows total personnel requirements for the Civil Service Commission by source of financing:

	Average number of positions		
	1966 actual	1967 estimate	1968 estimate
Salaries and expenses appropriation	1,932	1,888	2,047
Salaries and expenses, transfers from trust funds	557	579	623
Investigations (revolving fund)	1,161	1,155	1,077
Advances and reimbursements from other agencies	207	1,285	1,730)
Interagency boards	(30)	(1,126)	(1,546)
Reimbursable training	(73)	(93	(121)
Seminar centers	(7)	(14)	(14)
Miscellaneous services	(97)	(52)	(49)
Total, Civil Service Commission	3,857	4,907	5,477

CIVIL SERVICE COMMISSION—FINANCING ADMINISTRATIVE COSTS

The following table shows funds available to the Civil Service Commission for administrative costs by source of financing:

	Total funds available		
	1966 actual	1967 estimate	1968 estimate
Salaries and expenses appropriation	[1] $21,844,835	$23,818,000	$24,083,000
Salaries and expenses, transfers from trust funds	[2] 5,409,778	6,430,700	6,129,000
Investigations (revolving fund)	14,409,639	14,523,000	12,661,000
Advances and reimbursements	3,105,277	13,537,000	17,840,000
Interagency boards	(502,931)	(10,678,000)	(14,614,000)
Reimbursable training	(1,107,922)	(1,557,000)	(2,062,000)
Seminar centers	(262,175)	(520,000)	(520,000)
Miscellaneous services	(1,232,249)	(782,000)	(644,000)
Total, Civil Service Commission	44,769,529	58,308,700	60,713,000

[1] For purposes of comparability, excludes $3,741,328 cost of administration of the retirement system, financed by transfer from the trust fund in 1967 and 1968.
[2] For purposes of comparability, includes $3,741,328 cost of administration of the retirement system financed from appropriated funds in 1966.

PAYMENTS TO TRUST FUNDS

Mr. EVINS. We have discussed the proposed merger of the two former appropriations, "Employees' health benefits" and the "civil service retirement fund." This is recommended by the Commission and also by the Bureau of the Budget. However, the accounts will be kept separate and the full data will be available?

Mr. MACY. Yes, sir.

Mr. EVINS. Requirements for payment to the civil service retirement and disability fund are reduced, due primarily to the provisions of Public Law 89–504, which you indicated reduces the student child benefits.

Mr. MACY. Permits the funding of those benefits without separate appropriation. That is the only change. Last year that amount was $73 million. Ordinarily, we can expect that amount to go up.

HATCH ACT

Mr. EVINS. Looking at your "Salaries and expenses" items, you have detailed the various programs for which these funds are to be used. You indicate performance of duties under the Hatch Act. You do not do very much under that.

Mr. MACY. We spend right up to the limitation amount each year. It is about $100,000. There is a new joint commission reviewing the Hatch Act under a statute passed at the last session.

Mr. TALCOTT. Do you feel that is necessary?

Mr. MACEY. Yes; I do. I think this was a salutary action by the Congress. The act has been on the books for 25 or 26 years, and conditions have changed. There has been a great growth in Federal employment. I look forward to some very beneficial results coming from that review.

(Off the record.)

Mr. EVINS. Suppose in a certain State a rural mail carrier got active in a particular county election, for either one party or the other, the party of his choice.

The Commission would not know about it unless it was called to the Commission's attention, but if it was called to the Commission's attention, what procedure would the Commission take under this law?

Mr. MACY. Under this law the Commission, upon receiving a complaint from whatever source, would conduct an investigation to ascertain just what the activities of the rural mail carrier had been in relation to a political campaign in that county. If the Commission's General Counsel, upon reviewing that investigation, felt that the activity constituted a violation of 5 U.S.C. 7324 (formerly section 9 of the Hatch Act), he would then file charges against the individual.

The individual would have an opportunity to answer those charges and either to specify his answers or to call for a hearing. If a hearing were called, it would be held before a hearing examiner who is on the payroll of the Civil Service Commission. The hearing examiner would then make his recommendations to the full Commission, a three-member bipartisan Commission, and the Commission would then ascertain on the basis of that record whether there was in fact a violation and, if there was a violation, the extent of the penalties that should be imposed. The minimum penalty is 30 days' suspension. The maximum penalty is removal from the Federal rolls.

Mr. EVINS. You are not having as much activity or work under this act as you did in earlier days.

Mr. MACY. No. It has tended to level out at about 125 cases a year. The Hatch Act applies not only to Federal employees, but now applies to State and local employees who receive their salary with some element of Federal funding. Last year Congress extended the Hatch Act to apply to some of the umbrella organizations in the poverty program.

So, the Commission has a broad jurisdiction of coverage here. The limitation means that enforcement has to be within that dollar limit. We are asking in this request for $101,000, which is $3,000 more than we had in equivalent funds in 1966. We have seven people engaged full time in this work.

Mr. EVINS. Pay act increases are indicated.

You have mentioned, also, the representation allowance, the investigations of citizens for employment in international organizations, and the removal of language prohibiting the Commission from expending appropriated funds to examine applicants for attorney positions.

LANGUAGE CHANGES

We will place this language on page 2 in the record, and also the language on page 2–a.

(The pages follow:)

SALARIES AND EXPENSES

Proposed changes in appropriation language are (a) to update legal citations in accordance with Public Law 89–554 to enact title 5, United States Code; (b) to increase the limitation for performance of the duties imposed upon the Commission by chapter 15 of title 5, United States Code (Hatch Act) to provide for pay increase costs and thus maintain this function at approximately the same level as authorized for the past several years; (c) to delete language providing for the procurement of acturial services by contract without regard to section

3709, Revised Statutes, as amended, since such services are now authorized under 41 U.S.C. 252(c)(4); (d) to indicate the total amount requested; (e) to provide for the payment of official reception and representation expenses; (f) to include under this head the activities previously carried under "Investigation of United States Citizens for Employment by International Organizations"; and (g) to remove language prohibiting the Commission from expending appropriated funds to examine applicants for attorney positions.

Examining for Attorney Positions.—The Commission seeks removal of the language prohibiting the Commission from expanding appropriated funds to examine applicants for attorney positions. This prohibition, which has appeared each year since the Appropriation Act for fiscal year 1945, has prevented the development of a true career service for attorneys within the competitive service and has been an obstacle to more effective manpower utilization at professional and managerial levels. The consequence of prohibiting expenditures by the Commission to examine for attorney positions has been to shut attorneys out of the competitive service, to their disadvantage and to the disadvantage of the agencies which employ them.

The Administrative Conference of the United States in its final report to the President on December 15, 1962, recommended that there be a career service for lawyers in Government under the jurisdiction of the Civil Service Commission and that to this end legislation should be proposed to revoke now and for the future the current prohibition against expenditure of Commission funds to examine applicants for attorney positions. The Commission's proposal carries out this recommendation of the Administrative Conference.

For the most part attorneys are now in Schedule "A" of the excepted service. Schedule "A" consists of positions for which it is impracticable to examine. The Commission is fully competent to examine for attorneys; the impracticality relates only to the absence of funds.

Although the Commission is exploring means within existing authority to develop and improve the career status of lawyers within the Schedule "A" exemption, the removal of the prohibition would assure and greatly facilitate progress toward the goal of a true career service for lawyers.

EXAMINATIONS FOR ATTORNEYS

Mr. EVINS. You say most attorneys are now in schedule A or the excepted service. Schedule A consists of positions for which it is impractical to examine. You want to examine the lawyers to see if they come up to the standards. These would be lawyers who already have passed the State license board of examination and are already qualified to practice. You want to examine them again, a superexamination of the lawyers.

Lawyers do not like that, I find, Mr. Chairman.

Mr. MACY. Some do not. I think this is largely due to a misunderstanding as to what we mean by the term "examination." This does not necessarily mean a written examination. In fact, in the attorney field it is unlikely that there would be another examination imposed. Instead, it would be an evaluation of the individual's experience and his general record by a group of attorneys from within the Government.

The main benefit from the program we contemplate if this language is removed would be to have a single legal career service and a central point to which those interested in a legal career could be referred. Today a graduate of a law school interested in Government service has to hie himself from one agency to another to find out whether they are hiring anybody with his particular background. In the other direction, each agency is sending its own recruiters into the law schools, seeking their candidates.

We believe that the relationship of the law schools and the legal

profession would be substantially improved if we had a central unit and there was concern about the movement of lawyers from one experience to another on a progressive basis over time, just as we do people in other professions. We feel we may lose some very good lawyers because they feel they have gone as far as they can in a particular program or agency and there is no opportunity for them to move to a new experience.

Mr. EVINS. Mr. Chairman, you make a very appealing statement. Like the Scriptures, "Thou persuadest me." But I find a tide of opposition to your point of view. They said, "We don't want bureaucrats or other people examining us, telling us what type of lawyer we are. We are already a qualified lawyer."

You might have a certain standard or certain group say because he is not a Harvard man, we won't use him. Under such circumstances a lawyer might undeservingly be precluded.

Mr. WILLIAMS. I think it would be more likely to happen under the present than competitive system where some central agency was imposing the requirements and evaluating the qualifications.

Mr. EVINS. In some agencies they are not lawyers themselves.

Mr. MACY. It would have to be professionals evaluating professionals in much the same way we do now with physicians or chemists. That is, the relative merits of individuals judged in accordance with standards developed by people in that profession and by professionals who have experience in that field in government.

Mr. WILLIAMS. A hearing examiner program would be a typical example of one way this could be done.

Mr. MACY. It is quite ironical that as far as hearing examiners are concerned, all of whom are lawyers, the Congress has required that the Commission conduct the recruiting and examining and the actual placement of those that are eligible, whereas the decision was made that the Commission should not have anything to do with attorneys.

Mr. TALCOTT. Was any other profession excluded from examinations, such as doctors?

Mr. MACY. No, sir. The appropriation language prohibits the Commission from using any of the appropriations for the examining of attorneys only.

Mr. EVINS. I notice, Mr. Chairman, that you propose to do it anyway. You say, "although the Commission is exploring means within existing authority to develop and improve the status of lawyers within schedule A exemptions, the removal of the prohibition would insure and greatly facilitate progress."

Even if the prohibition is not removed you are going to proceed otherwise. You are exploring ways and means?

Mr. MACY. May I elaborate on that? What that refers to is some extensive discussions that the Commission has had with the Attorney General, with the American Bar Association, and with the Federal Bar Association, as to what might be done to provide a legal career service outside of civil service. As you point out, there are those who feel that placing this "under civil service" would be sort of nonprofessional and would mean administrative types would be making judgments about lawyers.

Mr. EVINS. Downgrading?

Mr. MACY. Our view is that if the Commission is not to be in the act because of this restriction, there should be within the executive branch some other personnel machinery outside of civil service that would gain some of the benefits that I have described.

SALARIES AND EXPENSES

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Program by activities:			
1.	Recruiting and examining	6,762	6,415	5,295
2.	Investigation of character and fitness for employment	4,509	5,426	6,815
3.	Inspections	2,616	2,720	2,746
4.	Federal executive manpower	250	440	640
5.	Developing policies and standards	1,909	2,320	2,371
6.	Appellate functions	1,125	1,112	1,125
7.	Career development and training:			
	(a) Federal employees	419	420	773
	(b) White House fellows	33	74	----------
8.	Administration and management services	2,838	2,994	2,810
9.	Administration of the Voting Rights Act of 1965	1,344	1,298	1,448
10.	Administration of the retirement and insurance programs	5,515	6,623	6,155
	Total program costs, funded	27,320	29,842	30,178
	Change in selected resources [1]	36	−30	94
10	Total obligations	27,356	29,812	30,272
	Financing:			
13	Receipts and reimbursement from trust fund accounts:			
	Civil Service retirement and disability fund	−60	−4,667	−4,250
	Employees health benefits fund	−1,092	−1,252	−1,269
	Employees life insurance fund	−273	−292	−293
	Retired employees health benefits fund	−304	−318	−317
	Federal supplementary medical insurance fund	−41	−60	−60
16	Comparative transfers from other accounts	−599	−600	----------
25	Unobligated balance lapsing	41	----------	----------
	New obligational authority	25,028	22,623	24,083
	New obligational authority:			
40	Appropriation	25,028	22,400	24,083
44	Proposed supplemental for civilian pay act increases	----------	223	----------
	Relation of obligations to expenditures:			
10	Total obligations	27,356	29,812	30,272
70	Receipts and other offsets (items 11–17)	−2,369	−7,189	−6,189
71	Obligations affecting expenditures	24,987	22,623	24,083
72	Obligated balance, start of year	882	873	902
74	Obligated balance, end of year	−873	−902	−1,017
77	Adjustments in expired accounts	−37	−3	----------
81	Balance not available, start of year	27	3	----------
82	Balance not available, end of year	− 3	----------	----------
90	Expenditures excluding pay increase supplemental	24,983	22,380	23,959
91	Expenditures from civilian pay act supplemental	----------	214	9

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

	1965	1966 adjustments	1966	1967	1968
Supplies	34	----------	31	----------	----------
Unpaid undelivered orders	364	−49	354	355	449
Total selected resources	398	−49	385	355	449

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	20,175	20,753	22,842
11.3	Positions other than permanent	335	658	276
11.4	Special personal service payments	28	8	
11.5	Other personnel compensation	1,053	612	509
	Total personnel compensation	21,591	22,031	23,627
12.0	Personnel benefits	1,488	1,704	1,836
21.0	Travel and transportation of persons	816	878	895
22.0	Transportation of things	136	120	120
23.0	Rent, communications, and utilities	1,048	1,112	1,112
24.0	Printing and reproduction	842	899	1,096
25.1	Other services	223	221	255
25.2	Services of other agencies	851	1,903	957
26.0	Supplies and materials	255	228	245
31.0	Equipment	106	716	129
99.0	Total obligations	27,356	29,812	30,272

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	2,644	2,538	2,730
Full-time equivalent of other positions	69	123	48
Average number of all employees	2,495	2,460	2,676
Average GS grade	7.3	7.0	7.1
Average GS salary	$8,071	$7,987	$8,029

Mr. EVINS. Turn to your comparative summary of activities of the Commission under "Salaries and expense." "Recruiting and examining" goes down. "Investigation of fitness of employees," is projected to be increased from $663,900. "Inspection," no change. "Federal executive manpower" is up. This is your roster of Federal executives?

Mr. MACY. Right.

Mr. EVINS. It increased $164,200. We have already discussed this. "Developing standards and policies," no change. The Commission has been developing standards and policies for many years. They have standards pretty high. They have good policies. The appellate function of the Commission, also no change.

APPEALS TO THE COMMISSION

How many cases does the Commission sit in the appellate capacity on annually? Someone attempts to remove an employee and the Commission has to decide whether the hearing justifies the removal or not.

Mr. MACY. On the adverse action appeals, which is the largest volume, these are appeals from dismissal or downgrading or suspension.

The Commission last year processed 1,882 individual cases. By that I do not mean the three-member commission. I mean the hearing officers that we have in the local level.

Mr. EVINS. How many did the Commission sit on? That is, hard-core cases that you had to decide.

Mr. MACY. I would say those that came to the Commission itself, there was probably not more than 50.

Mr. WILLIAMS. On page 71 you find a table which identifies each type of appeal and the number of cases and the costs.

Mr. MACY. This also provides a further answer to the Hatch Act issue we were discussing before. You will note that the Commission received in 1966, 127 cases and processed 98. We are forecasting that in 1967 and 1968 we will receive about 145. We hope to be able to process that number so that the backlog will not be increased. The cost per case is estimated at $530.

Mr. EVINS. This adverse action, they are parts of 752–B cases; is that right?

Mr. MACY. Yes, sir. Those are cases under the Veterans Preference Act.

Mr. EVINS. In 1966 you had on hand at the beginning of the year 526 and you processed over 1,800. Received about 2,000. You canceled out 303 and you had 398 remaining at the end of the year.

Mr. MACY. That is right. We reduced, you see, our on-hand figure in 1966 by 128.

Mr. EVINS. In fiscal year 1968 you had 400 on hand and at the end of the year you project 400 on hand?

Mr. MACY. We are projecting for 1968, receipt of 2,050, and would intend to keep a processing level of 1,761, which would mean we have 400 in the pipeline at the end of the year.

Mr. EVINS. What are your probationary appeals, reduction-in-force appeals, classification appeals, suitability appeals, performance rating appeals? Is this whether they perform the job efficiently and well? In the category all other appeals you have 86 on hand at the beginning of the year and 57 at the end of the year. You don't give down here a total of all these?

Mr. MACY. No; because it is really like totaling apples, pears, and elephants. They are so different in their characteristics. You will notice that the costs range from a low of about $60 a case on suitability appeals up to Hatch Act type of $530.

Mr. WILLIAMS. Roughly 6,000 cases.

Mr. EVINS. Put that table on page 71 in the record.

(The table follows:)

Summary workload table—Appellate functions of the Commission

Workload items	Fiscal year	On hand	Received	Processed	Canceled	Remaining	Unit cost	Unit cost 1968 comparability
Adverse action (part 752B) appeals	1966	526	2,057	1,882	303	398	$217	$255
	1967	398	2,050	1,761	287	400	224	
	1968	400	2,050	1,761	289	400	224	
Probationer and short suspension appeals	1966	28	517	412	97	36	80	83
	1967	36	524	423	89	48	82	
	1968	48	524	423	89	60	82	
Reduction-in-force appeals	1966	211	911	789	205	128	121	126
	1967	128	881	784	150	75	114	
	1968	75	881	784	150	22	114	
Classification appeals	1966	354	1,509	1,403	159	301	108	112
	1967	301	1,410	1,327	162	222	123	
	1968	222	1,410	1,327	162	143	123	
Suitability appeals	1966	19	418	404	2	31	60	62
	1967	31	441	440	2	30	63	
	1968	30	441	440	2	29	63	
Performance rating appeals	1966	35	98	84	13	36	267	277
	1967	36	96	92	14	26	234	
	1968	26	96	92	14	16	234	
All other appeals	1966	123	786	749	45	115	72	75
	1967	115	888	884	33	86	75	
	1968	86	888	884	33	57	75	
Prohibited political activity cases	1966	37	127	98	--------	66	777	807
	1967	66	145	145	--------	66	567	
	1968	66	145	155	--------	56	530	
Discrimination complaints	1966	85	699	704	24	56	109	113
	1967	56	160	170	20	26	441	
	1968	26	160	170	12	4	441	

VOTING RIGHTS ACTIVITY

Mr. EVINS. "Career development and training" goes up $240,000, "Administration and management services" is reduced $196,000. Administration of the Voting Rights Act. We will go into this in more detail. I have heard a lot of comment from some of my colleagues that you have a lot of men standing around under shade trees being paid per diem to look at the polls.

Do you need all those people standing in the shade when you have elections?

Mr. MACY. Here the Commission is responding to determinations made by the Attorney General. The Attorney General selects the areas in which there shall be observers. The Commission provides the manpower. The expectation is that there will be an increase in the number of polls to be covered and consequently the——

Mr. EVINS. The first activity under this new law was the listing and the registration.

Mr. MACY. Right.

Mr. EVINS. If they register up to 50 percent, the Federal registrars will withdraw and leave it up to the local registrars.

It appears that you are having more going into the watching category.

Mr. MACY. Actually, what has occurred is that there has been no pullout but that the hours of availability for the examiner have been

very, very sharply cut since the initial period. In most of the 44 counties where Federal examiners have been assigned, there is no more than 1 day a month when the examiner is present. There has been, as you point out, very little activity during the recent months.

On the observation, that again is determined by the Attorney General and it occurs in those counties where examiners had been previously assigned. The largest activity this year was at the general election on November 8 when the Commission assigned 610 people for the day to cover certain specified areas. In addition, this year we have had persons assigned on the first and second Louisiana primaries and to a special election in Greenwood, Miss. Both of those operations involved far fewer people.

Mr. EVINS. The total personnel services go up from $17.8 million to $18.7 million. The overall increase is $904,000.

Mr. MACY. We have also included in there, Mr. Chairman, for the first time, the cost of the international organizations cases. I believe $750,000 of that increase really is from that item which previously appeared as a separate appropriation.

COMPARATIVE SUMMARY OF ACTIVITIES, 1967 WITH 1968

Mr. EVINS. Place page 3 in the record.

(The page follows:)

Comparative summary by activity

Activity	1967 program	1968 estimate	Fiscal year 1968 over (+) or under (−) fiscal year 1967
1. Recruiting and examining	$4,256,400	$4,131,400	−$125,000
2. Investigation of character and fitness for employment	4,470,100	5,134,000	+663,900
3. Inspections	2,240,100	2,240,100	
4. Federal executive manpower	378,600	542,800	+164,200
5. Developing policies and standards	1,932,000	1,932,000	
6. Appellate functions of the Commission	953,800	953,800	
7. Career development and training	403,600	644,300	+240,700
8. Administration and management services	2,510,900	2,314,000	−196,900
9. Administration of the Voting Rights Act of 1965	699,000	856,500	+157,500
Total personnel services	17,844,500	18,748,900	+904,400
Other obligations	5,973,500	5,334,100	−639,400
Total program or estimate	[1] 23,818,000	24,083,000	+265,000
Average number of positions:			
Central office	1,032	1,102	+70
Regional offices	856	945	+89
Total	1,888	2,047	+159

[1] Consists of 1967 appropriations, $23,000,000; anticipated activity 2 supplemental, $595,000; anticipated supplemental for pay raise, $223,000.

Mr. JONAS. Which item?

Mr. MACY. That is included in "Other objects."

Mr. JONAS. Other obligations?

Mr. UHLENHOP. Primarily other obligations.

Mr. JONAS. That is down.

Mr. EVINS. That is shown on page 4, the next page. Personnel compensation goes up. Personnel benefits are up. Printing and reproduction increases and supplies and materials are increased. Equipment is increased $12,900. I know that you have to have a lot of printing but in these insurance and trust funds and hospitalization situations, it looks to me as though the insurance companies would provide the literature and material. They are getting paid. We are not having to pay for telling them about all the benefits.

The insurance companies are getting paid for it, are they not? Where is your printing costs set out?

Mr. UHLENHOP. Those are covered under the trust funds.

PRINTING COSTS

Mr. EVINS. What are your printing increases?

Mr. WILLIAMS. The printing increase that is called for here is largely attributable to the Commission's activity in printing standards, in printing examination announcements, in providing test materials. There is a breakout of this on page 115. It shows that $24,000 is proposed for printing of classification standards. This relates to the determination of the proper grade for jobs which, in turn, determines the level of pay.

Mr. EVINS. Why couldn't you hold that at about $11,000 like you had in 1966? You more than doubled it in 2 years.

Mr. WILLIAMS. We found there is need for changing quite a few of these standards because of new technology, because of new processes, and we are running behind on the printing of these standards.

Mr. EVINS. You have a stockpile on hand, Mr. Chairman?

Mr. WILLIAMS. This will primarily come out of some new standards in the wage board area. We have never done it before.

Mr. EVINS. You doubled it from last year, more than doubled from last year. Did you just pick this figure out of the air?

Mr. MACY. This is based upon those standards that are in the process of development and on a determination as to when they would be available for publication. Also, we are finding that printing costs, like everything else, are on the rise.

Mr. EVINS. Your test cases, $144,000 in 1966, and you go down in 1967 and next year up to $145,000.

Mr. MACY. That is a reflection of our inventory situation. We have to provide new test instruments so that there will be no misuse of questions that have been previously used.

Mr. EVINS. Pamphlet costs, $92,000 to $186,000, 1966 to 1968.

Mr. MACY. This is for materials that are used by the Commission to try to communicate the personnel policies of the Federal Government to those that are presumed to be following those policies. We put out likewise——

Mr. EVINS. You go up from $92,000 in 1966. Why does it go up to $186,000 from last year's $114,000?

Mr. WILLIAMS. Mr. Chairman, the amount of money that we could allocate for printing this year was in the neighborhood of $500,000. This related to actual printing needs amounting to $850,000.

This was for the test area, classification, pamphlets, card stocks, and all the things that need to be printed. We simply had to tell our operators that we could not help them. We had just so much money, half a million dollars for printing. They would have to cut back on programs to this extent. This is why we spent the amount we did in test material. We have eaten into our stocks where we have practically nothing on the shelves. Our only alternative is to try to build that up. We have requested an increase of roughly $200,000 above our current level in printing in an effort to get ourselves back to where we ought to be in terms of meeting our normal printing needs.

COMPARATIVE SUMMARY BY OBJECT CLASSIFICATION, 1968 WITH 1967

Mr. EVINS. Put page 4 in the record.

(The page follows:)

Comparative summary by object classification

Object class	1967 program	1968 estimate	Fiscal year 1968 over (+) or under (−) fiscal year 1967
11 Personnel compensation	$17,844,500	$18,748,900	+$904,400
12 Personnel benefits	1,380,100	1,470,000	+89,900
21 Travel and transportation of persons	855,100	846,100	−9,000
22 Transportation of things	83,200	83,200	
23 Rents, communications and utility services	877,300	877,300	
24 Printing and reproduction	501,100	700,300	+199,200
25 Other services	1,998,900	1,060,600	−938,300
26 Supplies and materials	187,700	193,600	+5,900
31 Equipment	90,100	103,000	+12,900
Total obligations	[1] 23,818,000	24,083,000	+265,000

[1] Consists of 1967 appropriations, $23,000,000; anticipated activity 2 supplemental, $595,000; anticipated supplemental for pay raise, $223,000.

VOTING RIGHTS ACTIVITY

Mr. TALCOTT. One question?

Mr. EVINS. Yes.

Mr. TALCOTT. About the Voting Rights Act. It appears that there are four more people to observe at elections. These are $13,000 or more a year people. Is that the kind of people that we have observed at elections? That is on page 99.

Mr. MACY. That is a very pertinent question. The explanation of that is that because of the nature of these operations, there is a good deal of overtime worked. These people come on the job usually a day ahead. They are given briefing and training before the election day.

Then they are on hand at the opening of the polls and must remain through until all of the counting takes place. The result is that for this period there is a significant amount of overtime work which raises the average man-year salary very substantially.

Mr. TALCOTT. Can't they do this in shifts?

Mr. MACY. No. The only feasible way of doing this is to assign the two men who are going to be there as observers throughout the period of time. To move them around would result in further travel expense.

Mr. TALCOTT. Mr. Chairman, the category for listing voters, you increase from 21 to 29. These are $12,500-a-year people. They do not have an overtime requirement. They could list voters six and a half hours a day.

Mr. MACY. These are people employed by the Commission on a regular 5-day-a-week basis. They do this on Saturday. At the present time, these listing locations are only open on Saturdays. Again we have the overtime factor. I think if you will look at page 104 you will see we have endeavored to describe this. We say that due to the irregular duty hours for observations, a significant number of overtime man-years are required for observations.

Mr. TALCOTT. I can understand that for observation at polls; but not for listing of voters.

Mr. MACY. Actually, 23 man-years are represented in overtime.

Mr. EVINS. Gentlemen, we have had a rather good discussion of the overall operation of the Commission and its budget this morning. Suppose we take a break for lunch and take up these various activities, such as, recruiting, examining, investigation, this afternoon. Come back at 1:15.

Mr. MACY. Thank you, Mr. Chairman.

Mr. EVINS. Thank you, Mr. Chairman.

AFTERNOON SESSION

Mr. EVINS. The committee will come to order.

RECRUITING AND EXAMINING

We will look into these various activities further this afternoon with the Civil Service Commission. We will turn to activity No. 1.

Mr. Reporter, place in the record the text on pages 7 through 11. Also place in the record chart No. 5 and page 11–A. That ought to go together.

(The chart and pages follow:)

COMPARATIVE SUMMARY STATEMENT BY FUNCTION

Activity 1. Recruiting and examining

Functions	1966 actual		1967 program		1968 estimate	
	Average positions	Cost [1]	Average positions	Cost	Average positions	Cost
Informing the public of Federal employment opportunities	73	$779,278 (809,700)	77	$859,000	77	$859,000
Managing the board recruiting and examining system	116	1,223,000 (1,270,700)	119	1,299,900	119	1,299,900
Managing the new interagency boards	41	421,504 (437,900)	76	880,400	103	1,149,900
Supervising remaining single-agency boards	75	801,496 (832,800)	43	419,500	16	150,000
Examining operations	311	2,079,007 (2,160,100)	182	1,247,400	168	1,122,400
Conducting examinations	268	1,794,516 (1,864,500)	106	779,300	65	499,000
Providing a nationwide central testing service	43	284,491 (295,600)	76	468,100	103	623,400
Answering inquiries	142	1,040,067 (1,080,600)	80	600,200	80	600,200
Providing veterans Federal employment service	15	172,405 (179,100)	15	177,900	15	177,900
Maintaining a Federal employment statistics program	11	69,640 (72,300)	11	72,000	11	72,000
Total, activity 1	668	[2] 5,363,397 (5,572,500)	484	[2] [3] 4,256,400	470	4,131,400

[1] Figures in parentheses on the above table and in the following text are adjusted to reflect 1968 pay rates for comparability.
[2] Excludes $23,477 for fiscal year 1966 and $1,000,000 for fiscal year 1967 for in-house examining work transferred to the interagency board program consolidated working fund.
[3] Includes $51,200 anticipated supplemental for pay increase costs.

Personnel requirements

	1966 actual		1967 program		1968 estimate	
	Average positions	Cost [1]	Average positions	Cost	Average positions	Cost
Central office	246	$2,043,244 (2,122,900)	209	$1,846,300	214	$1,912,000
Regional offices	422	3,320,153 (3,449,600)	275	2,410,100	256	2,219,400
Total, activity 1	668	5,363,397 (5,572,500)	484	4,256,400	470	4,131,400

[1] Figures in parentheses are adjusted to reflect 1968 pay rates for comparability.

GENERAL STATEMENT

The Congress by the Civil Service Act and subsequent legislation has given the Commission the responsibility for developing and operating a merit system for filling the broad range of positions in the competitive service of the Federal Government.

Beginning in Fiscal 1966 and continuing with increased emphasis in 1967 and 1968 the Commission has undertaken a complete revamping and modernization of its systems for filling these positions.

Instead of conducting examinations through its own offices and nearly 700 Boards of Civil Service Examiners located in various agencies, examining will be conducted by some 65 Interagency Boards located in metropolitan centers throughout the country. A comprehensive one-stop job information center will be a part of each of these Boards. In order to take full advantage of automation facilities and provide a higher level of service, the Commission's Central Office is providing a nationwide central testing service in support of these Boards.

The new system provides for grouping families of positions into a few broad coverage announcements rather than the former method of announcing individual examinations for each class of positions. Good progress on this modernization program is being made. All 65 Boards will have begun operations by December 31, 1966, although they will not assume all of the potential workload for several more months. Fiscal 1968 will be the first full year of operations under the new system.

The 65 Interagency Boards will be operating with agency funds on a proportionate share basis. The Commission using its own appropriated resources will carry out a full range of recruiting and testing activities in support of these Boards. This activity includes the functions of:

(1) Supplying information on Federal Employment Opportunities to the public, Members of Congress and the agencies and carrying out a comprehensive recruiting program designed to meet the agencies' personnel needs. The recruiting program is designed to ensure that all segments of the public are fully informed of job opportunities and that such publicity attracts high caliber persons from the nation's high schools, junior colleges, and four-year colleges into the Federal service.

(2) Managing the Board recruiting and examining system. This function includes managing the new system of Interagency Boards of Examiners now in the process of being established. These 65 Boards with their one-stop job information service in 65 major metropolitan centers are replacing the numerous single agency Boards which have operated in the past. The function also includes the supervision of the remaining single agency Boards, until they are phased into the new program.

(3) Carrying out Examining Operations within the Commission. Except for a few examinations, such as Postmaster and Rural Carrier and Designation Examinations to the Military Academies conducted for Members of Congress, the examination program conducted by Commission offices is now being shifted to the new Interagency Boards. The Commission, however, is providing an expanded nationwide testing service in support of these Boards.

(4) Supplying information in response to letters and oral inquiries addressed to the Commission from the general public, Members of Congress, and other interested persons concerning employment and employees in the Federal service.

(5) Providing general assistance and employment counseling service to veterans and veterans' organizations in connection with preference rights and benefits prescribed by the Veterans' Preference Act of 1944, and the Veterans' Benefit Act of 1966. With the expected increase in the number of young veterans, as a result of new legislation, this is expected to become a significantly expanding activity.

(6) Operating the Federal employment statistics program.

FEDERAL EMPLOYMENT LEVELS

Total Federal employment in the Executive Branch on June 30, 1966, was 2,726,100, including approximately 56,000 Youth Opportunity employees, as compared to 2,496,000 on June 30, 1965. Competitive service employment on June 30, 1966, was 2,367,100, as compared to 2,155,000 on June 30, 1965. In the absence of authoritative information concerning trends in employment in 1967 and 1968, the June 30, 1966, level was used as a base in preparing the 1968 budget estimates.

In order to provide adequate lists of eligibles in most occupational categories to meet the hiring demands of agencies it is estimated that the Civil Service Commission, the Interagency Boards, and the few remaining single-agency Boards will process 2,406,500 applications during the fiscal year 1967 and 1968 as compared to the 2,501,566 applications processed during fiscal year 1966.

MODERNIZATION OF RECRUITING AND EXAMINING PROGRAM

The objective of the Commission's Recruiting and Examining program is to meet the employment needs of the Government with the best qualified citizens obtainable through open competitive examinations. The Commission expects to accomplish this objective for next year and in the future within the framework of the new Interagency Board system.

A basic concept of the plan to modernize the Federal recruiting and examining system is to establish a clear delineation of the respective roles of the Commission and the agencies in the actual conduct of examinations. The agencies' role carried out through the network of Interagency Boards is to conduct examinations for a variety of positions and supply lists of eligibles to participating agencies. The Commission's role in examining is to provide a nationwde testing and central referral service in support of the IAB's. (A few examinations will be retained by the Commission, i.e., Postmasters and Rural Carrier, the Military Designation Examinations conducted at the request of individual Congressmen, etc.).

As broad coverage examinations take the place of the many individual position examinations, further automation opportunities will be realized. The Commission's objective in providing a central testing and referral service will be to relieve the IAB's of as much of the burdensome paper processing work as possible.

FISCAL YEAR 1968 PROGRAM

The funds programed for fiscal 1967 for Activity 1 were reduced by over one million dollars over fiscal year 1966. One million dollars was made available to the Interagency Boards to cover the examining workload transferred to them from the Commission. The amount programed for 1967 reflects this reduction. Funds requested for fiscal year 1968 represent a reduction of over $1,400,000 from 1966 actual at current pay rates.

The work of managing the Board Recruiting and Examining program includes a substantial amount of developmental work in 1967 and continuing into 1968 covering such items as staffing activities, training, negotiations with agencies and their Boards, and the transfer of their workload to the new Interagency Boards. More importantly in 1968 much effort will be devoted to the longer range job of modernizing the examination structure.

Continuing activities in 1968 constitute a full management and control operation to ensure an effective nationwide recruiting and examining system.

Included are such work items as developing and directing nationwide coordinated examinations covering broad families of positions, insuring an effective

and comprehensive one-stop information service capable of informing the public of employment opportunities at the national, regional, and local level at each of the IAB locations, and providing and managing a system for fostering career mobility across agency lines to take full advantage of the skills and talents available within the Federal service.

INTERAGENCY BOARDS OF U.S. CIVIL SERVICE EXAMINERS FINANCED BY ADVANCES AND REIMBURSEMENTS FROM AGENCIES

Comparative summary statement

Purpose	1966	1967	1968
1. Personnel compensation	$211,630	$7,555,000	$10,650,000
Rating examinations	(139,766)	(5,855,100)	(8,159,600)
Providing job information service	(71,864)	(1,423,100)	(1,910,400)
Operating the interagency placement service			(250,000)
Administration and services		(276,800)	(330,000)
2. Personnel benefits	14,848	566,600	801,000
3. Travel	5,512	80,000	120,000
4. Postage and penalty mail		327,000	490,000
5. Space rental and alterations	145,000	693,000	560,000
6. Printing and reproduction	8,643	543,000	808,000
7. Furniture and equipment	88,000	387,000	475,000
8. All other expenses	29,298	526,400	710,000
Total	502,931	10,678,000	14,614,000
Average number of positions	30	1,126	1,546
Number of interagency boards on June 30	29	65	65

INTERAGENCY BOARDS

Mr. EVINS. Looking down this table, we note that your average positions in 1967 were 484 and for 1968, 470. There is a slight decrease but in certain activities, managing the new interagency board which we discussed earlier, that goes up from 41 in 1966 to 103 in 1968.

This is taking over some personnel of boards of other agencies, is that correct?

Mr. MACY. Yes.

Mr. EVINS. Are these new personnel which the Commission has brought on?

Mr. MACY. This 103 is for managing the new interagency boards.

Mr. EVINS. Were these 103 on boards in other agencies of the Government?

Mr. MACY. No, this is in addition to the Commission's staff for the supervision and direction of these boards. If you will, this is the overhead for those boards.

Mr. EVINS. What about the 119?

Mr. WILLIAMS. In a sense, Mr. Chairman, if I could explain that, it is really a shift of the same people, before we had people who were supervising the 661 boards. Those are phasing out of existence so we are going——

Mr. EVINS. The boards are but not the people, is that right?

Mr. WILLIAMS. This is true. Because their records will now be directed primarily to the transition of taking over these remaining boards into the board network.

Mr. EVINS. You have 65 interagency boards but the people managing them now were former employees of the Commission and some

of them are new employees brought in to manage them? They are not former employees of other agencies of Government?

Mr. MACY. I think the easiest way to illustrate this is to go up to the line above, which is really the cumulative line for both of the lines below. You will see that actually there is no change between the years. This points up the fact that what we have had is a shift from supervising the single agency boards to supervising or managing the new interagency boards.

CENTRAL TESTING SERVICE

Mr. EVINS. What about the provision of central testing service? That goes from 76 to 103.

Mr. MACY. That is on the development of these central testing services for a number of examinations that are common across the country. This brings into play the use of the computerized scoring that I referred to earlier. This will be a central service which should permit economies in the operations of the boards themselves.

Mr. EVINS. In the central office you have 209 last year and 214 central offices as against 275 and 256 in the regional offices in the field for a total of 470. You point out that the 65 boards represent a reduction of nearly 700 boards all over the country and they examine all except the Post Office employees.

Mr. MACY. That is right. We will continue to handle the postmasters and rural carriers.

Mr. EVINS. The agency boards will be operating with agency boards funds on a proportional share basis. Your table on page 11a shows the proportionate share. It goes up from $211,000 in 1966 to $7 million in 1967 and $10,650,000 in 1968.

Mr. Chairman, this is a sizable markup and stands out. Do you want to give us some justification?

Mr. MACY. The justification for that is that funds equivalent to this, or in excess of this, were being expended by the agencies in the operation of single boards of examiners attached to their individual installations. What we are showing here is that as a result of the consolidation we have an accounting in one place of what it costs to operate the examining machinery for the Federal Government.

In the past we came before you with activity 1 which showed the Civil Service Commission expense but we did not show in one place what it cost the agencies to operate these boards.

Mr. EVINS. Why wouldn't it be better for the Commission to have a direct appropriation for all these expenses and you would know how much it was rather than have it scattered all over the lot and drawing down from the appropriations of several agencies of the Government?

Mr. MACY. That would be an alternative. Our view is that this is preferable because it points up to the agencies the service that is being performed for them by the Civil Service Commission in the operation of the examining process. Our alternative would mean that the agency would not have to plan what its share was. The Commission would be

entirely accountable for developing the estimates and for making the payments.

Mr. WILLIAMS. A parallel to this is the reimbursable investigation program. Agencies have to pay for full field investigations. It makes them more circumspect in deciding what cases they should investigate. If all they had to do was turn to the Commission and say, "You do this work for us" and not have to worry about payment of it——

Mr. EVINS. They are paying you for the investigations and pay you for the Board's services, also?

Mr. MACY. That is correct.

Mr. EVINS. You list these activities of the Board. Supplying information on employment opportunities, managing the Board's recruiting and examining systems, carrying out examining operations, supplying information to Members of Congress and others, providing employment counseling service for veterans' organizations, and operating the Federal employees statistics program.

Then your Federal employment figures are set out on page 9. We discussed earlier the number. The trend is up. In fiscal year 1968 the number is up. We say the amount programed for 1967 reflects some reductions. Funds requested for 1968 represent a reduction of over $1.4 million from 1966 at current pay rates, this is for the interagency Boards.

Mr. MACY. Activity 1, the Commission's direct costs, has been reduced by that amount. Not the Board operations.

Mr. EVINS. Your reduction is that amount but there are increases elsewhere?

Mr. MACY. There are increases in the reimbursable——

Mr. EVINS. That amount for personnel compensation is $10,650,000 and the total cost is $14,614,000; is that correct?

Mr. MACY. The Commission's expenditures under activity 1 would be $4,131,000 for 1968. The cost to the agencies on the reimbursable basis, as revealed on page 11a, is the $10 million for personal services. The total with all objects is $14,600,000 for reimbursement shown on 11a. So to combine the two, the Commission's costs and the reimbursement, comes to approximately $18,007,000.

BASIS FOR CHARGING AGENCIES

Mr. EVINS. How do you make your charges against the agency? What basis do you employ?

Mr. MACY. This is done on a prorated basis. Mr. Williams, do you want to give the details on that?

Mr. WILLIAMS. The formula worked out with the agencies consists of two things; the size of the agency and the number of acutal employments made by them during the previous fiscal year. We give a 50-percent weight to each of these two factors. From this we then apply that to the total size of the Federal service, total number of placements.

Mr. EVINS. How often do you bill the agencies?

Mr. WILLIAMS. Once a year.

Mr. EVINS. Would you supply a table for the record as to the payments of the agencies that you served?

Mr. WILLIAMS. Yes, sir. For both 1967 and 1968?

Mr. EVINS. Yes.

(The information follows:)

INTERAGENCY BOARDS OF EXAMINERS

Distribution of fiscal year 1967 and 1968 costs among participating agencies to finance the interagency boards of examiners

Agency	1967	1968
Army	$1,970,700	$3,355,400
Navy	1,755,400	2,673,600
Air Force	1,391,200	2,368,200
Veterans' Administration	770,300	1,207,800
Treasury	630,800	851,300
Health, Education, and Welfare	506,200	811,800
Agriculture	459,200	578,000
Other defense activities	273,100	493,200
Interior	293,300	405,500
General Services Administration	195,900	310,600
National Aeronautics and Space Administration	153,700	249,200
Federal Aviation Agency	158,900	227,200
Commerce	156,000	219,200
Justice	78,100	119,800
Housing and Urban Development	68,200	101,600
Selective service system	67,200	95,000
Labor	49,800	74,500
District of Columbia Government	24,500	73,100
Government Printing Office	34,300	54,100
Civil Service Commission	24,900	51,200
State	21,700	32,900
Small Business Administration	22,500	30,000
General Accounting Office	20,700	29,200
Smithsonian Institution	16,800	27,800
U.S. Information Agency	15,000	23,400
Office of Economic Opportunity	12,200	21,200
Interstate Commerce Commission	12,200	16,100
Agency for International Development	10,300	14,600
National Labor Relations Board	8,400	12,400
Federal Deposit Insurance Corporation	8,000	12,400
Railroad Retirement Board	8,000	11,700
Federal Communication Commission	7,100	10,200
Federal Home Loan Bank Board	5,600	7,300
National Gallery of Art	3,400	7,300
Federal Power Commission	4,700	7,300
Security and Exchange Commission	4,700	7,300
Federal Trade Commission	3,300	7,300
National Science Foundation	4,200	5,800
Bureau of the Budget	3,300	5,100
Civil Aeronautics Board	4,700	4,400
Total agency participation	9,258,500	14,614,000
Amount contributed from Commission's salaries and expenses appropriation	1,107,000	----------
Total IAB budget	[1] 10,365,500	14,614,000

[1] Does not include estimated cost of $313,000 for pay raise costs under Public Law 89-504 and increased costs of travel and transportation expenses under Public Law 89-516.

RECRUITING AND EXAMINING WORKLOAD

Mr. EVINS. Your workload is shown on page 11b. The Commission offices applications processed are down. The interagency boards have greatly increased, and the single agency boards are down. The big workload is in the interagency boards?

Mr. MACY. I think those tables illustrate graphically the changes that are taking place over this 3-year period. The number of applica-

tions processed by Commission offices drops from 390,000 in 1966 to 65,000 in 1968. The interagency boards in 1966 were just barely beginning, and they processed 23,000. It is estimated that in 1968 they will process 1,692,000. The single agency boards, which clearly had the lion's share of the workload in 1966, go from slightly over 2 million down to 648,000.

Mr. EVINS. Your new hire from registers. These are what?

Mr. MACY. These are the new hires under the civil service system.

Mr. EVINS. Three hundred and two thousand from the interagency boards after they processed them?

Mr. MACY. Right. In other words, they will produce new hires to the extent of 302,000 out of an application workload of 1,692,000.

Mr. EVINS. Your Commission is now given more opportunity for policy decisions, objective thinking, and overall personnel management. As your workload seems to be down by inquiries, is that figured in there?

Mr. MACY. That is right. The inquiries will be more and more referred to the interagency boards. In fact, one of the major affirmative features of the interagency boards will be the single point for inquiries in a given locality with respect to all Federal employment so that in the future someone inquiring about employment will not have to go to several different agencies. They can go to the board and get an answer that refers to the total employment situation of the Federal Government.

Mr. EVINS. Put this workload table on 11b in the record.

(The table follows:)

RECRUITING AND EXAMINING PROGRAM

Total workloads

	1966	1967	1968
1. Applications processed by—			
Commission offices	390,798	107,485	65,075
Interagency boards	23,041	1,179,000	1,692,500
Single agency boards	2,087,727	1,120,015	648,925
Total	2,501,566	2,406,500	2,406,500
2. New hires from registers by—			
Commission offices	46,600	7,600	2,100
Interagency boards	3,600	215,600	302,600
Single agency boards	387,600	200,200	114,400
Total	437,800	422,400	419,100
3. Inquiries answered by—			
Commission offices	1,676,153	275,773	275,200
Interagency boards	200,293	4,450,000	6,227,000
Total	1,876,446	4,725,773	6,502,200

Mr. TALCOTT. Mr. Chairman, one question?

The inquiry workloads for both the Commission offices and interagency boards in 1966 was only 1,876,000. In 1968 it is going up to 6.5 million. This is not only a change in the workload but a tremendous increase. Can you explain the increase from 1 million to 6 million inquiries?

Mr. MACY. Yes. This is a reflection of the increased employment activity and the——

Mr. TALCOTT. 500-percent increase?

Mr. WILLIAMS. The biggest difference is that in 1966 we had no knowledge of the number of inquiries answered by the single interagency boards. That factor is missing out of the 1966 column; 1968 includes the anticipated number of inquiries which were handled by a single agency board but which will now be handled by the 65 interagency boards.

Mr. TALCOTT. Is the civil service agency getting into the proselytizing business, advertising and promoting Federal employment?

Mr. MACY. There is a strong program of recruiting which is reflected in the next item, informing the public of Federal employment opportunities.

Mr. TALCOTT. Thank you, Mr. Chairman.

Mr. MACY. That is really the Commission's leadership effort on this with the agencies joining in in conjunction with the interagency boards.

In answer to your earlier point, I think that Mr. Williams' response is illustrated by looking up to the application figure for single agency boards. We did not have the figure on the inquiries that were related to that volume of business so that that is not reflected in the 1966 figures. As the interagency boards come into being and we are reporting precisely the inquiries, you get, as you point out, a distorted picture of the growth. This is really not totally accurate because we did not have complete data previously.

Mr. JONAS. Where do you show staffing of the interagency boards? What page is that?

Mr. MACY. At the bottom of 11a it shows the increase in the number of positions. I believe also, Mr. Jonas, back earlier in that summary table I was discussing this morning, IV, there is a breakout showing the increase in interagency board staffing from 30 in 1966 to 1,126 in 1967, to 1,546 in 1968.

INVESTIGATION OF CHARACTER AND FITNESS FOR EMPLOYMENT

Mr. EVINS. The next activity of the Commission is activity No. 2. This is investigations of fitness for employment. Insert the text on pages 22 through 24 and the tables on pages 20 and 21.

(The pages and tables follow:)

COMPARATIVE SUMMARY STATEMENT BY FUNCTION

Activity 2. Investigation of character and fitness for employment

Functions	1966 actual		1967 program		1968 estimate	
	Average positions	Cost [1]	Average positions	Cost	Average positions	Cost
Conducting national agency check and inquiry cases (N.A.C. & I.)	277	$1,900,613 (1,974,700)	341	$2,557,500	477	$3,031,800
Investigating and evaluating suitability cases resulting from N.A.C. & I.	19	186,786 (194,100)	34	343,400	47	464,500
Investigating and evaluating suitability cases resulting from employment applications and arrest records:						
Personally investigated cases	23	211,625 (219,900)	28	283,400	27	276,200
Cases investigated on basis of record and correspondence	23	199,722 (207,500)	25	208,800	28	233,700
Investigating adverse action appeal cases	4	40,287 (41,900)	4	42,100	4	42,100
Investigating postmaster candidates	17	156,313 (162,400)	21	191,000	25	234,400
Operating civil service investigative files	84	556,274 (578,000)	110	761,800	110	761,800
Evaluating agencies' security programs	2	20,527 (21,300)	2	31,500	2	31,500
Analysis and control of IOELB cases	5	[2] 53,614 (55,700)	5	[2] 50,600	5	58,000
Total, activity 2	454	3,325,761 (3,455,500)	570	[3] 4,470,100	725	5,134,000

[1] Figures in parentheses on the above table and in the following text are adjusted to reflect 1968 pay rates for comparability.

[2] Included in the appropriation for Investigation of United States Citizens for Employment by International Organizations for fiscal years 1966 and 1967. Shown here for comparability with request for fiscal year 1968.

[3] Includes $515,000 supplemental request pending with the Congress to process increased workloads an $46,300 anticipated supplemental for pay increase costs.

Workload and Unit Costs

Activity 2. Investigation of character and fitness for employment

Workloads	Fiscal year	On hand	Received	Processed	Canceled	Remaining	Unit cost	1968 comparability
Conducting national agency check and inquiry cases (N.A.C. & I.)	1966	40,106	476,099	348,008	4,114	164,083	$5.46	$5.67
	1967	164,083	570,000	550,000	6,683	177,400	4.65	
	1968	177,400	570,000	652,000	8,000	87,400	4.65	
Investigating and evaluating suitability cases resulting from N.A.C. & I.	1966	425	3,277	1,917	632	1,153	97.40	101.00
	1967	1,153	4,530	3,400	975	1,308	101.00	
	1968	1,308	5,250	4,600	1,158	800	101.00	
Investigating and evaluating suitability cases resulting from employment applications and arrest records:								
Personally investigated cases	1966	526	2,047	1,681	110	782	126.80	132.00
	1967	782	2,050	2,180	138	514	130.00	
	1968	514	2,050	2,125	125	314	130.00	
Cases investigated on basis of record and correspondence	1966	2,358	45,179	42,453	64	5,020	4.70	4.88
	1967	5,020	45,000	43,140	70	6,810	4.84	
	1968	6,810	45,000	48,282	78	3,450	4.84	
Investigating adverse action appeal cases	1966	36	689	664	16	45	60.70	63.00
	1967	45	690	674	16	45	62.50	
	1968	45	690	674	16	45	62.50	
Investigating postmaster candidates	1966	202	1,429	1,243	10	378	126.00	131.00
	1967	378	1,550	1,469	11	448	130.00	
	1968	448	1,550	1,803	17	178	130.00	
Operating civil service investigative files:								
Searching and filing records	1966	----------	----------	2,346,238	----------	----------	.172	.179
	1967	----------	----------	3,420,000	----------	----------	.177	
	1968	----------	----------	3,420,000	----------	----------	.177	
Releasing files information	1966	----------	----------	168,775	----------	----------	.279	.290
	1967	----------	----------	168,800	----------	----------	.287	
	1968	----------	----------	168,800	----------	----------	.287	

General Statement

Investigative Work under Executive Order 10450, as amended (Security Requirements for Government Employment).—Under Executive Order 10450, the Commission is required to conduct investigations and perform other services which will enable agencies to comply with the provisions of the order. In addition, the information resulting from the investigation required under section 3a of the order provides economical and effective means of determining the suitability of applicants for, and appointees to Federal positions. These services include the conduct of national agency check and inquiries, limited suitability investigations when a national agency check and inquiry case develops adverse information, and the maintenance of security investigations index file. In addition, Executive Order 10550, an amendment to Executive Order 10450, requires the Commission to establish a control to insure prompt evaluation by the agencies with respect to full field investigations.

This workload is not controllable, since it is either specifically required by the Executive order or arises as a byproduct. The national agency check and inquiry cases arise as a result of appointments to positions in the Federal service.

Investigations under Executive Order 10422 as amended.—The estimate contained herein covers the analysis and control of investigations required by the order. This work was formerly included as part of the appropriation for Investigation of the United States Citizens for Employment by International Organizations.

Other Personal Investigations.—The Commission also conducts personal investigations in several other types of cases as required by veterans preference provisions in Title 5, U.S.C., Executive Order 10988, and the Civil Service Rules and Regulations: (1) Adverse action appeals; (2) candidates for postmaster appointments; and (3) other cases arising from applications and arrest records. The workload in these functions, also, is largely uncontrollable.

Supplemental Request.—The 1967 program includes $515,000 in personal services funds (of a total of $595,000 including "Other Objects") requested for fiscal year 1967. This covers additional workload arising from increased receipts of National Agency Check and Inquiry Cases and related workloads. The increased NACI receipts result from greater turnover. The separation rate in fiscal year 1966 was 24.8% as compared to 21.0% in fiscal year 1964 and 20.6% in fiscal year 1965. The sum requested is based on the amount which can be effectively utilized during May and June of 1967. Substantial backlogs will be carried over to fiscal year 1968.

Reimbursable Full Field Investigations.—The Commission, under existing public laws and Executive orders, conducts full field investigations on a reimbursable basis for all agencies except those which conduct their own by special agreement with the Commission, or by special legislation. A full field investigation consists of inquiries by personal contact concerning the experience, habits and conduct of an individual to determine his character and reputation, loyalty to the United States, and general fitness for employment in a position of critical importance from the standpoint of the national security. These investigations are clearly distinct from the less extensive national agency check and inquiry investigations of persons appointed to nonsensitive positions. Responsibility for much of the full field investigation work was transferred from the Federal Bureau of Investigation to the Commission in 1952 (now covered by section 1304 of Title 5, U.S.C.). Since that time the Commission has been made responsible for an increasing number of these investigations, so that at the present time it is the major investigative agency insofar as personnel investigations are concerned. No funds are being requested for this work since it is done on a reimbursable basis at the request of the agencies and is financed through a revolving fund. Information regarding this program is contained in another section of this document. (See CSC Revolving Fund, page 183.)

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table:

	1966 actual		1967 program		1968 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Central office	180	$1,315,465 (1,366,800)	222	$1,809,100	282	$1,931,000
Regional offices	274	2,010,296 (2,088,700)	348	2,661,000	443	3,203,000
Total, activity 2	454	3,325,761 (3,455,500)	570	4,470,100	725	5,134,000

NOTE.—Figures in parentheses are adjusted to reflect 1968 pay rates for comparability.

Mr. EVINS. You are empowered in some areas by law, others by executive order, to determine the suitability of applicants for positions, character, and fitness.

You had an average of 277 people employed in this work in 1966, 341 in 1967, and 477 projected for 1968. The cost is $3,031,800. Investigations of cases resulting from NACI. That is what?

Mr. MACY. These are conversions from national agency check and inquiry.

Mr. EVINS. That goes up from 19 to 47. Your average positions in personally investigated cases goes from 28 to 27. Here is another. Cases investigated on the basis of correspondence. You have 28 in that line. Investigating adverse action appeals remains at four on that. There is an increase in investigating postmaster candidates. It used to be 17 and now it is 25. Operating Civil Service investigating files. It takes 110 people to run these files. It used to be 110 last year. The same is true for your other activities. That is a total of 725 employees. This is about 155 increase.

NATIONAL AGENCY CHECKS

Mr. MACY. The bulk of the increase in this activity is attributable to the increased workload in the national agency check and inquiry business. This in turn flows from the increased employment and the increased turnover. This is the item where the backlog is such that we will be requesting a supplemental appropriation. Actually, the figure for 1967, $2,557,000, is inclusive of an assumed——

Mr. EVINS. The Civil Service Commission makes an investigation in depth or check on the spot investigation of everybody who comes on the rolls of the Federal Government, except Cabinet-level people. They may be investigated by the FBI?

Mr. MACY. That is right.

Mr. WILLIAMS. Presidential appointees.

Mr. EVINS. They are checked by the FBI. All other Government employees are checked by the Civil Service Commission.

Mr. MACY. All of them coming in at least receive a national agency check and inquiry by the Civil Service Commission. This costs $4.65 a case. We are estimating that the workload as revealed on page 25 will go from 348,000 in 1966 to 550,000 in 1967 to 652,000 in 1968.

Mr. EVINS. It must be quite a sizable job to check on everybody that comes into the Federal Government in all the branch offices and field offices and Washington and every program of the Government.

Mr. MACY. It is, indeed, and the view is that this is a necessary precaution that the Government should take to assure people qualified.

Mr. EVINS. Criminal records of applicants?

Mr. MACY. There has been a change recently in the arrest inquiry with respect to the form 57. That is, to ask for conviction information and a statement with respect to any convictions. The arrest records are searched, as they have always been searched, as a part of the national agency check. Any arrest information that is on record becomes a part of the file stemming from the national agency check.

Mr. EVINS. Do you think you are getting as good a security check and investigation this way as under the other method? How do you reconcile this with your security?

Mr. MACY. I think there has been no slackening of the screening standards. As I indicated earlier, we tried to improve our procedures in order to reduce costs and have consequently been able to reduce the unit cost from $5.67 to $4.65. We feel that what we eliminated in the procedures were those inquiries which were virtually nonproductive.

Mr. EVINS. Instead of saying on the form, "Have you ever been arrested?" you say, "Have you ever been convicted?"

Mr. MACY. That is right.

INVESTIGATION OF POSTMASTER CANDIDATES

Mr. TALCOTT. May I ask a question about the postmaster candidates? One hundred and thirty dollars per candidate. Yet, they are almost all appointed for some political affiliation rather than merit. So what is the purpose of your investigation?

Mr. MACY. The postmaster examining program is one that is conducted by the Commission in a rather difficult atmosphere. The requirement of the 1938 Postmaster Act is that for all postmasterships there be a competitive examination. A selection made by the Postmaster General leading to a nomination by the President and Senate confirmation.

Mr. TALCOTT. Ordinarily you investigate or make a recommendation before the employee is even hired?

Mr. MACY. No.

Mr. TALCOTT. I do not mean for postmasters. Other than that.

Mr. MACY. No; the agencies make the determinations in other jobs. The Commission examines and gives the agency a ranked list and the agency selects from the top three. The same process is followed on postmasters. We give the top three names to the Postmaster General and he recommends to the President one of those three names.

Mr. TALCOTT. Why is it so extraordinarily costly to examine postmasters compared with some other prospective employees?

Mr. MACY. The reason for the investigations is to provide information on the basis of which rankings are made of the various candidates. This is applicable only to the larger post offices and a part of the examination, as to what we call a qualifications investigation, where the civil service investigator visits the community, where the open post office exists. He runs a number of inquiries with respect to all of the candidates. This is a verification of employment. This is an effort to determine the character of the individuals that are on the list. This enters into the ultimate evaluation of each candidate and consequently their ranking. The money that is listed here, $234,000, is to provide for the investigation of 1,803 candidates for postmaster examinations that would be conducted during 1968.

Your point about the political aspects of this, frankly, is one of continuing concern to the Civil Service Commission. Very frequently we will announce an examination subsequent to some local

party leader identifying who the postmaster is going to be. This tends to make something of a mockery of our examination.

Mr. TALCOTT. Have you ever made any recommendation against the present system?

Mr. MACY. Yes. We have recommended on a number of occasions that the same system be followed on postmasters that is followed on other district office managers in other departments; namely, that the appointment be made strictly on merit and it be made by the responsible department head.

INVESTIGATIONS BY COMMISSION AND OTHER AGENCIES

Mr. EVINS. These investigations determine experience, habits, conduct of the individual, character, reputation, loyalty to the United States, and general fitness for employment. These are some of the criteria that you point out in your justifications. You make them all except some agencies carry on their own investigations by special legislation. What instances are there of those? The Post Office Department and the service academies?

Mr. MACY. On investigations, other agencies make full field investigations where they have an investigative organization of their own. As you say, the three services, State Department, Treasury, Post Office, and the FBI, they make full field investigations of their own people. The Civil Service Commission does the rest of it.

Last year, for example, fiscal year 1966, there were 72,865 full field investigations conducted for the entire Federal Government. Of that number, the Civil Service Commission conducted 40,655.

Mr. EVINS. That was a sizable portion of the workload.

Mr. MACY. Yes, sir. These investigations are financed out of a revolving fund on a per case cost which is billed to the using agencies. The costs for 1968 are estimated to be $415.

Mr. EVINS. We discussed earlier the separation rate. It used to be about 14 or 15 percent. Now it is up to 24.8 percent as compared to 21 percent in 1964. You have given the reasons for that.

The table on page 24 shows the breakdown of the personnel for investigations. Of the 725, about 282 are employed in the central office and the rest are in the field where the work is done.

Mr. JONAS. Mr. Chairman?

Mr. EVINS. Yes.

BACKLOG TO BE CARRIED OVER

Mr. JONAS. Will you in your 652,000 cases you expect to process in 1968 shown on page 25 clean up your backlog?

Mr. MACY. That will clean up the current and identified backlog but if the level of employment is as high as anticipated we will have to carry quite a bit into the following year.

Mr. JONAS. Will you go into 1968 with a backlog?

Mr. MACY. Yes, sir.

Mr. JONAS. How many?

Mr. MACY. About 170,000.

Mr. WILLIAMS. 177,000 cases starting in fiscal year 1968, which when added to the 570,000 brand new receipts, will give us our workload for 1968. The money we are asking for in the supplemental plus the regular 1968 budget will get us to a normal point by June 30, 1968. Roughly about 8 weeks of work.

NORMAL WORK IN PROCESS

Mr. JONAS. That is what you consider normal?

Mr. WILLIAMS. Yes. It takes about 8 weeks to process a case. This is why it is considered the normal work in process. From the beginning to ending it is an 8-week process to send vouchers, to check records and things of this kind.

Mr. EVINS. If you had adverse information developed, it is a longer process?

Mr. WILLIAMS. Yes. I am speaking of the average.

Mr. MACY. If there is adverse information we then shift it over to this other account, the second item there. Generally, a certain percentage of cases are converted for what we call a limited investigation.

Mr. EVINS. Eight weeks normally and if you have adverse information you refer it to the FBI?

Mr. MACY. FBI only if the adverse information involves loyalty. If it is suitability it is turned over for this limited investigation by the Civil Service Commission staff.

Mr. EVINS. It gives us a little information here as to what you look into. The agency checks with the FBI, with the Fingerprint Bureau, Armed Services, Army and Coast Guard Intelligence, files of the Central Intelligence Agency, Department of State, and sometimes the House Committee on Un-American Activities are also checked.

Mr. MACY. Right.

SUMMARY OF NATIONAL AGENCY CHECK AND INQUIRY CASES

Mr. EVINS. We will place this information on pages 25 and 26 and your table on page 27 in the record.

(The information follows:)

NARRATIVE JUSTIFICATION

Conducting national agency check and inquiry cases (N.A.C. & I.)

	1966	1967	1968
Average positions	277	341	477
Cost	($1,974,700)	$2,557,500	$3,031,800
Cases processed	348,008	550,000	652,000
Unit cost	($5.67)	$4.65	$4.65

The national agency check and inquiry which is estimated to cost $4.65 per case provides, at an economical cost, effective protection for other than sensitive jobs. Insofar as detection of the most serious cases of adverse suitability information is concerned, the validity of these checks has been well established through 19 years of experience.

Executive Order 10450, as amended, provides that for appointees to positions in the executive branch of the Government there shall be an investigation

consisting of not less than a national agency check and written inquiries. The national agency check includes the files of the Federal Bureau of Investigation, including the Bureau's fingerprint files; the files of the Civil Service Commission; and, as appropriate, the files of the Armed Forces, i.e., Army, Navy, Air Force, and Coast Guard Intelligence; the files of other Government agencies, such as Central Intelligence; Immigration and Naturalization; and the Department of State. The files of the House Committee on Un-American Activities are also checked in many cases. The written inquiries cover local law enforcement agencies, former employers and supervisors, references, and schools attended by the employee. The employing agency is furnished the results of the national agency check and written inquiries.

If the national agency check and written inquiries develop a question on matters other than those covered under Section 8d of Executive Order 10450, as amended, (subversive interests or activities and related matters), the Commission conducts additional investigation as necessary to resolve the question. As appropriate, the information developed by such investigation is reported to the employing agency for consideration, in cases of employees already on the rolls. In cases involving appointees to the competitive service, the Commission determines whether the appointee meets civil service suitability employment standards.

If the derogatory information developed from the national agency check and written inquiry relates to an appointee in the excepted service, and the employing agency has investigative facilities, the adverse information is reported to the employing agency for such further investigation as it may consider necessary. If the employing agency does not have investigative facilities, the Commission conducts additional investigation to develop information necessary for an evaluation by the agency.

When these checks and inquiries develop derogatory information covered under Section 8d of Executive Order 10450, as amended, (subversive activities or interests and related matters), the case is submitted to the Federal Bureau of Investigation for a full field investigation.

The separation rate in the Executive Branch rose to 24.8% in fiscal year 1966 as compared to 21.0% in fiscal year 1964 and 20.6% in fiscal year 1965. Permanent employment in the executive branch totaled 2,366,801 on June 30, 1966. A separation rate of 25% applied to this figure will require 590,000 accessions in 1967 and 1968 assuming no increase in employment. Receipts for 1967 and 1968 are estimated slightly below this figure at 570,000.

The increased funds requested in fiscal year 1968 are due to the backlog expected to be carried over from fiscal year 1967.

Estimated unit cost for fiscal years 1967 and 1968 has been reduced from the $5.67 experienced during fiscal year 1966 because of improvements in procedures.

Investigating and evaluating suitability cases resulting from N.A.C. & I.

	1966	1967	1968
Average positions	19	34	47
Cost	($194,100)	$343,400	$464,500
Cases processed	1,917	3,400	4,600
Unit cost	($101.00)	$101.00	101.00

This function covers cases converted from national agency check and inquiry cases in which adverse information has been developed. If the adverse information does not involve subversive interests or related matters, the Commission makes an additional investigation by personal investigation or letter of interrogatory to resolve the question (a) in cases of appointees to positions in the competitive service, and (b) in cases of appointees to excepted positions, for agencies not having investigative facilities. The investigations referred to above result from the national agency checks and inquiries and are not related to the full field background investigations made by the Commission on a reimbursable basis at the request of the departments and agencies. If the case involves subversive matters it is investigated by the Federal Bureau of Investigation.

The Commission must evaluate, for determining suitability, all of the investigations which it conducts for the competitive service, as well as those

investigations conducted by the Federal Bureau of Investigation if the FBI investigation concerns a nonsensitive position (this is the result of the Supreme Court decision—*Cole* vs *Young*—which restricted the agency dismissal power, under Executive Order 10450, to sentitive positions).

ADVERSE ACTIONS RESULTING FROM INVESTIGATIONS

Mr. JONAS. Mr. Chairman, before we leave that, give us some information showing that is worth doing. How many of these cases that you process do you eliminate?

Mr. WILLIAMS. We convert about 1 percent of the cases we process to this other type of investigation, more thorough type, because of the fact that we have developed some serious suitability information. In addition we convert 7 percent of these cases to investigation by the FBI because of loyalty type allegations.

Mr. JONAS. One percent?

Mr. WILLIAMS. Roughly 1 percent; yes, sir.

Mr. JONAS. What happens to that 1 percent? That would be 66,500.

Mr. WILLIAMS. One percent of that would be 6,500. Of that 1 percent, when we finish with the more thorough investigation, which is a personal investigation, because of the serious nature of the information we have picked up, a large percent of those people will leave the Federal payroll.

Mr. JONAS. Leave?

Mr. WILLIAMS. Yes, sir; because they will have been fired because of the derogatory information or because, while the investigation is in process, they will resign.

Mr. JONAS. I am talking about new people.

Mr. MACY. These people are actually on the rolls while this is in process, on a conditional appointment.

Mr. WILLIAMS. This is all postemployment.

Mr. JONAS. You have to do it within a year?

Mr. MACY. That is right.

Mr. JONAS. Or it becomes permanent?

Mr. MACY. That is right. That is why we cannot build up excessive backlogs. If we run beyond that point there is a problem of taking the adverse action.

Mr. JONAS. Of 650,000 you will eliminate 3,500, something like that?

Mr. WILLIAMS. Closer to 4,000; 3,500 and 4,000.

Mr. JONAS. Eliminated?

Mr. WILLIAMS. Yes, sir.

Mr. MACY. In other words, it is 0.4 percent of the total that will as a result of this process not secure continuing employment.

MECHANIZATION OF FILING PROCESS

Mr. EVINS. Have you mechanized your files where you can do this rapidly, that is, make a quick check?

Mr. MACY. We have installed new equipment, Mr. Chairman, which facilitates its searching. However, we do not yet have this information on the computer. We are working on possible computer adapta-

tion but so far the research and development in the computer field has not advanced to the point where it would be useful for this purpose.

DISMISSALS FROM SENSITIVE POSITIONS

Mr. EVINS. You called these NACI cases and say *Cole* v. *Young* has restricted the agency's dismissal power. Tell us what the court said in *Cole* v. *Young*.

Mr. MACY. In *Cole* v. *Young* in 1956, the Supreme Court limited the dismissal power to cases involving positions that were sensitive to the national security so that the dismissal authority of the loyalty security program could only be used in cases involving sensitive national security functions.

Prior to that it had been possible to use the dismissal authority on other positions, nonsensitive positions.

Mr. EVINS. If a man is unsuitable for his work, is absent too much, and you can think of a multitude of reasons why he should be dismissed, the court says you cannot do it?

Mr. MACY. Under this system he can be, during probation, without going through the dismissal process. Here again is one of the urgent reasons for completing this work within the year's probationary time.

Mr. WILLIAMS. The court was interpreting the security order. Getting back to your point for a moment on preemployment, you understand that the full field investigation which is made of the applicant for a sensitive position is made preemployment. There you are given an opportunity to decide whether you are going to hire a man based on the investigation.

DISMISSAL FOR CAUSE

Mr. JONAS. Give us something to compare this with. Could you state how many, or what is the percentage of dismissals for cause?

Mr. EVINS. What is the percentage of adverse cases after being investigated?

Mr. JONAS. Four-tenths of 1 percent?

Mr. MACY. That is the percentage of those covered by national agency checks who, as a result of those checks, do not continue in employment.

Mr. EVINS. There is another figure here of 14 percent. Experience revealed that 14 percent of evaluation resulted in adverse decisions by the Civil Service Commission.

Mr. MACY. Those are where a formal adverse decision is applied. Mr. Williams was adding to that figure a much larger percentage who either discontinue or leave their work. So that the figure is a larger percent.

Mr. WILLIAMS. A combination of the two things.

Mr. JONAS. I meant how many dismissed for cause.

Mr. MACY. In the entire service?

Mr. JONAS. Yes.

Mr. MACY. Last year, in fiscal year 1966, the discharges totaled 12,785.

Mr. JONAS. What percentage is that?

Mr. MACY. That was 2 percent of the total separations. It would be, to get the universe, this would have to be related to about 2,600,000 on the rolls.

Mr. JONAS. The record shows that we have had more people last year who were permanent employees dismissed for cause than were rejected out of new applications?

Mr. MACY. Yes, sir.

Mr. JONAS. Substantially higher?

Mr. MACY. That would be the normal situation. These are discharges for a variety of reasons. These are people who——

Mr. JONAS. The same things for which you would reject them on the investigation?

Mr. MACY. No. These would be job performance reasons for discharges, failure to do the work, failure to show up.

NUMBER OF SEPARATIONS AND PERCENT OF TOTAL

Mr. EVINS. Provide for the record the percentage of people that failed to qualify, the adverse findings in the various groups.

Mr. MACY. All right, Mr. Chairman.

(The information follows:)

For F.Y. 1966 the number who failed to qualify as a result of a NACI which includes those that resigned during the check was 1,000. With respect to separations the following is furnished:

Separations from the Federal Government (all areas), number of separations and percent of total

By category	Fiscal year 1966	
	Number	Percent
Total separations	639,251	100.00
Quit	237,546	37.16
Transfer	39,186	6.13
Discharges	12,785	2.00
Reductions in force	22,310	3.49
Termination	203,538	31.84
Extended LWOP, suspension	50,245	7.86
Death, retirement, etc	73,130	11.44
Displacements	511	.08

INSPECTIONS

Mr. EVINS. Turn to activity No. 3. This is inspections. Tell us where inspections are different from investigations.

Mr. MACY. Inspections are the Commission activity for assuring that the laws and the regulations are properly applied by the departments and agencies in administering the personnel program.

Mr. EVINS. Investigation for the employee and inspect the agencies?

Mr. MACY. That is right. We inspect the agency's program. This is a compliance inspection because much of the Government's personnel program is performed under delegated authority in order to assure that the delegation is properly exercised. The Commission conducts regular inspections. They use both the Washington inspection staff and inspectors in the regions.

Mr. EVINS. How many were checked last year? What actions did you take?

Mr. MACY. Last year the Commission conducted nationwide inspections in six individual agencies. We endeavor to operate on a 3-year cycle so that all agencies of any significant employment are covered at least once every 3 years. We shift this from time to time if we find an agency where there appears to be particular difficulties. In that way we are able to keep on top of the situation.

Last year, 1966, we inspected 248 individual offices and installations under our general inspection program.

NATURE OF INSPECTIONS

Mr. EVINS. What is the nature of one of these inspections?

Mr. MACY. Our inspectors develop in Washington an inspection plan of the items that are to be covered, based upon the mission of the agency, its organization, its program, its previous performance under inspection. The Commission then selects a sample of installations from that particular department, sends in teams of inspectors to live there for a week or two. They conduct an audit of a sampling of personnel actions to see if they are in conformance with the law. They review the classification of a percentage of the jobs. They look at the agency's compliance with various types of programs, either statutory or presidential. At the end of that time they give a report to the manager or the commanding officer of the installation, indicating what the strengths and weaknesses are. The report comes into Washington and a summary report for a particular agency, whether it is Interior, Air Force, or VA, is developed and that ultimately is presented to the head of that department as a consolidated view.

Mr. EVINS. You look over some of the job sheets and see if they are properly classified and see whether or not they are discriminating in employment.

Mr. MACY. Right. Or if they are violating the merit system in making promotions or if they have failed to follow the standards in the union relations program.

Mr. EVINS. What is the general tenor of the reports and recommendations and what effect do they have on the agencies?

Mr. MACY. In our general inspections we found in 1966 that about 2 percent of our sample of individual actions constituted violations. Those had to be corrected. We reviewed 13,798 classification position actions and found that we needed to recommend changes in about 7.2 percent of the cases.

Mr. EVINS. You have this all set out here. Inspecting agency complaints, determine whether the merit system is being effectively complied with. Then you point out that the President has abolished the Equal Opportunity Employment Commission and transferred the function to the Civil Service Commission. Place the language on pages 37, 38, and 39 in the record.

(The pages follow:)

COMPARATIVE SUMMARY STATEMENT

Activity 3. Inspections

Function	1966 actual		1967 program		1968 estimate	
	Average positions	Cost [1]	Average positions	Cost	Average positions	Cost
Inspecting agency personnel operations:						
Central office	60	$713,367 (741,200)	65	$759,200	65	$759,200
Regional offices	128	1,429,727 (1,485,500)	132	1,480,900	132	1,480,900
Total, activity 3	188	2,143,094 (2,226,700)	197	[2] 2,240,100	197	2,240,100

[1] Figures in parentheses on the above table and in the following text are adjusted to reflect 1968 pay rate for comparability.
[2] Includes $27,600 anticipated supplemental for pay increase costs.

GENERAL STATEMENT

This activity includes the following principal functions: (1) Inspecting to determine agency compliance with the applicable requirements of law and regulations; and ordering corrective action in cases of noncompliance; (2) evaluating agency personnel management in terms of accomplishment of agency mission and adherence to public policy; (3) assisting agencies in improving their personnel management in light of legislative and executive direction and intent, and in obtaining a more effective system throughout the Government, individually and collectively, for managing manpower resources; and (4) providing leadership and guidance in the area of equal employment opportunity and reviewing agency program accomplishments periodically.

The Civil Service Commission has been designated by Executive Order 9830 as the central source of leadership and guidance, for personnel management matters in the Federal Government. Major objectives of the Commission's inspection program are: (1) To assure the Commission, and the Government in general, that agency actions under the merit system are being carried out effectively within the authority delegated by statutes and by the Commission; (2) to contribute to the continuous improvement of the Federal personnel system and the management of human resources through the review and evaluation of agency personnel management at all levels; (3) to provide agencies with periodic appraisals of the effectiveness of their total personnel management in terms of agency mission and adherence to public policies; (4) to keep key Commission officials informed of the effectiveness of Federal personnel laws, policies, regulations, and standards; (5) to respond to requirements of the President, the Congress, and central staff agencies for summary analysis of trends and overall evaluation of new, changed, or continuing Federal personnel programs or operations; (6) to provide instructions, guidance, and assistance to agencies in improving their personnel management through the adoption of new or improved policies and programs; and (7) provide a means for furnishing advice and assistance on personnel management matters on a day-to-day basis to agencies, White House, and the general public.

Executive Order 11246 gives the Commission increased responsibilities in the Federal Equal Employment Opportunity Program and makes the Commission an action agency in this program whereas in the past the Commission had a limited factfinding evaluation responsibility. The abolishment of the President's Committee on Equal Employment Opportunity resulted in the Commission being

assigned full responsibility for achieving the objectives of the Federal Equal Employment Opportunity Program.

Funds requested for fiscal year 1968 are at the same level as programed for 1967.

BUREAU OF THE BUDGET AND COMMISSION SURVEYS

Mr. EVINS. Through the inspection staff, the Commission is also joining with the Bureau of the Budget in the conduct of intensive surveys of agency management practices. What reforms have the Civil Service Commission and the Bureau of the Budget brought about?

Mr. MACY. The Commission and the Bureau of the Budget in conjunction with the agency representatives have reviewed in detail particularly management and manpower utilization in the agencies. One of them of particular significance during the past year has been a review of the Office of Economic Opportunity and out of that review came a series of recommendations for rather substantial changes in some of their administrative practices, changes designed to increase efficiency, designed to result in greater economy.

A number of organizational realinements have come from a survey made of the General Services Administration, one of the agencies that comes before this subcommittee.

Mr. EVINS. How does the work of the Civil Service Commission in this area differ from that of the General Accounting Office?

Mr. MACY. The General Accounting Office, as a branch of the legislative branch, is concerned primarily with fiscal audit, with the performance of the agency insofar as its financial management is concerned. The Commission and the Bureau of the Budget are focusing on organization, on procedures, on the machinery for making management decisions, and upon manpower and personnel practices.

Mr. EVINS. Very fine.

We will place this narrative justification on pages 40 through 43 in the record.

(The pages follows:)

NARRATIVE JUSTIFICATION

INSPECTING AGENCY OPERATIONS

The inspection and evaluation of agency personnel management is the most important function of the Commission inspection program. Through this activity the Commission is able to determine the degree of agency compliance with Commission and legal requirements, and to order appropriate corrective actions where necessary. Through its inspection function, the Commission is able to determine the effectivenes of agency management in carrying out the intent of legislative and executive direction in the use of manpower resources. Through the information obtained, the Commission keeps key Government officials aware of significant trends in agency and Government-wide programs; and the need to modify or change overall personnel policies, programs, or requirements. Demands on the Commission inspection program to provide current and meaningful information on program areas of extremely high Government and public interest have been increasing each year. The need to continue a central personnel activity to inquire into significant aspects of Federal personnel management of currently high interest across agency jurisdictions has become well established.

The Commission inspection activity has in recent years changed significantly in program emphasis, coverage, and approach to keep pace with the evolution of modern Federal personnel management. The Commission uses a coordinated nationwide approach in applying field and central inspection resources to the conduct of inspections at installations of major Federal agencies and departments. A major feature of the Commission inspection program coverage is an intensive inquiry into the organization of work, identification of manpower needs, and use of manpower resources. This includes an intensive review of opportunity for equal employment for all citizens including minority groups, women physically handicapped, etc.

Through its inspection staff, the Commission has also joined with the Bureau of the Budget in the conduct of intensive surveys of agency management practices, systems, and operations. Commission inspectors have participated fully with Budget Bureau and agency staff members in such surveys since fiscal year 1964. Based on known plans of the Bureau of the Budget, the Commission's inspection activity expects to contribute highly trained top level inspector resources for fiscal year 1968.

For the past several fiscal years, Commission inspectors have been spending more time with agency program managers to evaluate the degree to which they accept and carry out their personnel management responsibilities. Discussions with top management officials serve as a major means of finding out how effectively they are managing their human resources and how they are relating personnel management to the accomplishment of overall agency goals and objectives. This new emphasis has increased the interest and awareness of agency managers at all levels in the results of inspections with correspondingly greater motivation on their part to effect improvements. The Commission will continue to emphasize this approach to the evaluation of agency personnel management.

One phase of the total inspection activity is the coordination of inspection resources to conduct special intensive inquiries specifically directed to cover program areas of high interest such as equal employment opportunity for all citizens, improving communications and public contracts, employee-management cooperation, standards of ethics and conduct for Government officers and employees. Information obtained through selective cross-country coverage in many agency offices and installations throughout the country significantly supplements the information derived through the general, full scale, inspections conducted under the coordinated nationwide inspection program. Every year additional requests for information from the President, Congress, agency top management officials, and Commission key staff are received on how particular agencies, or the Government as a whole, have responded to the aims and objectives of expressed public policy in these and other high interest program areas. This special inquiry approach enables the Commission to supply current and pertinent information on a rapid and comprehensive basis. The policy and program of conducting special inquiries on a coordinated approach across the different agency organizations to provide current and meaningful information in public and other high interest areas will be continued in fiscal year 1968.

PROVIDING TECHNICAL ADVICE AND ASSISTANCE

As new features are added to the Federal personnel program through legislative or executive action, such as the program for providing positive and affirmative opportunity for equal employment, the employee-management cooperation program, or flexibilities provided by the Salary Reform Act, there is a corresponding increase in requests from Congress, agencies, and the general public to Commission offices for technical guidance, advice, and assistance. They can only respond to requests for advice and assistance to the extent of existing resources. The demands for guidance, advice, and assistance, however, always exceed the amount of help that Commission offices, both in the central office and in the field, can give with available resources. As in the past fiscal year and continuing in 1968, fullest use possible will be made of the knowledge that Commission representatives have of local agency situations and problems to help provide advice and assistance in this area.

Additionally, the greater depth and scope of current Commission inspection coverage have increased the need for more follow-through to insure that specific agency improvements result from inspection findings. Resources are needed to insure that significant personnel management program weaknesses disclosed through the inspection process are improved through timely and effective agency action. However, because of the amount of resources required to accomplish effectively the major operating function of conducting agency personnel management program inspections, the level of resources for technical assistance activities in fiscal year 1968 is the same as programed for fiscal year 1967.

Federal Executive Manpower Program

Mr. Evins. Turn to activity No. 4, which is Federal executive manpower.

The expenditures were $215,000 and now you project $542,800. You have a comparative figure there of $223,000. Tell us about that figure there.

Mr. Macy. The comparative figure for 1966 of $223,000 encompasses the activities of the Commission performed traditionally with respect to the determination of super grade authorizations, allocation of super grade jobs within the limit placed by Congress and the review of the qualifications of individuals proposed to fill those jobs. The 19 positions there and the $223,000 were involved in those particular functions. The increases are to put into effect the improved system that I described earlier of the executive assignment system where agencies in the future will use the inventory not only of those in grades 16, 17, and 18, but in 15, in order to hopefully improve mobility and the qualifications of those who fill these jobs. Beyond that, there will be resources also placed into the search operation for individuals on the outside of Government who are either better qualified than those presently in Government or who possess skills that do not exist in the Government.

SHIFT FROM OTHER ACTIVITIES

Mr. Evins. You say previously appointed to this work but included in the Commission's budget in other activities?

Mr. Macy. That is right.

Mr. Evins. Activity 1 is down and 4 is increased.

Mr. Macy. This was as far as the qualifications of individuals were concerned. That was covered in activity 1 where the review was made of individual qualifications in keeping with the other examining activities. Activity 3, in inspection program, was previously charged for the classification work that was involved. I can break that down by showing that in 1966, $155,000 of the activity 3, inspection budget, was chargeable to this particular function and $34,200 of the recruiting and examining budget.

Those functions have now been transferred to this activity and to the new Bureau of the Executive Manpower. Those are carryover functions. The others are new in relation to the new emphasis on trying to improve the quality.

INCREASE IN PERSONNEL

Mr. EVINS. Increased personnel in the executive assignment system. Are they new personnel brought into the Commission or transferred from other bureaus?

Mr. MACY. They are really three types of people. Some are those being transferred over from the activity they previously performed under activity 3. Others are people recruited from a number of different places in the Commission and assigned to this. The third are a number of people coming in from other departments and agencies to give us some experience of an operational nature to assist in making this function. The way this will be organized, we will have a series of staff people concentrating on a particular group of agencies so that they will hopefully become fully informed about the top-level staffing needs of those agencies. There will be others who will be specialists in certain professional or occupational areas, for example, a staff man who concentrates on scientific and engineering positions. We propose under this plan for the three commissioners to meet annually with each of the departments and agencies for what we will call an annual executive review. At that time we will discuss with the agency heads the organization that they have for top jobs and the individual people that are in those jobs to see what their long-term needs are going to be, to anticipate retirements, look at program changes in much the same fashion that the Budget Bureau now has an annual financial review to take a look at what the agencies anticipate in the way of funding.

We feel that the leadership component in these departments is so important that there should be more concentrated attention given to the identification of the best people to fill these jobs.

Mr. EVINS. Maintaining and establishing this comprehensive inventory is one of the current acute interests and activities of the Commission at this time.

Mr. MACY. That is right. This is a high priority item. Let me add, Mr. Chairman, this is an area where the Commission has been criticized by quite a number of outside groups through the years.

FORMER CAREER EXECUTIVE BOARD

Mr. EVINS. How does this differ from your career executive board? You had a career executive board formerly. You have a new name now?

Mr. MACY. No, that was very different. The Career Executive Board set up by President Eisenhower was a Board outside of the Civil Service Commission, set up independently with a staff of its own and one very important difference: It included mandatory assignment responsibility. In other words, the individual under that system could be ordered from one place to another. One of the criticisms of that particular board back in the late fifties was that it tended to take functions away from the Civil Service Commission. In this situation we have set it up so that this is a part of the Commission. It is based upon merit principles. It is an effort to apply the merit system more effectively at the very top of the Government.

Mr. EVINS. Mr. Chairman, I have a letter from you telling us about Executive Order No. 11315 and the President's statement on this Executive order. We will place this and the amending of the rules in the record at this point.

(The information follows:)

U.S. CIVIL SERVICE COMMISSION,
OFFICE OF THE CHAIRMAN,
Washington, D.C., January 10, 1967.

Hon. JOE L. EVINS,
House of Representatives, Washington, D.C.

DEAR MR. EVINS: I would like to share with you information concerning a new and important program in the Federal civil service. The President, by Executive Order 11315, dated November 17, 1966, has established the Executive Assignment System and has directed the Civil Service Commission to put it into effect during the coming year.

The Executive Assignment System will signal, in my opinion, one of the most significant and dynamic advances in Federal management in recent years. With this system, we in the executive branch will have available a truly modern approach to the recruitment and development of management personnel at grades GS–16, 17, and 18.

We have been searching for many years for the means of filling higher level jobs with the best people available from all sources. The new system will allow Federal administrators to tap the vast reservoir of executive talent in the Government. Opportunities for outstanding executives to receive challenging assignments and make real contributions to Government programs will be expanded throughout the Federal service. New efforts will be made to give deserved recognition and prestige to our top career people and to improve our executive training programs.

This new manpower program will provide benefits beyond the agencies and the executives directly involved. The public will gain through improved Government service at minimum costs. By enhancing the quality of career leadership in the Federal service, the important programs enacted by Congress will be carried out more effectively and efficiently.

Vice Chairman Ludwig Andolsek and Commissioner Robert Hampton share my enthusiasm about the potential of the Executive Assignment System. We are convinced that the system will significantly improve executive personnel management in the Federal service. We and the Commission's staff will work closely with the heads of departments and agencies, and with the executives themselves, in developing and administering the system.

In addition to the Executive order, I am enclosing for your information the President's statement on signing the order, an explanatory statement by the Civil Service Commission, and a series of questions and answers which explain the system more fully.

If you have any questions or comments you would like to offer, I will be pleased to hear from you.

Sincerely yours,

JOHN W. MACY, JR.,
Chairman.

EXECUTIVE ORDER 11315

AMENDING THE CIVIL SERVICE RULES TO AUTHORIZE AN EXECUTIVE ASSIGNMENT SYSTEM FOR POSITIONS IN GRADES 16, 17, AND 18 OF THE GENERAL SCHEDULE

Whereas, the increasing complexities of Government require personnel of the highest attainable qualifications who are capable of assuming and discharging efficiently major and varied duties and responsibilities in the Executive Branch in response to present and future needs; and

Whereas, this need for high quality can best be met by the establishment of an executive assignment system for the top three grades of the General Schedule, extending and adapting merit principles in recruitment, selection, and development, combined with improvements in the identification, assignment and utilization of key personnel:

Now, therefore, by virtue of the authority vested in me by the Constitution of the United States, by 5 U.S.C. 3301 and 3302, and as President of the United States, it is ordered as follows:

PART I. CIVIL SERVICE RULES

SECTION 1. The Civil Service Rules are amended by the addition of Civil Service Rule IX reading as follows:

RULE IX. EXECUTIVE ASSIGNMENT SYSTEM FOR POSITIONS IN GRADES GS–16, 17, AND 18 OF THE GENERAL SCHEDULE.

IN GENERAL

SECTION 9.1 *Coverage.* Except as otherwise provided by law, this Rule applies to:

(a) positions in grades 16, 17, and 18 of the General Schedule that are in the Executive Branch, except positions excluded from the coverage of 5 U.S.C. 3324(a) by paragraphs (1), (2), and (4) thereof and any position now or hereafter excepted under Civil Service Rule VI so long as that exception remains in effect; and

(b) persons who are given executive assignments to these positions.

SEC. 9.2 *Filling positions covered by this Rule.* An appointing officer shall fill a position covered by this Rule by Career Executive Assignment, unless the Commission authorizes a Limited Executive Assignment under section 9.6 of this Rule or a Noncareer Executive Assignment under section 9.20 of this Rule.

CAREER EXECUTIVE ASSIGNMENTS

SEC. 9.3 *Qualificatinos required for a Career Executive Assignment.* After appropriate consultation with the agency concerned the Commission shall establish specific qualification standards for assignment to a Career Executive Assignment.

SEC. 9.4 *Recruitment for Career Executive Assignments.* (a) Before selecting any persons for a Career Executive Assignment the appointing officer shall first consider fully employees under his agency's merit promotion program and available employees of other Federal agencies qualified pursuant to paragraph (b) of this section. Only after this consideration may the appointing officer elect to recruit applicants from outside the Federal service pursuant to paragraph (b) of this section.

(b) The Commission shall be responsible for the establishment of special facilities, including special boards and panels, to recruit well-qualified persons for Career Executive Assignments in the Federal service from among employees holding Career Executive Assignments, other eligible employees, and persons outside the Federal service. The appointing officer shall use these special facilities, including special boards and panels, to recruit applicants from outside the Federal service.

(c) The procedures in this section do not apply when the Commission authorizes the movement of an incumbent Career Executive to a Career Executive Assignment at the same or lower grade.

SEC. 9.5 *Career Executive Assignments; selection and assignment.* (a) An appointing officer shall select a person for a Career Executive Assignment solely on the basis of merit and fitness. He shall not permit or consider any political test, qualification, clearance, or recommendation, and shall not discriminate on the basis of race, religion, national origin, sex, age, or physical disability.

(b) The appointing officer may make a Career Executive Assignment only after the Commission has finally approved the qualifications and suitability of the person selected.

SEC. 9.6 *Authorization of Limited Executive Assignments.* (a) The Commission may authorize agencies to fill a position covered by this Rule by a Limited Executive Assignment when:

(1) the position is expected to be of limited duration; or

(2) the agency concerned establishes an unusual need for urgent staffing that cannot adequately be met under the procedures required for Career Executive Assignments.

(b) The Commission shall specify a time limit within which an agency may use this authority and may revoke this authority at any time.

SEC. 9.7 *Qualifications required for a Limited Executive Assignment.* After appropriate consultation with the agency concerned the Commission shall establish specific qualification standards for assignment to a Limited Executive Assignment.

SEC. 9.8 *Limited Executive Assignment; selection and assignment.* An appointing officer may make a Limited Executive Assignment only after the Commission has finally approved the qualifications of the person selected.

SEC. 9.9 *Removal from a Limited Executive Assignment.* An appointing officer may remove a person from a Limited Executive Assignment when, in his judgment, the purpose of the assignment has been served or conditions warrant discontinuance of the assignment.

SEC. 9.10 *Limited Executive Assignment; change to other type of appointment.* If a person completes five years of continuous service in an agency in a Limited Executive Assignment the appointing officer shall:

(a) convert his assignment to a Career Executive Assignment, or to a Noncareer Executive Assignment;

(b) give him a career appointment to a continuing position in the competitive service in grade GS–15, or below; or

(c) separate him from the service.

Noncareer Executive Assignments

SEC. 9.20 *Exception of positions to be filled by Noncareer Executive Assignment.* (a) After consulting the agency concerned, the Commission may except a position from the procedures required for making Career Executive Assignments and authorize an agency to fill the position by a Noncareer Executive Assignment when it determines that there is a need for filling the position by a person who will:

(1) be deeply involved in the advocacy of Administration programs and support of their controversial aspects;

(2) participate significantly in the determination of major political policies of the Administration; or

(3) serve principally as personal assistant to or adviser of a Presidential appointee or other key political figure.

(b) In determining the positions to be excepted under paragraph (a) of this section the Commission shall:

(1) limit the number of positions excepted to a relatively small proportion of the positions in the agency in grades 16, 17, and 18, taking into consideration the size of the agency and the nature of its program; and

(2) define the area of the agency's activity in which Noncareer Executive Assignments would be appropriate and specify organizational levels, as distinguished from grade levels, below which Noncareer Executive Assignments would be inappropriate.

(c) The Commission shall not except a position which has as its principal responsibility the internal management of an agency, or a position involving long-standing recognized professional duties and responsibilities resting on a body of knowledge essentially politically neutral in nature. However, a position concerned with the direction of a scientific program could be appropriately excepted when it meets the criteria set forth in paragraph (a) (1), (2), or (3) of this section.

(d) The Commission shall review periodically the exceptions made under this section and after consulting the agency concerned, shall revoke an exception when the position no longer meets the criteria for exception. Civil Service Rule III, providing for the noncompetitive acquisition of competitive status, shall not apply in such a case.

(e) Notice of the Commission's decision to grant or revoke authority to make Noncareer Executive Assignments shall be published in the FEDERAL REGISTER.

SEC. 9.21 *Qualifications required for a Noncareer Executive Assignment.* After appropriate consultation with the agency concerned the Commission shall establish specific qualification standards for assignment to a Noncareer Executive Assignment. In addition, as a qualification for continuance in a Noncareer Executive Assignment, the incumbent must continue to maintain the qualifications and relationships that are required for the particular Noncareer Executive Assignment.

SEC. 9.22 *Noncareer Executive Assignment; selection and assignment.* An appointing officer may make a Noncareer Executive Assignment only after the Commission has finally approved the qualifications of the person selected. He shall inform each person selected of the qualifications required under section 9.21 of this Rule for assignment to and continuance in a Noncareer Executive Assignment.

SEC. 9.23 *Removal from a Noncareer Executive Assignment.* An appointing officer shall remove a person from a Noncareer Executive Assignment when the person's qualifications or relationships required for the assignment change or cease to exist.

CIVIL SERVICE RULE VI

SEC. 2. Civil Service Rule VI is amended in pertinent part as follows:

(a) Section 6.1(a) is amended to read as follows:

"(a) The Commission may except positions from the competitive service when it determines that appointments thereto through competitive examination are not practicable. These positions shall be listed in the Commission's annual report for the fiscal year in which the exceptions are made. The exception from the competitive service is effective on publication in the FEDERAL REGISTER."

(b) Section 6.6 is amended to read as follows:

"Section 6.6 *Revocation of exceptions.* The Commission may remove any position from or may revoke in whole or in part any provision of Schedule A, B, or C. These changes are effective on publication in the FEDERAL REGISTER."

PART II. SPECIAL PROVISIONS FOR TRANSITION TO THE FULL ESTABLISHMENT OF EXECUTIVE ASSIGNMENTS UNDER RULE IX

SEC. 3. *Effective dates.* This order, except section 1, is effective upon filing for publication in the FEDERAL REGISTER. Section 1 of this order is effective not later than one year from the date of this order, or at such earlier dates as the Civil Service Commission may specify for individual agencies or positions.

SEC. 4. *Interim appointments.* After the date of this order and before Civil Service Rule IX has become effective as to a position, an appointing officer may fill the position in accordance with the appointment system in effect on the day of the appointment.

SEC. 5. *Conversion of incumbents.* On the day Civil Service Rule IX becomes effective as to a position, the appointment of the incumbent of that position shall be changed as follows:

(a) If he is serving under a career or career-conditional appointment in the competitive service, he shall be converted to a Career Executive Assignment;

(b) If he is serving in the excepted service under a nontemporary appointment, he shall be converted to a Noncareer Executive Assignment;

(c) If he is serving in the competitive service under an indefinite or temporary appointment without definite time limit and:

(1) if he has served under this type of appointment for at least five years, he shall be:

(i) converted to a Career Executive Assignment, or appointed to a continuing position in the competitive service in grade GS–15, or below;

(ii) converted to a Noncareer Executive Assignment; or

(iii) separated from the service; or

(2) if he has served under this type of appointment for less than five years, he shall be:

(i) converted to a Noncareer Executive Assignment;

(ii) separated from the service; or

(iii) allowed to continue to serve until he has served five years, at which time the appointing officer shall take one of the actions provided for in subparagraph (1) of this paragraph.

An incumbent who is serving under any other type of appointment shall continue under that appointment until it is terminated.

PART III. ADMINISTRATION

SEC. 6. *Commission responsibilities.* The Civil Service Commission is responsible to the President for the effective implementation and administration of the executive assignment system established by this Order. The Commission shall continuously review operations under this system, shall recommend promptly to the President any changes that are necessary to improve this system, and

shall report periodically to the President any significant developments in the operation of the system. The Commission shall recommend to the President a program of special honors and awards for the recognition of persons assigned to Career Executive Assignments and a program for the development and training of persons assigned to Career Executive Assignments. The training program shall include the establishment of special training and educational facilities, and provide for the relevant use of outside training facilities.

SEC. 7. *Responsibilities of the agencies.* The head of each agency in which there are positions covered by Civil Service Rule IX shall periodically review with the Civil Service Commission his plans for staffing. The head of a newly established agency shall initially review with the Commission his plans for staffing as soon as practicable after the establishment of the agency. The head of each agency shall cooperate fully with the Commission in the establishment of special facilities and special boards and panels that are required under Civil Service Rule IX as a means of recruiting persons of the highest quality.

SEC. 8. *Regulations.* The Civil Service Commission shall prescribe such regulations as may be necessary to carry out the purpose and intent of this Order.

LYNDON B. JOHNSON.

THE WHITE HOUSE, *November 17, 1966.*

Mr. JONAS. Mr. Chairman?

Mr. EVINS. Yes.

SUPERGRADE JOBS AVAILABLE

Mr. JONAS. How many supergrades do you have in the pool now?

Mr. MACY. The Classification Act limitation is 2,577 assigned to the Civil Service Commission to distribute.

Mr. JONAS. Does that include the increase granted last year?

Mr. MACY. 177 was added last year by statute.

Mr. JONAS. 2,400 up till then?

Mr. MACY. That is right.

Mr. JONAS. How many of those are assigned?

Mr. MACY. All but about 40 were assigned as of January.

Mr. JONAS. Are you considering assigning those 40?

Mr. MACY. Yes, sir. They are in the process. Mr. Jonas, the plan of the Commission is to come to the substantive committees relatively early this session with a new statement of requirements. The House last year passed a bill authorizing 300 additional positions. In conference this was reduced to 177 with the recorded understanding that the Commission was to come back early in 1967 to indicate what really the requirements are in order to meet the needs of new and expanding programs.

Mr. JONAS. Do you plan to ask for an additional increase?

Mr. MACY. Yes, sir.

Mr. JONAS. How many?

Mr. MACY. That has not been finally determined. It will be probably in the neighborhood of 200 to 300 positions.

Mr. JONAS. Do you have a table showing where the 137 new ones have been assigned?

Mr. MACY. I do not have it with me now, but I can provide that for the record. I can indicate briefly, the bulk of them have gone to the Department of Housing and Urban Development, and the Department of Health, Education, and Welfare in order to staff new programs. The present pressing need is for the new Department of Transportation. We are in the process of determining with that organization what their needs will be after they come into being later this year.

Mr. JONAS. Thank you.

(The information follows:)

Disposition of 177 supergrades as of Feb. 14, 1967

[Allocation of newly created supergrade positions]

DOD	20
HEW	55
HUD	31
Bureau of the Budget	4
Commerce	21
Interior	1
Labor	15
National Advisory Commission on Rural Poverty	1
National Foundation on the Arts and Humanities	2
Post Office	15
SEC	1
Water Resources Council	2
In process of assignment	9
Total	177

ASSIGNMENT OF SUPERGRADES

Mr. EVINS. Mr. Chairman, just for the record, we have been told by certain agencies that when they want a particular job; that is, a supergrade in a certain category. Although they have the man, they cannot always get the Commission to approve the desired job.

Mr. MACY. That is right.

Mr. EVINS. They have their reason for wanting it and you have your reason for not approving it. How do you get a decision on those issues?

Mr. MACY. Well, this is an area where the Commission is never popular. Regardless of how many spaces are distributed, we never satisfy the need and I am sure that many of the agencies come before you and say, "We just cannot do this job because the Commission does not give us enough supergrades." You probably hear this with some frequency. We endeavor to be as Solomon-like on this as we possibly can.

In the distribution that I described to Mr. Jonas, we frankly try to use that increase to meet the needs of the newer programs. In some of the older programs, their managers are, I am sure, unhappy that they did not receive more from this particular budget.

Mr. EVINS. You are not a prisoner of the agency. This is one of the reasons for the establishment of the Commission, to use these judgmental factors.

Mr. MACY. In fact, the Members of Congress with whom we deal on this are quite happy to have the Commission make these decisions.

FEDERAL MANPOWER UTILIZATION

Mr. TALCOTT. Mr. Chairman? Relating to the program of inspections, do you have any plan or program to weed out unnecesary employees or misplaced employees or underutilized employees or disinterested employees?

Mr. MACY. We endeavor to do that. I would be misleading you if I said that we were completely successful. After all, the assignment responsibility does rest with the agency.

Mr. TALCOTT. Isn't this a bigger problem within the Federal employment system than the need for additional supergrades?

Mr. MACY. Certainly a continuing need in the Federal Government is to increase productivity, to provide for the higher level of results with the people that we have. We have in our inspections been reviewing agency practices on manpower utilization. We have pointed out places where we feel that there are excessive levels of supervision, where we feel that there has been more use of skills.

As I pointed out to you earlier this morning, we tried to encourage agencies to design their jobs so that they can be done with employees of a lower salary level to the maximum extent possible.

Mr. TALCOTT. You are really the only agency that has this oversight capability or responsibility?

Mr. MACY. We share this really with the Bureau of the Budget. The Budget Bureau controls the funds. The funds are necessary in order to hire people. In addition, the Bureau has established certain employment ceilings. As far as numbers are concerned, this really is not within the Commission's jurisdiction. However, we feel that personnel policies should be a means for achieving higher motivation, higher productivity, and greater economy. In our inspections we try to point up what an agency could do to meet management goals of that kind.

SUMMARY OF OPERATIONS

Mr. EVINS. Place in the record pages 44 to 51.

(The pages follow:)

COMPARATIVE SUMMARY STATEMENT BY FUNCTION

Activity 4. Federal executive manpower

Functions	1966 actual		1967 program		1968 estimate	
	Average positions	Cost [1]	Average positions	Cost	Average positions	Cost
Determining and approving executive manpower needs	15	$182,045 (189,200)	16	$205,500	20	$254,900
Providing executive manpower to meet needs	4	33,140 (34,400)	17	173,100	26	287,900
Total, activity 4	19	215,185 (223,600)	33	[2] 378,600	46	542,800

[1] Figures in parentheses on the above table and in the following text are adjusted to reflect 1968 pay rates for comparability.

[2] Includes $4,500 anticipated supplemental for pay increase costs.

GENERAL STATEMENT

The Federal Executive Manpower Activity was budgeted separately for the first time in the Commission's budget submission to Congress in fiscal year 1967. It consolidates into one activity the request for funds to accomplish required executive manpower work. Previously, funds for this work had been included in the Commission's budget estimate under several activities with the major portion in Activity 1, Recruiting and Examining, and Activity 3, Inspections. This activity also provides funds for the establishment of the new Executive Assignment System for positions at grades GS–16, GS–17 and GS–18.

This activity is responsible for implementing and administering the Executive Assignment System established under Executive Order 11315 of November 17, 1966. As they apply to positions at GS–16 and above, and at equivalent levels, this includes the functions of: (1) Working with agencies to develop the most effective top-level organization and position structure, and the best means of staffing the key positions within the agencies; (2) allocating positions under Section 5108 of Title 5 U.S. Code; (3) approving qualifications of persons selected; (4) determining appointing authorities; (5) approving the establishment of and appointments to positions compensated under Section 3104 of Title 5 of the U.S. Code (formerly P.L. 313 type positions) and similar legislation including the setting of salary rates; (6) handling other actions such as Whitten Amendment exceptions, authorizations for appointments above the minimum rate at grades 16 or 17, and granting status in cases of administrative error under Rule III; (7) establishing and maintaining special facilities—boards and panels—to permit competitive recruiting of persons from outside the service on a full merit basis; (8) establishing and maintaining a comprehensive executive inventory covering all Federal employees in grades GS–15 and above, and at equivalent levels of other salary systems; and (9) developing a program for honorific recognition of career executives.

The Executive Assignment System is the beginning of an expanded personnel system for Federal executives at GS–16, GS–17, and GS–18. Its primary objectives are to: (1) Make available to agency heads the most capable executives from inside and outside the Federal service to staff top-level positions; (2) provide career executives expanded opportunities to use their talents throughout the Government, rather than solely in the agency in which they are currently employed; and (3) develop a top staff of executives committed to the concept of overall Government needs rather than individual agency programs. The primary emphases of the system during fiscal year 1968 will be on executive manpower planning, establishing and using an inventory of 25,000 top graded employees for executive placement and selection, executive recruitment, and executive recognition.

Currently, the Commission's efforts are being directed toward the continuation of required actions previously carried out under other activities and the development of the programs necessary to place the Executive Assignment System into full effect. The development and conversion phases of the program are expected to be completed in fiscal year 1968 at which time full scale operations of the program will begin.

NARRATIVE JUSTIFICATION

Determining and approving executive manpower needs

	1966	1967	1968
Average positions	15	16	20
Cost	($189,200)	$205,500	$254,900

Determining executive manpower needs will be a major responsibility under the new system. This will require intensive and high level working arrangements with all agencies. Each agency will periodically review, jointly with the Commission, its plans for staffing upper level positions for the present and the future. These reviews will focus upon the full utilization of current executive manpower and on the forecasting of future needs. The information developed in the course of such reviews will provide the basis for operations under the new system.

These reviews as well as all direct dealings with agency heads and their top staffs, will require skilled, professional personnel management people. Continuing contacts with top agency management will call for tactful negotiation and judgment of the highest order to provide guidance in executive manpower areas. These areas will concern such matters as the evaluation of upper level position management programs, the allocation of spaces under quotas established by Congress for positions at GS–16, GS–17, and GS–18 levels, the grade determination of specific positions, and the distinction between career and noncareer positions.

Based on current experience, the Commission during fiscal year 1967 will handle approximately 4,000 agency requests dealing with positions and the employment of persons at the GS–16, GS–17, and GS–18 pay levels of the General Schedule and similar levels of other salary systems. It is anticipated that the Commission during fiscal year 1968 will take care of over 4,000 individual agency actions bearing on the classification of upper level positions or the approval of the qualifications of persons selected to fill them. Typically, the Commission will determine the appropriate classification of approximately 1,600 executive level positions, approve or deny the qualifications of about 1,500 employees recommended to fill upper level positions, and establish appropriate salary rates for some 900 positions under Section 3104 of Title 5 U.S. Code.

Funds requested in fiscal year 1968 will provide for the necessary expansion of the staffing review program as well as the additional workloads expected in other areas of responsibility included in this function.

Providing executive manpower to meet needs

	1966	1967	1968
Average positions	4	17	26
Cost	($34,400)	$173,100	$287,900

A key aspect of the new executive manpower program is the establishment, maintenance, and use of the career executive inventory. When fully developed, the inventory will contain the biographical and work experience data of approximately 25,000 persons working in grade levels GS–15 through GS–18, and at equivalent pay levels under other salary systems. The inventory will be the foundation of efforts to provide a Government-wide search in filling key executive and professional vacancies. The vast scope of the inventory undertaking is made possible only by the capability provided by ADP support. The operation of the inventory, and its currency maintenance, will require skilled professional work.

It is estimated that the inventory will be searched approximately 1,000 times each year. For some executive vacancies, several hundred candidates may be identified. The process of judgment and decision leading to evaluated referrals of candidates for individual vacancies will be a professional, pioneering task. The requirements for these high-level vacancies will have to be developed in such detail as to constitute a separate qualification standard for each job. In most instances, these requirements will have to be developed through close work with the agencies. The inventory will also be used for other management purposes; e.g., executive workforce studies, training needs identification, etc.

Upon full establishment of the executive inventory, approximately 4,000 executives serving in GS–16, GS–17, and GS–18 positions will be converted to the Executive Assignment System. Preparation for this conversion, and the conversion itself which will take place in fiscal year 1968, will be a difficult undertaking requiring individual handling of a relatively large number of individual cases.

As part of the new Executive Assignment System, facilities will be established for effective search and recruitment into the Government of topnotch administrative, professional, and technical personnel from the private sector. The Commission will work closely with agencies to provide the means for recruiting outstanding people into the public service. In some cases, this will mean the establishment of boards and panels made up of agency people to evaluate the candidates and determine the most qualified and promising prospects. In other cases, this will mean giving direct recruiting assistance. Procedures will be developed to assure that persons recruited can be given full career status.

The Commission will seek advice and assistance on the development and operation of the various phases of the Executive Assignment System from a number of sources. Special advisory councils will be established for this purpose. These councils will include representatives from the agencies, business and academic communities, employee and veteran organizations, professional associations, and career executives themselves. During the early stages of the new program, the consultation process will be especially critical and time consuming.

Another significant responsibility under the Executive Assignment System is to work with agencies to improve their individual programs for executive manpower management consistent with the overall objectives of the new system. This includes assisting agencies in the development of programs to identify and develop executive talent, to improve executive performance and appraisal techniques, and to assure utilization of merit promotion concepts in filling key agency positions.

Plans and programs

Planning and assessment programs will be built into the Executive Assignment System from the very beginning. An appropriate program of self-evaluation will be established to measure the effectiveness of the Commission's efforts to improve the executive manpower program throughout Government. Intensive analysis will be made continuously on current operations to determine first, whether the program is helping to meet the needs of agencies in the identification, utilization and development of executive manpower; and second, what additional steps are necessary for improvement. Recommendations will be made to the President and Congress on areas considered vital to the more effective development of the Government-wide executive manpower program.

These will involve such programs as giving public recognition and prestige to career executives and top-level professional people; assisting appropriate offices of the Commission in the initiation of executive development and training on a Government-wide basis; providing upper level employees with broader opportunities for self-development and further personal growth; devising possible approaches to increase the movement of top employees among and between Government programs within the concept of total Government service; and extending the system to positions and employees not initially covered. These planning activities and the preparation of recommendations will require extensive research and consultation with other Commission organizations, in addition to the advisory councils and agency management.

Funds requested in fiscal year 1968 are based on additional workloads in this function occurring mainly in the agency consultation and assistance program, the maintenance and search of the career executive inventory to provide agencies with evaluated referrals for use in filling vacancies in executive positions, the design and use of special facilities for outside recruitment, and the development of further program recommendations.

Developing Policies and Standards

Mr. Evins. Let us turn to activity 5, which is "Policies and Standards." There is a great deal of detail about the policies and standards which you have authorized. We will place in the record pages 52 through 61. This is your operations for 1968. Also, the chart on page 52, showing the personnel and funds.

(The chart and pages follow:)

COMPARATIVE SUMMARY STATEMENT BY FUNCTION

Activity 5. Developing policies and standards

	1966 actual		1967 program		1968 estimate	
	Average positions	Cost [1]	Average positions	Cost	Average positions	Cost
Providing leadership and guidance in strengthening the Federal personnel programs	35	$409,698 (425,660)	40	$512,000	40	$512,000
Maintaining the Commission's system of directives and instructions	32	363,184 (377,333)	29	357,000	29	357,000
Establishing and maintaining standards	45	501,777 (521,326)	54	630,400	54	630,400
Providing selection methods and tests to measure qualifications	31	319,821 (332,261)	39	432,600	39	432,600
Total, activity 5	143	1,594,480 (1,656,580)	162	[2] 1,932,000	162	1,932,000

[1] Figures in parentheses on the above table and in the following text are adjusted to reflect 1968 pay rates for comparability.
[2] Includes $23,900 anticipated supplemental for pay increase costs.

GENERAL STATEMENT

This activity provides necessary policy development, instructional materials, standards setting, and research services on all elements of the Federal personnel program, so that the Civil Service Commission can respond to many varied demands made upon it—demands arising from statutory responsibilities, Presidential directives, court decisions, legislative proposals, Federal departments, employee groups, and other sources. The functions include: (1) Providing leadership and guidance in strengthening Federal personnel programs, in order to be responsive to changing conditions and to improve Government-wide personnel practices; (2) maintaining and initiating improvements in the Commission's system for issuing regulations and instructions by which its programs and policies are carried out; (3) establishing and maintaining standards needed to evaluate candidates for positions and to classify positions for both white collar and blue collar occupations; and (4) providing and improving selection methods and tests for measuring the qualifications of individuals.

These are continuing responsibilities which give direction and purpose to the improvement of governmental personnel administration both at home and abroad. The personnel programs, instructions, tests, and standards developed under this activity are for the use and guidance of administrators and personnel offices throughout the entire governmental personnel system—they are not just to serve Civil Service Commission staff.

NARRATIVE JUSTIFICATION

Providing leadership and guidance in strengthening the Federal personnel programs

	1966	1967	1968
Average positions	35	40	40
Cost	($425,660)	$512,000	$512,000

This function covers: (1) Developing plans, policies, and programs concerning Federal personnel matters; (2) preparing policy positions on personnel legislation and developing the Commission's legislative proposals; (3) providing a consulting and advisory service to management (congressional, Commission, and executive branch officials) on personnel management; and (4) answering inquiries on policy issues.

The Civil Service Commission, as the central personnel agency for over two and one-half million Federal employees, is responsible for: (1) Providing the leadership and guidance necessary to maintain, strengthen, and improve the Federal personnel system, including but not confined to the competitive service; (2) enhancing the Federal Government's status as an employer and its competitive position in the labor market; and (3) developing and maintaining a personnel capability to cope with a national emergency or other unforeseen operational problems affecting day-to-day operations.

Consequently, the Commission must be continually alert to identify new needs and requirements for efficient management or for strengthening Government programs. It must be ready to provide expert advice and assistance to Congressional and Executive Branch officials, when needed, on major personnel policy matters or potential problem areas. This function of the Commission is lodged in this policy development activity.

Accomplishments

The resources of this activity are drawn upon constantly to provide the necessary continuing studies and negotiations required to make possible such achievements as the following, which are among those accomplished during the past fiscal year—

Prepared reports on 279 proposals, in response to requests from Congress, on legislation relating to personnel management matters.

Provided technical advice, assistance, and information to Members of Congress, congressional committees, and executive branch officials on a wide variety of matters, including Federal salary adjustments, moving expense reimbursement, payment of commuting expenses of employees assigned to duty at remote worksites, effects of automation, labor-management relations in the Federal service, etc.

Developed legislative proposals concerned with, among others, the interchange of governmental personnel, repeal of artificial ceiling on permanent employment, and increases in leave benefits for certain maritime personnel.

Developed recommendations on requests for minimum pay increases for shortage category positions and payment of travel and transportation costs to first post of duty.

Published the report, "Federal Workforce Outlook, Fiscal Years 1966–1969" (the second annual four-year projection of Federal manpower requirements in major occupations), and the second semi-annual turnover report, "Current Federal Workforce Data."

Provided extensive technical assistance to the Standing Committee of the Federal Council for Science and Technology in its survey of attitudes of Federal scientists and engineers.

Prepared the Commission's Annual Report, the annual report of Government-wide training, the Commission's portion of the report to the President on the annual salary review, and the annual report to the President on the status of the Employee-Management Cooperation Program.

Contemplated operations for fiscal year 1968

Continuing assignments.—During fiscal year 1968, over half the available manpower and fiscal resources will be required to perform a variety of continuing and largely uncontrollable assignments stemming from (1) the needs of policy-making authorities in the legislative and executive branches for information and technical advice, (2) agency operating officials in need of answers to technical questions, and (3) the changing nature of Government-wide programs. Estimated budget allowances will support this continuing assignment activity at only the current program level. Typical assignments will include—

Analyzing and reporting to Congress on proposed legislation introduced by Members of Congress.

Analyzing and preparing recommendations on draft legislative proposals developed by executive branch agencies.

Conducting staff work and developing recommendations on requests for increased minimum pay, payment of travel and transportation costs to first post of duty, and general salary adjustment proposals.

Developing a common wage board policy for Government-wide use, with wage rates that are based on statistically valid wage surveys and are equitable among agencies.

Developing employee-relations policy proposals for Government-wide application, giving advice and assistance to agencies on program problems, reviewing union-management agreements to insure compliance with merit systems principles, and maintaining an information center on program developments in connection with the Federal Employees-Management Cooperative Program.

Coordinating and maintaining the Government-wide operational plans for adjustment of the Federal civilian personnel system and staffing of the Federal Government during periods of national emergency.

Developing and maintaining the cost-of-living allowance and post differential system for non-foreign areas.

Special projects.—Although a heavy workload of continuing assignments prevails as heretofore, the distinguishing aspect of policy development is the special project work. Because of rapid changes in governmental functions, technology, manpower requirements, and the composition and characteristics of the Federal work force, and because of the constantly advancing techniques of management, new projects are required to insure prompt and adequate solutions to problems accompanying these changes and advances. It is anticipated that the estimated budget allowances will support the continuation or initiation of several important projects in such vital areas as those listed below:

Facilitating career mobility of technical, professional, and managerial personnel among Federal agencies, and among the Federal service, other governmental jurisdiction, and private industry.

Improving the quality and training of personnel staffs.

Improving employee-management cooperation in the Federal service.

Developing and improving Federal internship programs designed to provide the Federal service with quality managerial trainees.

Measuring the quality of scientific and technical personnel and improving the environment in which they work.

Analyzing personnel effects and implications of automation and developing plans to avoid or reduce present and potential problems.

Refining techniques for projecting the Government's future manpower needs by occupational groups.

It is expected that the trend established during fiscal years 1963 through 1966—an increasingly diversified workload, particularly due to new areas of Commission rseponsibility (e.g., ethics, equal opportunity, wage board coordination, etc.)—will continue. The level of operations outlined above constitutes the minimum level feasible to provide effective staff support to the Commission, and in turn to the Congress and other Federal officials, in this period of rapid and dynamic change. Funds requested for fiscal year 1968 will permit continuation of this function at no more than the staff level authorized for the current fiscal year.

Maintaining the Commission's system of directives and instructions

	1966	1967	1968
Average positions	32	29	29
Cost	($377,333)	$357,000	$357,000

This function covers the work of: (1) Putting into effect programs, policies, legislation, and judicial decisions by developing clear and coordinated regulations, directives, and instructions to Commission offices and executive branch agencies; (2) providing support services to Commission offices and to executive branch agencies, including (a) furnishing practical solutions to employment, leave, pay, and similar problems resulting from changing conditions, (b) giving

advice on the application and interpretation of regulations and instructions to novel and complex situations, and (c) developing policies and giving technical guidance with reference to employee appeals to the Commission, and coordinating and evaluating their handling; (3) developing and installing continually evolving plans for the issuance, control, and use of the Commission's directives and instructions; and (4) processing a variety of case-by-case actions.

This phase of Activity 5 differs from that described under the foregoing leadership function in that here the Commission is concerned with the implementation, interpretation, and maintenance of newly-approved or existing policies and programs, and on a more detailed and specific basis as problems are encountered day-to-day, whereas the leadership function deals with establishment of or changes to basic policies and programs, and on a long-range basis. The work stems from two broad sources: (1) Project activities, and (2) Continuing activities.

Project activities are those which meet the need for quick development of implementing policies and procedures and the writing of necessary regulatory and instructional material to carry out: New laws, such as the Voting Rights Act; new Presidential directives, such as those permitting noncompetitive appointment in the competitive service of certain student trainees and appointees; new Comptroller General decisions, such as those clarifying the administration of severance pay; or new program decisions, such as that to develop overseas limited term appointment authority to meet current employment conditions overseas.

Continuing activities are designed to meet the need for maintenance of regular on-going operations, such as: The Commission's extensive issuance system of both external and internal instructions; appeals program management; interpretation, advice, and assistance to agencies and to Commission offices; the review of agency requests for Schedule A, B, and C authorities; and correspondence requiring interpretation of various statutory and regulatory requirements with reference to leave, pay, reduction-in-force, adverse actions, appeals, veteran preference, and the like.

Materials produced may be incorporated in the Federal Personnel Manual, Federal Personnel Manual Supplements, pamphlets, training documents, and the like.

Workload trends

The outstanding characteristic of the work under this function is its continued growth in scope and complexity, in the face of ever-increasing volume. In any subject-matter area—be it appeals, pay, promotion policy, reduction-in-force, work-study programs, training needs, or equal employment opportunity—each year the complexity and span of required attention grow as the result of new or changed laws, Executive orders, court decisions, Comptroller General's decisions, and program decisions by the Commissioners. Three new laws and nine Executive orders were the basis for major additional workload in fiscal year 1966. At the same time, there was no slackening in the maintenance work generated from laws, programs, and decisions of past years.

Contemplated operations for fiscal year 1968

The demand for this function is expected to continue at a high level in 1968, maintaining or exceeding the load in fiscal year 1967. Examples of problems now being worked on are—

More effective use of the probationary period.
Requirements of the merit promotion program.
Employment survey of retired uniformed personnel.
Commission authority to direct employees to testify at appeal hearings.
Redefinition of "transfer of function," relating to employee job rights.
Guides for supervisors in dealing with emotionally disturbed employees.
Improvement of the Commission's internal instructional system.
Enforced absence, particularly for physical disability cases.
Simplified procedures for releasing employees from temporary promotions.
Simplified controls of expert and consultant appointment.

Examples of projects scheduled for the future, depending in some cases on the passage of proposed legislation, are—

Facilitation of movement of professional, technical, and managerial personnel at GS–7 and above among Federal agencies and between Federal agencies and non-Federal employment.

Modification of the examining handbooks to accord with the needs of the new Interagency Examining Board Program.

Evaluation of regulations and instructions affecting top-level positions.

Payment of per diem to employees assigned duties at nonresidential locations in U.S.

Simplified procedures to facilitate the use of short furloughs by agencies with sharply fluctuating workloads.

Development of a manual for hearing examiners who deal with equal employment opportunity issues.

Implementation of proposed new recruiting and examining policies and programs.

Development of training courses in: (1) Reduction-in-force procedures; and (2) adverse action and appeal procedures.

Most projects cannot be anticipated as far as a year ahead. This activity must be completely and immediately responsive to outside and unforeseen actions, and the future can be projected only on the basis of past experience. An analysis of major project work on hand in 1967 shows it to be continuing at the same high level as in 1966. The workload in 1968 is expected to continue at this high level, and may go even higher.

Funds requested for fiscal year 1968 are designed to permit continuation of this function at the fiscal year 1967 level.

INCREASE IN POSITIONS

Mr. EVINS. Formerly you had 143 positions in "Policies and standards," and in 1967, 162.

Mr. MACY. That increase, Mr. Chairman, is primarily to perform the task that has been assigned to the Commission of developing a Government-wide system for the determination of wage rates for blue-collar employees. Today and for the past 100 years, individual agencies have been authorized to set up their own system for determining local prevailing rates. The result has been, we have found, that in a number of communities, jobs of like content and responsibility are paid more in one agency than in another.

We also have found that some of the practices followed by the agency have resulted in their actually paying more than the prevailing rate.

The President in November 1965 asked the Commission to review this entire situation and design a system that would assure that the Federal Government speaks with one wage voice in each of the 300 communities where there are prevailing rates. The bulk of these jobs are in the military departments. However, they also exist in GSA, VA, and HEW, particularly at the lower skilled levels.

The Commission has added staff in 1967 in order to have the kind of professional expertise to develop this plan and, presumably, to lead it and administer it once it has been accepted. That is the primary justification for the increase.

You commented earlier that the Commission has been writing standards and initiating policies for a long time. This is true. There is a heavy maintenance job in trying to update and keep current and modern the guidance that the Commission issues to the agencies. There also is an evolution of programs in order to keep up with changing times.

The staff level for this operation has been maintained at approximately this level, with the one increase that I described, for a number of years. Your predecessor liked to describe this as Phil Young's or

John Macy's brain trust. This is the research and development unit of the Civil Service Commission. This is where we try to concentrate our planning and our developmental activities. I think it is a very necessary function and provides the kind of new direction that is necessary.

STANDARDS FOR WAGE BOARD POSITIONS

Mr. EVINS. This language is worth repeating for the record:

The Commission is now engaged in the development, over a 3-year period, of a common set of approximately 200 standards that will replace the 1300 individual agency standards, covering 1600 different job titles. After 3 years, the program will be one of establishing standards for new occupations and revising standards to reflect changes in technology and in agency programs.

Now you are getting the standards down to about 200 for 1,600 jobs in 1,300 different agencies. You have a custodial job for all the agencies rather than hundreds of different ways of approaching this problem.

Mr. MACY. Let me add, Mr. Chairman, this is another project where conceivably the funding could be handled by the agencies making the contribution. The Bureau of the Budget and the Commission decided in this one it was preferable to come for a direct appropriation. It is our expectation that if this new project is adopted and put into effect, the agencies will be able to reduce the people who are presently engaged in this work because we will have a uniform, Government-wide system.

Mr. EVINS. You want pay comparable to the same job description. If you find there are different wage scales in different agencies for people performing similar jobs, how do you bring about comparability or equality? How is this achieved? In the future it will be easier, of course.

Mr. MACY. In the future, presumably there will be one wage schedule applicable for all blue-collar jobs in a given locality, and every agency will pay the same rate for the same job. At the present time, we may have as many as five or six different agency rates for the same laborer job in the same locality because they have conducted their measurement survey in private industry in a somewhat different way or they may have a slightly different description of the job that is being performed.

Mr. WILLIAMS. The Commission has no basic responsibility to change that, either.

Mr. MACY. That is right. The authority is with the agency and has been.

Mr. EVINS. You can call it to their attention.

Mr. MACY. We can call it to their attention and they can say, "Thank you very much," and that's it.

Mr. EVINS. The Commission can say to an agency that they are underpaying or overpaying.

Mr. MACY. But if there is a system in being that is the same for all of them——

DETERMINING WAGE BOARD RATES

Mr. EVINS. Tell us again, Mr. Chairman, how the wage board cases are reviewed, how the rates are set, how do you make these determinations? Give us the mechanics.

Mr. MACY. At the present time, the individual agencies either conduct their own surveys in the areas where they are operating, or they use BLS results. They then collect that information, analyze it, and develop a wage schedule for all of the job levels in a particular installation. They review what industry is paying on an annual basis, and adjust the rate accordingly. The rates are authorized by the head of the department or agency after review.

We are saying this would continue this way, but they would have a fixed pattern. There would be one agency, BLS, that would conduct all the surveys and all of the data would be reviewed. There would be changes made uniformly in the same locality at the same time.

Mr. TALCOTT. A shortcut for this would be to go to the labor union and ask them what the wages are; would it not?

Mr. MACY. Of course, in many of these jobs you do not have unionization, so you have a variety of rates. Obviously, where you have a very heavy union participation and a number of bargaining situations and contracts, the information can be obtained very readily from a master agreement, but BLS is very proficient in this and can get this information as a part of their regular surveys, which in turn are used by industry as well in judging what the prevailing rates are.

Mr. TALCOTT. You would not participate in an escalation effort—to try to force the wage scale into line.

Mr. MACY. Really, the way the law reads, we have to pay prevailing rates. So, the need is to determine what is the prevailing rate. The variation comes from the sample that you use in collecting wage data in a particular community.

For example, if you have quite a number of maintenance jobs—plumbers, carpenters, and the like—and you use only industrial maintenance types rather than building maintenance types, you will end up with a higher prevailing rate.

So, it is necessary, really, to make sure that you match job for job in order to get the prevailing rate.

Mr. EVINS. Very good, Mr. Chairman. Thank you.

ESTABLISHING AND MAINTAINING STANDARDS

Place pages 62 through 65 in the record.

(The pages follow:)

Establishing and maintaining standards

	1966	1967	1968
Average positions	45	54	54
Cost	($521,326)	$630,400	$630,400

This function includes the development and maintenance of (1) qualification standards for all positions in the competitive service, (2) classification standards for General Schedule and wage board positions, and (3) job descriptions used in the salary survey program conducted by the Labor Department.

Qualification Standards.—Administering a competitive merit system involves public announcement of position requirements and open competition, so that every qualified citizen has an equal opportunity to be considered for appointment. Qualifications required for a position must, therefore, be established clearly and definitively and made a matter of public record.

The standards for these qualifications, which cover over two and a quarter million positions in the competitive civil service, specify the kinds, quality, and amounts of experience and training required, and the kinds of written tests and other personnel measurement devices needed to predict successful job performance. They are also used by departments and agencies in filling jobs by promotion, reassignment, or transfer within the Federal service. Proper qualification standards, therefore, play a key part in determining the quality of the staffs in Federal agencies.

Classification Standards.—Section 5105 of Title 5, U.S.C., directs the Civil Service Commission to prepare and publish standards for the classification of the more than 1,100,000 positions subject to the General Schedule which include the great majority of the Government's professional and "white collar" work force. These standards provide guidelines to agency management and personnel officials for determining the classification grades and occupational categories for positions in all departments and agencies. The determination of appropriate grades insures achievement of the goal of equal pay for equal work. The determination of occupational categories establishes the framework for all personnel management functions, as well as for budget and position control, manpower planning, etc.

Wage Board Standards.—On November 16, 1965, the President sent a memorandum to the heads of departments and agencies, directing them to join in the development of a common system for the determination of wage rates for the more than 600,000 Federal wage board employees in the trades, crafts, and laboring occupations. The President assigned to the Chairman of the Civil Service Commission leadership responsibility for developing uniform policies and procedures to assure equal pay for substantially equal work in each locality.

As part of its work to achieve this end, the Commission is now engaged in the development, over a three-year period, of a common set of approximately 200 standards that will replace the 1,300 individual agency standards, covering 1,600 different job titles. After three years, the program will be one of establishing standards for new occupations and revising standards to reflect changes in technology and in agency programs.

Development of standards

Standards are developed by a process of occupational analysis designed to yield the kinds of information and criteria that are needed for evaluating jobs and people. This analysis must be continuing, because of changes occurring in both Government programs and occupations. The rate of technological change is not only rapid, but accelerating. Review of each occupation at least once every five years is necessary. Considering the 500 different occupations among the "white collar" work force—ranging from typists, clerks, tabulating machine operators, etc., to highly skilled professionals in such areas as economics, law, accounting, medicine, the biological and physical sciences, engineering, education, and general management, plus the large number of wage board and postal occupations requiring qualification standards—the enormity of this maintenance task is clear.

Classification and qualification standards are developed by occupational specialists who study carefully every important facet of an assigned occupation. They go where the jobs are. They talk with the men on the jobs, the supervisors, and the program managers and personnel officials working in or with the occupations. They discuss each occupation with professional societies and with unions, and tap any other source of germane information. Before a standard is finally approved by the Commission for publication and use, it is circulated to agencies, to interested professional societies, and to employee organizations for review and comment. These comments are carefully studied and considered before the final standard is published.

Pay comparability survey job descriptions

As part of the program of insuring equal pay for equal work, the Commission also has the continuing responsibility for preparing, revising, and maintaining surveillance over the job definitions used in certain salary surveys conducted by the Labor Department. In 1968 there will be need for a review of another group of job definitions for the private enterprise salary survey. These definitions must be maintained on a current basis, as job changes occur both in Government and industry. This periodic updating is essential to ensure the continuing validity of pay data used in connection with the comparability principle expressed sections 5301–5304 of Title 5, U.S.C. In addition, it will also be necessary to evaluate the effectiveness of, and to make revisions in, the job definitions to

be used in the survey of salaries paid by State and local governments that the Bureau of Labor Statistics anticipates starting in 1968. Data from that survey will also be useful in connection with the maintenance of pay comparability.

Contemplated operations in fiscal year 1968

The following are the major areas for consideration during the budget year:

Approximately 65 Government-wide wage board classification standards are to be developed, assuming a full staff complement is attained during fiscal year 1967.

The estimated number of standards for General Schedule "white collar" positions scheduled for maintenance review has been set at 25 classification standards and 70 qualification standards. These standards will cover a substantial occupational range and will apply to practically all Federal agencies.

Continued emphasis will be placed on broader classification and qualification standards, with fewer specializations, in order to simplify the occupational structure and allow for greater career mobility.

Classification standards will continue to emphasize the "core elements" which make up the essential character of the work and which are critical for distinguishing grade-level values. This procedure makes standards shorter and thus easier to use, as well as less susceptible to early obsolescence as a result of minor program or occupational change.

Continued emphasis will be placed on developing grade-level guides for functions that cross occupational lines in order to attain grade-level equity for like work among occupations.

Qualification standards will include guides for agencies to use in considering the qualifications of employees under the Federal Merit Promotion Program.

Job description maintenance for salary comparability survey purposes will continue on a regularly-scheduled basis, with about 30 job categories reviewed from the private enterprise survey.

The occupational standards development program and the program for developing tests and personnel selection methods (discussed below) are complementary. They work together toward a fair and effective merit system and more effective selection and utilization of employees. Funds requested for fiscal year 1968 are at the same level as that for fiscal year 1967.

Appellate Functions

Mr. Evins. Let us take a look at activity 6, which is the appellate functions which we discussed this morning.

Mr. Macy. Mr. Chairman, lest some of my earlier statements might be misunderstood, let me elaborate by saying that in the performance of the appellate function, in most of the types listed on page 70 there is a two-level appeal system where an initial review is made by a Commission examiner. Once the decision is made, the appellant or the agency may appeal to the Central Board of Appeals and Review, which exercises delegated authority from the three Commissioners. If the Commissioners were themselves to serve as that second appeal body, they would not be able to do anything else. So, the only cases which come to the Commission are those where, after the Board of Appeals and Review have acted, the party wishes to have a reconsideration.

Mr. Evins. Very good.

Mr. Jonas. How does he get that?

Mr. Macy. He gets that by filing through his attorney or through his Congressman or through some other person who wishes to present his case.

Mr. Jonas. He can write a letter to the Commission saying "I don't

agree with the decision of the Board of Appeals and Review and request reconsideration by the Commission"?

Mr. MACY. The Commissioners will then ask if there is any new information relevant to the case since the previous appeal was adjudicated, and we decide whether to take it under reconsideration.

Mr. JONAS. While we are on this subject, has any consideration ever been given to creating a board similar to the Board of Veterans' Appeals, with independent jurisdiction?

Mr. MACY. Not with independent jurisdiction. Mr. Jonas, there have been a number of study bodies that have recommended that there be an administrative court for this function and that this be taken out of the Civil Service Commission. The Commission's view has been that the individual and the Government are likely to get equity by having the Commission act, because the Commission is familiar with the body of regulations and is familiar with the personnel practices.

There is the further byproduct of the Commission's gaining some information through the appeals as to what policies should be modified in order to assure that there is equity.

Mr. EVINS. We shall place the tables on pages 70 and 72 in the record at this point.

(The pages follow:)

COMPARATIVE SUMMARY STATEMENT BY FUNCTION

Activity 6. Appellate functions of the Commission

Functions	1966 actual		1967 program		1968 estimate	
	Average positions	Cost [1]	Average positions	Cost	Average positions	Cost
Adverse action (pt. 752-B) appeals	36	$408,766 (424,800)	32	$394,400	32	$394,400
Probationer and short suspension appeals	3	33,034 (34,300)	3	34,700	3	34,700
Reduction-in-force appeals	9	95,194 (98,900)	8	89,000	8	89,000
Classification appeals	14	151,190 (157,100)	15	163,300	15	163,300
Suitability appeals	2	24,382 (25,300)	2	27,600	2	27,600
Performance rating appeals	2	22,458 (23,300)	2	21,600	2	21,600
All other appeals	5	54,037 (56,100)	6	66,000	6	66,000
Prohibited political activity cases	7	76,478 (79,500)	7	82,200	7	82,200
Discrimination complaints	8	77,051 (80,100)	7	75,000	7	75,000
Total, activity 6	86	942,590 (979,400)	82	[2] 953,800	82	953,800

[1] Figures in parentheses on the above table and in the following text are adjusted to reflect 1968 pay rates for comparability.

[2] Includes $11,700 anticipated supplemental for pay increase costs.

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table:

Functions	1966 actual		1967 program		1968 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Central office	50	$566,020 (588,100)	46	$554,000	46	$554,000
Regional offices	36	376,570 (391,300)	36	399,800	36	399,800
Total, activity 6	86	942,590 (979,400)	82	953,800	82	953,800

Mr. EVINS. You have fewer employees. You are cutting down in this activity.

CAREER DEVELOPMENT AND TRAINING

Activity 7 is "Career development and training."

Insert the tables on pages 81 and 82, and the language on pages 83 through 88.

(The pages follow:)

COMPARATIVE SUMMARY STATEMENT BY FUNCTION

Activity 7. Career development and training

Functions	1966 actual		1967 program		1968 estimate	
	Average positions	Cost [1]	Average positions	Cost	Average positions	Cost
Administering the career development and training program	14	$159,328 (165,500)	14	$157,900	14	$157,900
Evaluating and coordinating the Federal training program	9	92,300 (95,000)	9	101,200	28	344,200
Providing guidance and assistance to agencies on career development and training	9	97,144 (101,900)	9	102,800	12	142,200
The President's Commission on White House Fellows [2]	2	19,855 (20,600)	4	41,700	.....	.....
Total, activity 7	34	368,627 (383,000)	36	[3] 403,600	54	644,300

[1] Figures in parentheses on the above table and in the following text are adjusted to reflect 1968 pay rates for comparability.

[2] As authorized by Executive Order 11183, the costs of this program were shared on a 50-50 basis by the Civil Service Commission and the Department of Health, Education, and Welfare, Office of Education, during fiscal year 1966. For fiscal year 1967, however, the entire cost is being included in the Civil Service Commission's program. This program is being eliminated from the budget request in fiscal year 1968.

[3] Includes $5,100 anticipated supplemental for pay increase costs.

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table:

Functions	1966 actual		1967 program		1968 estimate	
	Average positions	Cost [1]	Average positions	Cost	Average positions	Cost
Central office	20	$238,287 ($247,600)	23	$260,700	41	$501,400
Regional offices	14	130,340 ($135,400)	13	142,900	13	142,900
Total, activity 7	34	368,627 ($383,000)	36	[2] 403,600	54	644,300

[1] Figures in parentheses on the above table and in the following text are adjusted to reflect 1968 pay rates for comparability.
[2] Includes $5,100 anticipated supplemental for pay increase costs.

ACTIVITY 7. CAREER DEVELOPMENT AND TRAINING

GENERAL STATEMENT

The scope, variety, and volume of training activities conducted by departments and agencies have increased continuously since the enactment of the Government Employees Training Act in 1958. This growth has been caused by such factors as: manpower shortages requiring the training of underutilized personnel; technological changes causing occupational changes and conversions; new governmental programs requiring new knowledges and skills; requirements for improved supervision and managerial competence; and the constant need for the retraining of a growing mobile work force.

The central surveillance of this operation, assigned to the Civil Service Commission, has not kept pace with its growing dimensions. There is need for systematic evaluation of costs and effects; for improved coordination to eliminate duplications and to maximize the use of resources; for guidance in modern methods and techniques; and for data systems that will relate investments to valid priority needs.

To achieve these purposes more effectively, the Commission has developed a 3-year plan for increased staffing in activity 7—career development and training. The first phase of this plan, to put into effect the top priority programs, is represented in this budget.

The original functions of this activity—coordinating training activities and developing incentive programs—will continue as a part of the expanded program.

All functions of this activity were formerly covered under the one heading, "Administering the Career Development and Training Program." This heading has been divided into three more specific areas for the first time in fiscal year 1968. Figures for fiscal years 1966 and 1967 are also presented in this format for comparability purposes.

Since alternate methods of financing the President's Commission on White House Fellows are being considered, funds have not been included in the Civil Service Commission's budget estimate for fiscal year 1968.

NARRATIVE JUSTIFICATION

Administering the career development and training program

	1966	1967	1968
Average positions	14	14	14
Cost	($165,500)	$157,900	$157,900

This function includes: (1) The promotion and improvement of the incentive awards program authorized by 5 U.S.C. 4501–4506, and (2) developing a program plan to meet future training needs of the Federal Government.

The Commission continues actively to encourage the effective and discriminating application of the authority of the Government Employees Incentive Awards Act to the improvement of performance and productivity through motivation by honorary and cash awards. The staff also advises agencies on effective operating relationships between the incentive awards program and the step increases for quality performance authorized by 5 U.S.C. 5336.

Central planning to meet future training needs is a new procedure in this activity. Federal training needs forecasts have previously been made independently by the Commission's central and regional offices. Increased control over information about total Federal training needs will provide the information needed to make valid national projections and enable the Commission to make sound recommendations for meeting them. This operation will provide plans and recommendations for the promotion and monitoring of a broad and comprehensive program of training activities in the Federal service; and plans for the economical integration of all Commission resources to meet specific and government-wide training needs.

The funds requested for this function in fiscal year 1968 are at the programed level for fiscal year 1967.

Evaluating and coordinating the Federal training program

	1966	1967	1968
Average positions	9	9	28
Cost	($95,000)	$101,200	$344,200

This function includes: (1) Operating an information collection system for purposes of formulating training policy, evaluating program progress and correcting deficiencies; (2) coordinating interagency training through negotiation with sponsoring agencies and promoting the interagency concept of training; (3) providing a reference service about available Government and non-Government training; and (4) negotiating with Federal and non-Federal organizations to provide training to meet the needs of the Federal establishment.

The introduction of the information collection system in fiscal year 1968 will provide, for the first time in the Federal service, the capability for the collection of training information on a Government-wide scale. The knowledge derived will provide the basis for formulating policy, identifying evolving technology, and developing future programs.

The Commission will also use this information in making overall and individual agency appraisals of training operations in terms of effectiveness, economy and duplication, and to correct deficiencies where they occur. On the basis of program evaluation, sound recommendations for improved future operations will be made.

The Commission will continue to improve existing programs through closer agency coordination to avoid duplication in training and to obtain maximum use of available resources by furnishing a more sophisticated reference service.

Funds requested for fiscal year 1968 will enable the Commission to establish the new information collection system and provide for improved methods of evaluating and coordinating the expanding Federal training program.

Providing guidance and assistance to agencies on career development and training

	1966	1967	1968
Average positions	9	9	12
Cost	($101,900)	$102,800	$142,200

The rapid growth of Federal programs often creates training needs beyond the technical capability of an individual agency. This function will provide consultation to Federal agencies in determining training needs, establishing or improv-

ing career development systems, designing curricula, selecting most appropriate teaching methods and equipments, and establishing evaluation systems. This function will also serve to (1) bring technical resources of agencies together to provide solutions to unique training problems and (2) translate broad pedagogical studies into pragmatic solutions to immediate operating problems.

Currently programed resources are such that only limited assistance can now be given to agencies where, in fact, intensive consultation is required to resolve their problems.

Funds requested for fiscal year 1968 will enable the Commission to augment its indepth assistance to agencies in solving problems and increase the efficiencies of their operations. The full potential of this function is not expected to be reached until the third year of the 3-year plan.

COST-SHARED TRAINING

Under the authority of section 4104 of title 5, United States Code, the Commission has increased significantly the training it conducts on a reimbursable basis. Through consultation with agencies, needs are determined and plans are made for the conduct of programs which can be conducted on an inter-agency basis. Scarce talents are thus used more effectively, full utilization of training programs is accomplished, and governmental training resources are used to the maximum.

During fiscal year 1968, the Executive Seminar Center established at Kings Point, N.Y., in fiscal year 1964, will conduct 17 two-week sessions for about 600 career managers from more than 49 Federal departments and agencies. The second Executive Seminar Center at Berkeley, Calif., was established and became fully operative in July 1966. The Berkeley Center will offer 16 two-week courses for approximately 570 managers from 37 Federal departments and agencies.

Since cost-shared programs are developed in response to agency need and with their collaboration, precise needs are not yet known for fiscal year 1968. It can be anticipated, however, assuming the continued utility of present programs, that the present level of activity will rise somewhat by addition of new courses. Reimbursable courses scheduled for fiscal year 1967 represent a moderate increase over fiscal year 1966; this trend will continue in 1968. No funds are being requested for this phase of the activity, since the training is on a cost-shared basis and financed through reimbursements from the participating agencies.

Mr. EVINS. In 1966 you had 34 positions in career development. You had 36 last year. You propose 54 next year. The cost goes up from $368,600 to $644,300, over a 50-percent increase in personnel and costs in 2 years.

Mr. MACY. Yes, Mr. Chairman. This is in line with the earlier statement I made.

Mr. EVINS. Is this not about the same as career executive manpower which we discussed, activity 4?

Mr. MACY. No. Activity 4 is the actual identification of jobs, review of the qualifications of top-level people. This program is concerned with the whole scope of training for Federal employees within the Government after hiring.

This increase from nine to 28 positions is aimed at increasing the Commission's capacity for evaluating and coordinating the training program that is carried on by the departments and agences themselves. If these positions are authorized, the Commission will work to improve the information systems that relate to training. We find that we do not have a comprehensive picture of what is taking place, and that the Commission has not been particularly helpful to the agencies in the design of a program.

Mr. EVINS. Do we have a comprehensive picture of all the training that is going on in the Government? Each agency has its own training program, its own schools, and the Commission has its training program. Can we get a picture of how extensive this is?

Mr. MACY. This is an effort to acquire at a central place in the Civil Service Commission, information concerning all training practices and, beyond that, to engage in some evaluation of training. A large volume of funds is invested in training at the present time. Is it paying off? This is a question we feel needs to be answered.

Mr. EVINS. You have a section relating to providing assistance to training. Is that not a duplication of some of your other services?

Mr. MACY. No, this is more specialized consultation. These three additional provisions are an effort to provide some consultation to the agencies in new training techniques and practices and the use of new training devices. We would hope that through this consultation we could also identify agency programs that could be shared by other programs. It is not the Commission's view that all interagency training should be conducted by the Commission, but that the Commission has a responsibility under the statute to identify courses that may be conducted by Defense that should be opened up to the civilian agencies, or programs that may be developed by GSA in communications that ought to be opened up to other agencies that have communications problems.

We do not feel that we have gone as far or have had as great a payoff as we should be able to get in interagency training. In the 1958 act, the Government Employees Training Act, the Congress specified that the bulk of the training should be done by the agencies for their own people. The second level should be interagency training.

We feel that the Commission has moved out in this with an effective program, but that there is a greater payoff.

Mr. EVINS. GSA comes before our committee and tells us about their training in communications, which you mentioned. They call all the agencies in and tell them about their telecommunications, Telpac, and their other communications. They have an extensive training program. Are we not doing a little duplicating and overlapping here?

Mr. MACY. No. We recently had extensive discussions with GSA, and certain of their training programs will be taken over by the Commission where they relate to functions that the Commission more normally performs. We would like to find other training that is going on which could be shared by Government agencies, rather than having them duplicate each other.

We feel that with this additional investment the Commission will be able to report to the Congress at a later date that we have a higher utlization of training facilities and training resources than we have at the present time.

WHITE HOUSE FELLOWS PROGRAM

Mr. EVINS. Mr. Chairman, you say that the present White House Fellows have been deleted from the budget for 1968. It used to be shared on a 50–50 basis with the Department of Health, Education, and Welfare. You state, however, that the full costs for 1967 are being assumed by the Commission.

The President appoints them, they work in the Department of Health, Education, and Welfare, and the Commission pays the bill.

Mr. MACY. In 1967, the Commission met the cost. We are dropping this from the 1968 budget because this program will be handled in some other way, as yet undetermined. Either there will be a proposal for legislation to establish the program with some other agency carrying the funding, or there will be some arrangement within existing authority without calling upon the Commission to fund it.

Mr. TALCOTT. It is funded by the Ford Foundation. This is not really a Federal project.

Mr. MACY. At the present time, the stipends for the White House Fellows are paid out of foundation funds. The $41,700 here for personal services costs for 1967 is the Commission's administrative costs in conducting the screening. Total costs approximate $75,000. The Commission runs the screening for the Commission on White House Fellows and organizes the regional review panels.

TRAINING UNDERUTILIZED PERSONNEL

Mr. TALCOTT. Mr. Chairman.

You said some of the training was for underutilized personnel. For underutilized personnel, all you have to do is transfer them someplace where they can be better utilized. You do not have to give them more training.

Mr. MACY. A transfer is one instance. Sometimes a limited amount of training will increase their productivity in relation to the work that they have to do.

Mr. TALCOTT. With the investigation and screening processes that you have, why is it that you do not employer higher utilized or precisely skilled people in the first place?

Mr. MACY. That certainly is the objective, but we have the situation where programs are changing, where there is a new technical content, and our experience is that some of our people can be better utilized if they are given some training in the new field so they can take on more complex responsibilities.

Mr. JONAS. That is why I cannot understand how you can do that in 2 weeks. If you have 600 people, you cannot train 600 in separate fields. It would have to be the same training for all. You might break them down into two or three different groups.

Mr. MACY. There is a great variety of training and length of training sessions. The 2-week seminars we are referring to are aimed at grades 14 and 15 in the career service. This is a management-level training program. But there are many other training courses of varying length. We have some that are just a 2-day program which are designed for refresher.

TRAINING AT UNIVERSITIES

I mentioned in my statement that we ran 10 3-week courses in program planning and budgeting systems. We have several hundred Federal employees who are away at universities for a full year.

Mr. JONAS. Have you tried correspondence courses?

Mr. MACY. Yes. Our correspondence courses are provided by universities. We also have more than 100 universities affiliated with some of our major installations and providing training courses after hours, either at the employee's expense or, where it is clearly job-related, at the Government's expense.

This has been particularly true where we have installations which are engaged in research and development or other technical activities. Arrangements have been made for a university to conduct courses right on the installation, with faculties at the university.

MANAGEMENT-LEVEL TRAINING

Mr. TALCOTT. With regard to the 2-week training program for grades 14 and 15, I can imagine two situations, one where you get a bright young fellow who is ambitious and wants to go up in the Federal service and you send him to the school and he gets better qualified so he can handle more responsibility and higher duties. That is one situation. Then there is the other situation, where you take a senior member, advance him to another classification, and after he has been advanced you send him to this school for a 2-week refresher course. You do not give him any more responsibility. He does not have any higher job classification at all.

The latter one is the one I think is happening more often than the first one. In other words, it is a sort of bonus for somebody you have already advanced. There is no advantage to the Government. Is that not true?

Mr. MACY. You have both types. Our view would be that both types benefit, that the more senior employee gains from having an exposure to this kind of intellectual experience, that he gains from having two weeks in company with people from other agencies. It broadens his view. It gives him, hopefully, a better understanding of the impact of Government on other parts of our society. It gives him an appreciation of how his program relates to other programs in the Government.

Mr. TALCOTT. Does it make him a better employee and more productive?

Mr. MACY. That is certainly the objective.

Mr. EVINS. There is no way precisely to measure the value of education.

Mr. MACY. This is always our problem. Certainly, we hope that the people who go through that 2-week program at Kings Point or at Berkeley are going to be changed for the better as a result of it. Just how much, I do not know.

Mr. EVINS. You say the funds requested for 1968 will enable the Commission to establish new information-collecting systems.

This program was enacted in 1958, and this is about 1968, nearly 10 years since the law was passed. You are still having new methods developed.

Mr. MACY. That is correct. We feel that the development of the training means within the Federal Government has proceeded at such a pace that we have not kept up. We feel that we need to have more information, make a deeper evaluation and provide more affirmative leadership for the Federal Government in the whole training field.

ADMINISTRATION AND MANAGEMENT SERVICES

Mr. EVINS. Let us turn to Activity 8, Administration and Management Services.

Here your number of employees goes down from 267 to 245, and the costs are reduced.

Mr. MACY. The reason for that reduction is that some of the services that were funded out of this activity have been assigned to the trust funds.

Mr. EVINS. We cannot quarrel with you about this justification.

Mr. MACY. Good.

Mr. EVINS. It is functionally about the same work as the other administrative work; is it not?

Mr. MACY. Yes, that is right. This is the overhead and support staff. Some of the changes here are because of certain services that are charged against the trust funds.

Mr. EVINS (reading):

At the time the 1967 budget request was prepared, no provision was made in the estimate for the cost of administrative services support items, including personnel, budget and fiscal and office service functions, properly chargeable to the Retirement Trust Fund.

Is that word "properly" correctly used there?

Mr. MACY. That is right.

Mr. EVINS. Properly chargeable to the retirement fund?

Mr. WILLIAMS. As a matter of fact, we were criticized by the General Accounting Office for not charging all programs with a proportionate share of support costs. The support to the trust fund area—administrative service, budget, fiscal, payroll and personnel services—have been at the expense of other programs.

Mr. EVINS. In other words, some administrative costs were chargeable and the General Accounting Office said some more properly could be charged?

Mr. WILLIAMS. The total would be the same but the distribution would be different. Instead of all of the support costs out of salaries and expenses, the trust funds should bear their proportionate share of the cost of these common services. So what we have here is simply a shift; of certain administrative costs from the salaries and expenses area and an increase in the cost of those same services in the trust funds.

Mr. MACY. I believe this is further set forth under the tab, Salaries and expenses, transfers from trust funds.

Mr. EVINS. We shall place in the record pages 89 through 98.

(The pages follow:)

COMPARATIVE SUMMARY STATEMENT BY FUNCTION

Activity 8. Administration and management services

Functions	1966 actual		1967 program		1968 estimate	
	Average positions	Cost [1]	Average positions	Cost	Average positions	Cost
Office of the Commissioners	23	$266,622 (273,800)	24	$283,000	24	$283,000
Executive direction	17	221,551 (230,200)	19	248,400	19	248,400
Legal services	21	238,545 (247,900)	27	317,900	28	332,800
Director of Management Services	10	122,764 (127,600)	13	161,300	13	161,300
Budget and fiscal services	34	301,006 (312,800)	33	307,200	24	232,100
Management systems services	27	266,893 (277,400)	33	293,000	36	314,500
Office services	101	656,898 (673,500)	90	595,100	76	490,500
Personnel services	22	201,860 (209,700)	18	200,000	12	146,400
Library services	12	99,715 (103,600)	13	105,000	13	105,000
Total, activity 8	267	2,375,854 (2,456,500)	270	[2] 2,510,900	245	2,314,000

[1] Figures in parentheses on the above table and in the following text are adjusted to reflect 1968 pay rates for comparability.

[2] Includes $27,000 anticipated supplemental for pay increase costs.

GENERAL STATEMENT

This activity consists of the executive and administrative functions of the Commission as performed in its central office and as listed in the table on the preceding page. Included are: (1) The overall management and services required to facilitate the performance of the operatng activities heretofore presented; (2) the approval of policy in the formulation of civil service rules and regulations; and (3) the recommendation of measures to the President to promote the more effectual accomplishments of the objectives of the civil service laws and rules.

The fiscal year 1967 appropriation act authorizes the financing of all administrative expenses for the Retirement and Insurance Programs by transfer of amounts from the various trust funds to the salaries and expenses appropriation. At the time the fiscal year 1967 budget request was prepared no provision was made in the estimate for the cost of administrative services support items, including personnel, budget and fiscal and office services functions, properly chargeable to the Retirement Trust Fund. The requirements for these services to be provided to the Retirement Program were included within the Activity 8 portion of the salaries and expenses appropriation request.

Consistent with generally accepted accounting principles provision is being made in the 1968 Retirement and Insurance Administrative Expenses request to cover these costs and the 1968 request for funds for these administrative services within Activity 8 has been reduced accordingly.

NARRATIVE JUSTIFICATION

Office of the Commissioners

	1966	1967	1968
Average positions	23	24	24
Cost	($273,800)	$283,000	$283,000

A three-member bipartisan Commission appointed by the President by and with the consent of the Senate establishes the overall policy of the Civil Service Commission. One member of the Commission is designated by the President to be Chairman of the Commission and one member to be Vice-Chairman. During the absence of both the Chairman and the Vice-Chairman the remaining Commissioner performs the Chairman's functions. The Executive Director performs such functions in the event of vacancies in the offices or in the absence of all three Commissioners, but may not sit as a member or acting member of the Commission.

Also included under this heading is the Office of the Executive Assistant to the Commission, personnel of which: (1) Present to the Commission for its action all cases transmitted from the various divisions through the Office of the Executive Director, and maintain control records on such cases; (2) review correspondence prepared throughout the Commission for the signature of the Commissioners and handle correspondence of a non-policy nature; (3) act as consultants on civil service matters; advise Members of Congress, representatives from other Government agencies, and others on all phases of the Commission's work; and, where necessary, arrange for and attend conferences with the Commissioners; (4) record and index the official minutes of the Commission; (5) maintain control of requests for reports on proposed legislation, review proposed Commission and agency reports on pending bills, and maintain liaison with the Bureau of the Budget for clearance in connection with proposed legislation; and (6) provide messenger service for the Office of the Commissioners and the other executive offices.

Also included (in 1966 for the first time) is the Office of the Special Assistant for Equal Employment Opportunity, consisting of a staff of three persons. The Commission is assuming under Executive Order the assignment of the additional responsibility formerly vested in the President's Committee on Equal Employment Opportunity.

Funds are requested in fiscal year 1968 to maintain the currently authorized staff.

Executive direction

	1966 actual		1967 program		1968 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Executive director's office	14	($191,900)	15	$207,200	15	$207,200
Interagency Advisory Group	3	(38,300)	4	41,200	4	41,200
Total, executive direction	17	($230,200)	19	$248,400	19	$248,400

The Executive Director is responsible for the direction of all internal management and other staff activities of the Commission, and has the general super-

vision from both a technical and a management viewpoint over all bureau directors and staff officers of the Commission, its field operations, interagency boards and boards of examiners. The Executive Director represents the Chairman in conferences and negotiations with representatives of other Government agencies in matters involving major administrative and policy decisions.

The Interagency Advisory Group was established to provide an effective means of communication between the Commission and the agencies. It serves to encourage the exchange and development of ideas on Federal personnel policies and administration. It provides the consultative machinery through which the Executive Director can maintain contact with the personnel officials of the agencies, and through which the agencies may present their views to the Executive Director and his staff, concerning the operation of the Government personnel system.

The IAG is chaired by the Executive Director, who is assisted in planning and operating the activities of the Group by a small staff headed by the Executive Vice-Chairman of the IAG. Arrangements are made through the IAG staff for the presentation of items at IAG meetings, as well as for the establishment of committees and the transaction of their business.

Agency membership of the IAG is comprised of the top career personnel officials from all the Executive departments and many of the agencies.

Funds requested for fiscal year 1968 are required to provide for the currently authorized staff.

Legal services

	1966	1967	1968
Average positions	21	27	28
Cost	($247,900)	$317,900	$332,800

Handling of the variety of legal work that falls within the Commission's jurisdiction either by statute or by Executive Order is included under this heading. This covers any legal question relating to the Commission's policies, procedures, and operations on which advice may be sought by the Commissioners, Commission officials, officials of other Government agencies, Members of Congress, and attorneys having business before the Commission. A digest of the opinions of the General Counsel is maintained. The Office of the General Counsel: Drafts proposed legislation and Executive Orders; periodically proposes revision of Title 5 of the U.S. Code; reviews all proposed legislative reports; advises on the preparation and interpretation of regulations; processes complaints relating to fraudulent activities of so-called civil service schools and complaints of fraud on the part of Federal employees; makes determinations with regard to the Commission's obligation to reimburse the General Services Administration for any damage to automobiles operated by Commission drivers; settles claims under the Federal Tort Claims Act for money damages of $2,500 or less; prepares briefs, in letter form, for use by the Department of Justice in defending suits brought against the Commissioners or affecting the Civil Service Commission; and, under E.O. 11222, "Prescribing Standards of Ethical Conduct for Government Officers and Employees," prepares and revises as required the Government-wide regulations establishing standards under which agencies issues their own regulations which are reviewed and approved or disapproved by this office. Funds requested for fiscal year 1968 are required to provide for the currently authorized staff on an annual basis.

Director of management services

	1966	1967	1968
Average positions	10	13	13
Cost	($127,600)	$161,300	$161,300

The Director of the Bureau of Management Services is responsible for: (1) Directing, coordinating, and controlling the personnel, fiscal, administrative, and business management functions of the Commission; (2) conducting the Commission's internal security program under Executive Orders 10450 and 10501, as amended; (3) conducting the Commission's college and foreign visitor program; (4) furnishing assistance to Commission officials, operating divisions, and regional offices; and (5) coordinating Defense Mobilization within the Commission.

Funds requested for 1968 are required to provide for the currently authorized staff.

Budget and fiscal services

	1966	1967	1968
Average positions	34	33	24
Cost	($312,800)	$307,200	$232,100

The following items of work, for both central and regional offices, are included under this heading: (1) Preparation of the Commission's budget estimates and justifications; (2) recommendation of allotments; (3) administration of the work measurement and cost analysis system; (4) preparation of periodic management reports analyzing trends in workloads, unit costs, and expenditures; (5) establishment of uniform fiscal and accounting procedures; (6) preparation of fiscal and financial reports for the Commission; and (7) internal audit of fiscal and procurement activities of the central and regional offices in compliance with the Budget and Accounting Procedures Act of 1950. Items of work concerning the central office only include: (1) Maintenance of required fiscal records including accounting, payroll, leave, and retirement; and (2) audit and certification of vouchers.

Funds requested for 1968 are below the fiscal year 1967 program level reflecting the change in the method of financing for these services.

Management systems services

	1966	1967	1968
Average positions	27	33	36
Cost	($277,400)	$293,000	$314,500

Included under this heading are the following functions: (1) Developing and administering a comprehensive management improvement program within the Commission; (2) conducting systems, organization, and operational studies and submitting recommendations for improved management policies, practices, and procedures; (3) developing, and directing implementation of, plans for applying modern data-processing methods to Commission operations; (4) developing and assisting agencies to install simplified systems for maintaining personnel records and for processing personnel actions; (5) devising the system through which Federal employment statistics are prepared; (6) providing for assembly, compilation, analysis, and distribution of Government-wide Federal civilian personnel statistics; and (7) providing technical assistance and reference services on Federal employment statistics and reports.

Funds requested in 1968 will provide for additional work in operational audits, systems design and the planning, programing and budgeting program.

Office services

	1966	1967	1968
Average positions	101	90	76
Cost	($673,500)	$595,100	$490,500

Included under this heading is the responsibility for: (1) Procurement and property management; (2) space assignment, control, and utilization; (3) printing, duplicating, copy preparation, editing, and all other publications services; (4) distribution and storage of printed matter, including announcements, test material, and other Commission issuances; (5) telephone and telegraph services; (6) maintenance of office equipment; (7) central mail services; (8) central files and records; (9) records management services; and (10) graphic art services.

With respect to these functions, the Office Services Division formulates and presents recommendations on policies and regulations, prescribes the procedural instructions, and renders advisory assistance to central and regional offices of the Commission, as well as operating these services for all bureaus and staff offices of the central office.

The level of funds requested for fiscal year 1968 is below the 1967 program reflecting the change in the method of financing for these services.

Personnel services

	1966	1967	1968
Average positions	22	18	12
Cost	($209,700)	$200,000	$146,400

Under this function, advice and assistance are rendered to the central office divisions and to the regional offices in the conduct of a well-rounded and progressive internal personnel program. Specifically, service and advice are provided with respect to: (1) The classification of positions; (2) the selection of employees in accordance with established promotion and recruitment policies; (3) the conduct of reduction-in-force programs; (4) appointments and changes in status; (5) training in needed categories; (6) conduct of internal executive development programs; (7) counseling and employee grievances; (8) analyses of and recommendations on disciplinary and removal cases; and (9) administration and promotion of the Commission's internal Incentive Awards Program.

Funds requested for 1968 are less than programed in fiscal year 1967 because of a change in the method of financing for these services.

Library services

	1966	1967	1968
Average positions	12	13	13
Cost	($103,600)	$105,000	$105,000

The Commission maintains a library, the personnel staff of which is responsible for: (1) Developing and maintaining a library collection of general reference books and basic literature in professional and technical fields, with particular emphasis on civil service, personnel administration, and public administration; (2) providing library service by lending necessary books and materials from the Commission Library or from other libraraies through an inter-library loan system; (3) giving research assistance and preparing digests of bibliographies on matters relating to the literature of civil service, personnel administration, and public administration; (4) conducting legislative research; (5) reviewing recommendations from the central office divisions or regions and initiating requisitions for the purchase of books and periodicals; and (6) maintaining and servicing collections donated to the Commission's library.

Funds requested for fiscal year 1968 are required to provide for the currently authorized staff.

SHIFT OF ADMINISTRATIVE SERVICES COSTS TO RETIREMENT TRUST FUND

Mr. JONAS. When you read the language on page 90, I would interpret it as meaning that the services we are talking about that should be charged to the trust funds are included within activity 8 and have not been taken out, that the requirements for these services to the retirement program were included within the activity 8 portion of the salaries and expense appropriation request.

Mr. WILLIAMS. In 1967 they were. That was only 1967. We are now making a change in 1968.

Mr. JONAS. I see.

Mr. WILLIAMS. That is why it goes down in 1968.

Mr. MACY. This is the transition year. The point I was endeavoring to make is for that reason there appears to be a drop which is really picked up over in the trust funds.

Mr. EVINS. We see it now. It is about a 43-position increase.

Mr. OVEREND. It is picked up on page 125.

Mr. MACY. You may want to turn to page 125, Mr. Chairman.

Mr. TALCOTT. Does it make administrative sense to have the Equal Employment Opportunity Office under your jurisdiction rather than the President?

Mr. MACY. This applies to employment within the Federal Government and the President's position was that the Commission as the central personnel agency for the Federal Government was the place to exercise this for him. I think it makes good sense and certainly we report regularly to the President on this program.

TRANSFERS FROM TRUST FUNDS FOR ADMINISTRATIVE EXPENSES

Mr. EVINS. Following administration and management services let us include next in our hearings the justification for salaries and expenses, transfer from trust funds. This is also a part of salaries and expenses. Pages 121 through 132 should be included.

(The pages follow:)

ADMINISTRATIVE EXPENSES FOR RETIREMENT AND INSURANCE PROGRAMS TO BE FINANCED BY TRANSFERS FROM TRUST FUNDS

GENERAL STATEMENT

Funds requested under this heading are required for administration of the Retirement and Insurance Programs in fiscal year 1968 and are to provide for the following Acts administered by the Commission: the Civil Service Retirement, Panama Canal Construction Annuity, Lighthouse Service Widows Benefit, Federal Employees Group Life Insurance, Federal Employees Health Benefits, and the Retired Federal Employees' Health Benefits. Workloads are not controllable because they result from the exercise of legal rights by employees, retirees, and other beneficiaries under these laws.

Further, it is the intent of this request that each program be assessed its proper cost of administration for carrying out the responsibilities assigned the Commission by these respective Acts. There follows under this heading a narrative justification of the programs which the Commission administers. For each such program, the requirements for funding, staffing and expected workload accomplishment are individually set forth. The total funds shown for each program are the amounts requested for transfer to the "Salaries and Expenses" appropriation from the various trust funds.

The fiscal year 1967 appropriation authorizes the financing of all administrative expenses for the Retirement and Insurance programs by transfer of amounts from the various trust funds, to the "Salaries and Expenses" appropriation. No provision had been made in the estimate at that time for the cost of administrative services support items including personnel, budget and fiscal and office service functions properly chargeable to the Retirement Trust Fund. The budget request for 1967, however, did contain these requirements within the Activity 8, Salaries and Expenses presentation, thus covering the services rendered the Retirement Program.

Therefore, consistent with generally accepted accounting principles, provision is being made in the 1968 Retirement and Insurance Administrative Expense request to cover these costs. The offsetting amount to this requirement is reflected in the "Salaries and Expeness" portion of the Commission's budget, by reduction in total needs for Activity 8.

The amount of $304,300 and 43 positions will be adequate to provide for the necessary administrative services required by the retirement program in fiscal year 1968. Proportionate amounts in relation to operating program levels are also set forth in the following text for the Life Insurance and Health Benefits Programs.

In fiscal year 1967 an accelerated number of retirements is expected due to the November 22, 1966 Consumer Price Index announcement, which brings about a cost-of-living annuity increase effective January 1, 1967. An estimated 15,000 additional claims and related work items are expected to result. Administrative funds for processing these added workloads will be submitted later in a supplemental request.

Because of peak receipts and workloads as the result of the added 15,000 cases expected to materialize from the cost-of-living adjustment, much of this work must necessarily be accomplished by use of overtime in F.Y. 1967. Salary cost for this estimated workload totals $180,000 which provides for approximately 28 man-years of overtime and/or part time work. These workloads and costs are reflected in the 1967 column of this justification.

Salaries and Expenses Limitation for Administration of Retirement and Insurance Programs—To Be Transferred From Trust Funds

Comparative summary table by activity

Activity	1967 program	1968 estimate	Changes (+ or −), 1968 compared with 1967
Administration of the civil service retirement program	$4,569,090	$4,250,000	−$319,090
Administration of the employees' life insurance program	292,150	293,000	+850
Administration of the employees' health benefits program	1,252,020	1,268,600	+16,580
Administration of the retired employees' health benefits program	317,440	317,400	−40
Total program or estimates	[1] 6,430,700	6,129,000	−301,700
Average number of positions:			
Central office	556	600	+44
Regional offices	23	23	0
Total	579	623	+44

[1] Includes $134,700 anticipated increase to cover pay increase cost for the 4 programs as follows: Retirement $94,740; life insurance $7,325; employees' health benefits $23,920; and retired employees' health benefits $8,715; also includes $196,000 anticipated increase in expenses to provide for an added 15,000 annuitants expected to retire as the result of the cost-of-living increase, effective Jan. 1, 1967.

Comparative summary by object classification

Object classification	1967 program	1968 estimate	Fiscal year 1967 over (+) or under (−) fiscal year 1968
11 Personnel compensation	$4,608,930	$4,827,600	+$218,670
12 Personnel benefits	338,100	362,800	+24,700
21 Travel and transportation of persons	43,300	49,045	+5,745
22 Transportation of things	37,170	37,500	+330
23 Rent, communications, and utilities	239,400	232,400	−7,000
24 Printing and reproduction	388,100	395,000	+6,900
25 Other services	111,165	148,500	+37,335
26 Supplies and materials	38,800	50,500	+11,700
31 Equipment	625,735	25,655	−600,080
Total obligations	6,430,700	6,129,000	−301,700

Administration of the Retirement Program

Comparative summary statement by function

Functions	1966 actual		1967 program		1968 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Adjudicating annuity and death claims	115	$988,495 (1,027,000)	119	$1,018,350	112	$918,700
Adjudicating refund and deposit claims	29	162,783 (169,100)	30	181,700	31	185,900
Answering inquiries	45	346,689 (360,200)	45	358,700	45	357,000
Maintaining the monthly benefit payment roll	75	477,252 (495,900)	83	550,000	82	531,600
Accounting for retirement fund transactions	24	163,688 (170,100)	25	170,900	25	170,300
Maintaining files of retirement records	43	228,157 (237,100)	42	225,150	43	228,100
Conducting actuarial and statistical studies	11	99,411 (103,300)	11	104,000	11	103,800
Performing medical work	62	631,888 (656,500)	59	627,600	59	622,800
Modernizing administration of the monthly benefit roll			6	62,400	11	92,600
Administrative services					43	304,300
Subtotal, personnel compensation	404	3,098,363 (3,219,200)	420	3,298,800	462	3,515,100
Other objects of expense		642,965 (652,025)		1,270,290		734,900
Total program	404	3,741,328 (3,871,225)	420	[1] 4,569,090	462	4,250,000

[1] Includes $180,000 supplemental needs for processing 15,000 added annuity claims expected to resul tfrom the cost-of-living increase effective Jan. 1, 1967.

Retirement Program

Comparative summary statement by object class—Other objects of expenditure

Object classification	Actual, 1966	Program, 1967	Estimate, 1968
12 Personnel benefits	$232,346	$240,200	$263,700
21 Travel and transportation of persons	20,610	21,355	21,400
22 Transportation of things	27,229	36,670	37,000
23 Rent, communications, and utilities	142,642	158,000	151,000
24 Printing and reproduction	22,387	59,100	56,000
25 Other services	134,710	100,785	140,000
26 Supplies and materials	43,285	32,100	43,800
31 Equipment	9,756	622,080	22,000
Total, other obligations	642,965	[1] 1,270,290	734,900
	(652,025)		

[1] Includes $15,000 as part of the supplemental needs in connection with an increase of 15,000 annuitants, expected to retire as the result of the cost-of-living increase effective Jan. 1, 1967.

Bureau of Retirement and Insurance

Administration of the Retirement Program

Membership in the Civil Service Retirement System consists of approximately 2.4 million active employees. Covered employees contribute, by deductions from their salaries, at the rate of 6½% of basic salary and their employing agencies match these amounts. Currently over 800,000 retired employees and survivors receive monthly benefits totalling approximately $1.7 billion annually.

The work performed in administering the Civil Service Retirement Act consists largely of: (1) Adjudicating annuity and death claims; (2) adjudicating refund claims of former employees for the payment of amounts to their credit in the Fund; (3) adjudicating claims for deposit covering creditable service for retirement purposes; (4) answering inquiries relative to these matters; (5) maintaining all necessary accounting and control records to properly administer the fiscal activities of the Fund (including receipts from employees and Government contributions, payments to annuitants, survivors and other claimants, and maintaining individual retirement record accounts); and (6) conducting actuarial and statistical studies.

The administration of the Panama Canal Construction Annuity Act and the Lighthouse Service Widows' Benefit Act requires the Commission to adjudicate and pay claims to persons entitled to benefits under these Acts.

Narrative justification—Adjudicating annuity and death claims

	1966	1967	1968
Average positions	115	119	112
Cost	($1,027,000)	$1,018,350	$918,700
Claims processed	129,287	122,200	110,300
Unit cost:			
Actual	($7.94)		
Accelerated	($7.59)	$8.12	
Normal processing	($8.50)	$8.36	$8.33

An annuity claim is an application filed by a present or former employee for an adjudication and determination of his rights to: (1) Annuity benefits for retirement pursuant to the Civil Service Retirement Act; or (2) gratuity benefits under the Panama Canal Construction Annuity Act.

A death claim is an application filed by a beneficiary, a legal representative, or next of kin of a deceased Federal employee, or by the survivor of a deceased employee or annuitant for: (1) The accrued annuity; (2) the unexpended balance; (3) the accumulated deductions in the retirement fund; (4) a survivor annuity; or (5) benefits under the Lighthouse Service Widows' Benefit Act.

In fiscal year 1966 total annuity and death claim receipts were 129,193, including approximately 25,000 annuity claims resulting from the enactment of Public Laws 89–205 and 89–314. Excluding the latter, actual receipts in this function have increased at an average annual rate of 3 percent in the 6 years from 1961 through 1966. The trend of increasing receipts is expected to continue at this same rate for the next 2 years. Therefore, the normal receipts of annuity and death claims are estimated at 107,300 for fiscal year 1967, and 110,500 for fiscal year 1968. However, the cost-of-living increase effective January 1, 1967 is expected to generate an additional 15,000 annuity claims bringing the total expected in fiscal year 1967 to 122,300. Funds for processing these added cases will be included in a supplemental request to be submitted later.

Influenced by the accelerated workload of annuity claims attributable to Public Law 89–205, actual unit cost was $7.94 at rates comparable to the 1968 pay level. However, during the first, second, and last report periods when the workload in this function was normal, unit cost was $8.50 at comparable rates, while during the rest of the year when the annuity workload was abnormally high necessitating a considerable amount of overtime work and curtailment of leave use, unit cost was $7.59. The unit cost of $8.50 obtained in the normal workload period is considered to be realistic and this is the basis upon which the 1967 and 1968 costs have been developed. Therefore, based on expected continuing improvement in management and operating procedures, unit cost is estimated for the normal production at $8.36 for 1967, and $8.33 for 1968. The additional 15,000 claims are expected to be processed in 1967 of a unit cost of $8.12 on an accelerated basis.

Funds estimated for fiscal year 1968 are sufficient to process 110,300 annuity and death claims and maintain this function on a current basis.

Adjudicating refund and deposit claims

	1966	1967	1968
Average positions	29	30	31
Cost	($169,100)	$181,700	$185,900
Claims processed	149,863	165,400	174,300
Unit cost	($1.13)	$1.10	$1.07

A refund claim is an application filed by a former employee for the return of the amount to his credit in the civil service retirement and disability fund.

A claim for deposit is: (1) An application submitted by a present or former employee for a decision with respect to creditable service to which he is entitled under the retirement laws, and the amount which he must pay into the civil service retirement and disability fund in order to secure full annuity for such periods; (2) a request by an employee to make voluntary contributions to the fund; or (3) a request by an agency to verify service of one of its employees.

Refund claim receipts were 129,170 in fiscal year 1966, an increase of 8 percent over 1965. A similar increase is expected in each of the next 2 years for this function and receipts are therefore estimated at 139,000 for 1967, and 150,000 for 1968. Receipts of claims for deposit were 25,265 in 1966 and are estimated at 26,000 for fiscal years 1967 and 1968 in this relatively stable workload function.

Based on continued improvement in management and procedures, unit cost is estimated at $1.10 for 1967, and $1.07 for 1968.

Funds estimated for fiscal year 1968 are sufficient to process 174,300 refund and deposit claims, thus maintaining this function on a current basis.

Answering inquiries

	1966	1967	1968
Average positions	45	45	45
Cost	($360,200)	$358,700	$357,000
Inquiries processed	294,682	298,800	297,500
Unit cost	($1.22)	$1.20	$1.20

Specific inquiries on retirement rights and benefits requiring the analysis of claim data or personal work history, as well as general inquiries on retirement matters, are answered. Inquiries are answered by correspondence, personal interview, or telephone.

A total of 296,301 inquiries were received in fiscal year 1966. Inquiry receipts are influenced by the total number of claims of all types that are received. Accordingly, receipts are estimated at 298,000 for both fiscal years 1967 and 1968. Included within the 1967 program are 15,000 inquiries expected to be received in connection with the cost-of-living increase.

In fiscal year 1966 unit cost was $1.22. Increased efficiency in this function is expected to reduce unit cost to $1.20 for both fiscal years 1967 and 1968.

Funds estimated for fiscal year 1968 are sufficient to process 297,500 inquiries and maintain this function on a current basis.

Maintaining the monthly benefit payment roll

	1966	1967	1968
Average positions	75	83	82
Cost	($495,900)	$550,000	$531,600
Processed (average on roll)	764,000	821,400	865,500
Unit cost	($.65)	$.67	$.62

This function includes the maintenance of basic data required and the certification and audit of the benefit payment roll used in making payments to annuitants under the retirement acts. The unit of work is maintaining an annuitant on the roll for an entire fiscal year. Workload is the average number of annuitants on the roll during the year.

The benefit payment roll increased by 66,465 during fiscal year 1966 in which 129,287 annuity and death claims were processed. The net increase is the excess of additions (105,158) to the roll over drops (38,693) from the roll. Applying the same principle to the estimated number of claims to be processed in fiscal years 1967 and 1968, results in net additions of 33,399 and 39,800, respectively, bringing the average number on the roll to 850,500 for 1968. In addition, the increase of 15,000 annuitants expected to retire in fiscal year 1967 as the result of the cost-of-living increase brings the total average on the roll to 821,400 and 865,500 for fiscal years 1967 and 1968 respectively.

Unit cost in 1966 was $.65 at comparable 1968 pay rates. In 1967 there will be some additional work in connection wth the installation of the new ADP equipment which will result in future increased efficiency in this function. Further, added work is required in connection with adjustment in annuities for the student-child provisions as provided by P.L. 89-504. With these additional workloads, unit cost is expected to temporarily increase in F.Y. 1967.

While the entire job of installing, testing, and debugging the new ADP system to make it fully operational will continue well into fiscal year 1968, it is anticipated some increase in efficiency will begin to be realized, and unit cost is estimated at $.62 in that year.

The 82 positions and $531,600 estimated for 1968 are sufficient to maintain an average of 865,500 annuitants on the roll and to keep this function on a current basis.

Mr. EVINS. There is nothing in the basic law to authorize the transfer of administrative expenses from the trust funds?

Mr. WILLIAMS. There is in the Health Benefits Act and in the Insurance Act, but not in the retirement fund.

Mr. EVINS. That is just repeating what we have said.

Mr. MACY. The table on page 125, Mr. Chairman, is similar to the table that you have had in the past for activity 4, retirement. Because of the judgment about charging this to the trust funds, it is

set forth in this part of the budget document. These are administrative expenses in the retirement program.

Mr. EVINS. Consistent with generally accepted accounting principles, provision is being made in the 1968 administrative expense request to cover these costs. The offsetting amount to this requirement is reflected in the salaries and expenses account of the Commission's budget in activity 8.

The amount of $304,000 and 43 positions will be adequate to provide for the necessary administrative services required by the retirement program in fiscal year 1968. In fiscal year 1967 an accelerated number of retirements is expected due to the November 22, 1966, Consumer Price Index announcement.

COST-OF-LIVING INCREASE

Mr. MACY. This was an announcement that there had been 3 months of more than 3 percent increase in the cost of living, and therefore the increase would be effective January 1, 1967.

Mr. EVINS. Administrative funds for processing these additional workloads will be submitted later in a supplemental request.

I think somewhere in your footnotes you say there probably will be 15,000.

Mr. MACY. That is right. The estimate is that there will be 15,000. I believe, Mr. Overend, your experience to date shows it is running pretty close to that, is it not?

Mr. OVEREND. It is running a little lower, but it is coming up.

Mr. EVINS. Let us take a look at the chart on page 123 of limitations. In 1967 for the administration of the civil service retirement program there was a limitation of $4,569,090; and for next year you say it should be $4,250,000, or a reduction of $319,090. You round it off. This is a limitation. But you do not show a column for 1965 and 1966.

Mr. MACY. No. In 1965 and 1966, the amount for retirement was in salaries and expenses and, therefore, this is the first year for this particular arrangement. The other items there have administrative limitations that have been placed.

Mr. EVINS. The life insurance program is up $850; the limitation on employees' health benefits program is up $16,580; and the retired employees' health benefits program remains about the same. There are two increases and one reduction to be transferred from the trust funds and a limitation placed upon them.

Mr. MACY. That is right.

Mr. EVINS. Let us take a look at page 124. $6,430,700, as against $6,129,000, a reduction in the cost $301,700. What was the cost of these programs prior to the practice of transferring funds from the trust funds for administrative expense? You show the cost of these "Other objects" since we are transferring it from the trust funds. My question is: What was the cost before you tapped the trust funds for these costs?

Mr. MACY. That would have been included in the "Other objects" under "Salaries and expenses." I do not believe we have a breakout of what was assignable.

Mr. WILLIAMS. We actually would have no way of knowing, sir.

Mr. EVINS. It is a pretty big item, $6,129,000.

Mr. WILLIAMS. That is not "Other objects."

Mr. EVINS. This is the "Other objects" table here.

Mr. MACY. Object 11 really is the same as the previous page. Among the other items, the significant item is the equipment item, object 31. That is the computer.

Mr. EVINS. So, you do not have that.

Mr. MACY. The others are relatively limited increases.

Mr. EVINS. These are being included because the Comptroller General said that they should be included, according to the report of the Comptroller General.

Mr. WILLIAMS. Yes, sir. I think we have a letter to this effect. No; in an oral discussion representatives of the General Accounting Office recommended that all programs should pay their share of supporting costs.

ADMINISTRATION OF RETIREMENT PROGRAM

Mr. EVINS. Here is a table of the comparative summary statement, "Administration of Retirement Program." Adjudicating annuity and death claims, 119 personnel reduced to 112. You need less in that. Refunds of claims and maintaining the monthly benefit payment roll are about the same. Forty-three are needed for the maintaining of files and records.

Here is one, "Administrative services," 43, which you have not had before.

A total of 462 positions as against 404 in 1966. Comparatively, you are putting more people to work in this activity.

Mr. MACY. The significant item in this area is the adjudication of claims. Here we are largely proceeding on experience. You will note on page 128 that 129,000 claims were processed in 1966. We feel that was abnormally high, again due to the fact that there was the incentive of an increase in the annuity. In 1967, we figure 122,000. In 1968, 110,000. The unit cost there is $8.33. This is the mass workload that is handled by the Commission. Our experience is that the additions to the retirement roll have been advancing at a rate of about 3 percent a year over the last 6 years, and that is how we arrived at these new figures.

RETIREMENT SYSTEM COVERAGE

Mr. EVINS. Gentlemen, this says membership in the civil service retirement system consists of approximately 2.4 million active employees. Covered employees contribute, by deductions from their salaries, at the rate of 6.5 percent of basic salary, and their employing agencies match or should match or are required to match these amounts by law.

Currently, over 800,000 retired employees and survivors receive monthly benefits totaling approximately $1.7 billion annually. That amount is being sent out to 800,000 former employees. That is a big operation under the retirement system.

Mr. MACY. It is, indeed.

EMPLOYEES' CONTRIBUTIONS TO THE RETIREMENT FUND

Mr. EVINS. About 2.4 million active Government employees are having 6.5 percent withheld from their salaries. How much does this amount to annually into the fund, in round figures, Mr. Chairman?

Mr. MACY. The annual payment——

Mr. EVINS. How much are the employees putting in?

Mr. MACY. The employees' share is $2,200 million.

Mr. OVEREND. The employees' is $1,140 million.

Mr. MACY. The $2,200 million is both the agency and the employees. The employees, half of that; about 1 to 1, is it not?

Mr. OVEREND. One to one, even.

Mr. EVINS. The Government employees are paying in $1.1 billion and you are paying out annually $1.7 billion. So, it is going into the red a little every year, and the Government employees currently are paying for the brothers who have already retired.

Mr. OVEREND. Mr. Chairman, I think you can gain a view of this on page 179 and page 180.

Mr. EVINS. We will take a look at pages 179 and 180.

Mr. MACY. You will note on page 179 that the civil service retirement and disability fund had a deficiency at the beginning of fiscal year 1966, based upon a valuation of the fund June 30, 1965, of $40.350 billion. The normal cost as a percent of the estimated annual payroll—we figure the annual payroll in 1966 was $16.8 billion—that produced $1.1 billion by way of employees' contributions. Then the estimated Government normal cost for 1967, if your eye carries over, you will see comes out in 1967 as $1.2 billion.

This explains the point you were making a little earlier that the fund was not charged for administrative expenses until just recently. There is $60,000 administrative expense charged in 1966 and $4,667,000 in fiscal year 1967 based on the authorization last year. The agency contributions of 6.5 percent of payroll produced slightly under $1.1 billion in 1966, and it will be $1.140 billion in 1967. So, the excess of Government's normal cost over that portion met by the agencies' contribution is $79 million in 1966 and $108 million in 1967.

NEED TO FUND RETIREMENT PROGRAM ON A SOUND BASIS

Mr. EVINS. Are there any proposals pending to put the fund on a sound actuarial basis?

Mr. MACY. The President proposed in his report to the Congress last year a plan for funding the retirement program for the future. This was set forth in his message of March 7, 1966. The substantive committee, however, did not take any action on this and, instead, authorized some additional liberalization in the retirement program.

I have here with me a rather detailed presentation of that proposal which I will be happy either to present orally now or to put in the record or hold for some future time.

Mr. EVINS. Mr. Chairman, I wish you would place the President's recommendation in the record at this point.

Mr. MACY. All right, sir, I will be happy to. This includes some illustrative charts to try to simplify a very complicated financial situation.

Mr. EVINS. It all may be included, because this is a very critical and very important subject which we have been dealing with for several years.

(The documents follow:)

FINANCING AND FUNDING THE CIVIL SERVICE RETIREMENT SYSTEM

Retirement financing practices and methods have been the subject of extensive discussions with Congressional Committees in the past. The Administration's current proposal for financing and funding the Civil Service retirement system is new in concept and new in mechanics. It was recommended to the President by his Cabinet Committee on Federal Staff Retirement Systems and endorsed by him in his March 7, 1966, message on pay and fringe benefits.

Its purposes, outlined on the inside cover of the explanatory booklet you have before you, are to—

identify and recognize the full costs of retirement benefits;
make orderly advance preparation to meet those costs;
control growth of the "unfunded liability"; and
keep a Fund balance on hand high enough to assure prompt payment of all benefits as they become due in the future.

Very briefly, the proposal—which I shall explain in more detail—is that—

1. Employees and their agencies share equally, via matching contributions, the "normal cost" of present benefits and of all future liberalizations authorized by Congress.

2. Government identify, acknowledge its responsibility for, and make advance provisions to meet, other costs of future changes.

3. Government acknowledge its responsibility for costs already incurred, by "pegging" the retirement trust fund at a predetermined level high enough to assure an adequate margin of safety.

Let me start with where we are, summarized on page 2. As of October 1966 we had a civil service retirement fund balance of $16.8 billion, most of which we kept invested in interest-bearing securities of the United States. Annual receipts total $2.8 billion, of which $1.1 billion comes from agencies, another $1.1 billion from employees, and more than half a billion from interest on investments. Annual benefit payments currently run $1.9 billion. So you might say that the system is OK right now.

From page 3 you see that employee contributions are now at 6½% of pay, and that agency contributions of 6½% match them. These combined contributions, when invested and earning interest, were intended to cover the retirement benefits *now* being earned and to be earned in the future—provided benefits are not increased. This is called "normal cost" financing.

Normal cost is that level percentage of annual pay which, invested at interest, is required to cover the cost of benefits earned each year, starting of course for each employee at the time he is appointed.

Normal cost of the present system is now estimated at 13.86% of payroll—almost 1% higher than the current contribution rate.

But, as you can see from page 4, normal cost is only part of the story, and the financial future of the system is not as bright as its present.

We have a liability, *over and above our assets*, that by June 30 (1967) will amount to $48.1 billion. This is a liability already incurred, but due to be paid in the future, for benefits based on services employees have already performed for Government. Past financing, even when combined with normal cost financing for the present and the future, will not cover payment of these benefits. The difference between the assets and the liability is the "unfunded liability."

Already topping $48 billion, the unfunded liability grows by more than 1½ billion dollars every year—and sometimes much more, as last year when it increased about $4 billion.

There are three major reasons, listed on pages 6 and 7, why we have this unfunded liability and why it increases each year—why, in other words, we face this financial threat:

1. *Number 1, Government has not always paid its full share of the cost.* Throughout the first eight years of the system's operation, for example, all benefits were paid from current contributions of employees; Government made no contributions at all, though it did pay costs of administering the system. Government has appropriated substantial amounts to the Fund from time to time, but it has not contributed its share of estimated costs regularly and systematically, as employees have done. It is only since 1957, for instance, that agencies have been required to match employee contributions.

2. *Number 2, the fund has lost in past years, and still continues to lose, interest it would have earned* if all payments had been made on time, in full, and invested at interest. The size of this loss is significant, and increasing—it now runs to $1.7 billion per year.

3. *Number 3,* perhaps most serious of all, and certainly most difficult to understand: *New or increased benefits have been granted* many times without arranging to place in the Fund the *full* amount of money those new or increased benefits actually cost. For example—

Major annuity increases have been given to already-retired employees on numerous occasions, but the retired employees, quite properly, made no contributions toward the cost of those increases. To cite a recent example, the December 1965 annuity increase legislation raised by an average of 7.3% the annuities of persons already retired—and no additional money was provided to cover the actual cost of those increases. *The point that needs to be made here is that all such increases, regardless of how desirable they may be, add to the unfunded liability of the system unless adequate provision is made for supplemental financing.*

"Early retirement" liberalizations are another example. The benefit reduction that is required for each year an employee is under age 60 at the time he retires optionally has been lowered from about 6½% a year to 3%, to 1%, and finally, last year, to 0% for those aged 55 or more—even though 6½% a year is about what such early retirement actually costs on a true actuarial basis.

Credit has been given for past service during which no contributions, or inadequate contributions, were made.

As a matter of fact, the system *started* with an unfunded liability, because when the Act first became effective in 1920 all employees covered by it were given "free credit" for all service performed prior to that time, though of course neither they nor Government had contributed anything to a retirement fund during those years. We are still paying annuities to several men and women who retired in 1920—they contributed only a few months but for more than 45 years have received benefits based on at least 15 years of prior service. Though most of these people are now gone, their underfinanced benefits were "borrowed" from the fund, and the debt still remains unpaid.

Another example: *the 1956 amendments to the Retirement Act* increased by about 25% the annuities persons then employed would receive on the basis of service they had already performed but for which they had contributed at a rate calculated to finance much lower annuities; no provisions were made, however, to cover that part of the increased cost that was due to service already performed. More recently, P.L. 89–205 increased by 6.1% the annuities of employees who retired before the end of December 1965. Neither they nor Government had been contributing at a rate designed to support that level of benefit, and no supplementary financing was provided to cover this unanticipated extra cost: as a result, the unfunded liability rose by an estimated $1.04 billion.

Still another example, and an important one: Every *statutory* pay raise—in contrast with normal career progression, which is already taken into account in determining normal cost—automatically increases the unfunded liability. It does this because the formula for computing annuities produces what is, in effect, *a percentage of final pay* (or, more exactly, a percentage of the highest 5-year average, which is usually the

final 5). If statutory pay increases raise the final pay, therefore, the employee gets the same benefit as if he had been earning at that higher rate through all his prior years of service, even though contributions were not made at that rate.

(For instance, an employee who earned, and contributed on the basis of, an average salary of $7,000 for his first 25 years and an average of $10,000 for his last 5 years gets credit for *30* years at $10,000—even though he contributed at that level only 5 years. As a result, his annuity is about $1,400 *more, per year*, than it would be if computed on the basis of each year's *actual* earnings, and the system is underfinanced to that extent.)

The effect, as far as retirement is concerned, is that a statutory pay raise is *retroactive for benefit purposes*, but *prospective for financing purposes*, and this effect is significant. The 1966 statutory pay raises, for instance, increased the unfunded liability by $880 million. We estimate that every $1 of annual increase in the salary scale now adds $2.50 to the unfunded liability of the retirement system.

What all this adds up to is that EVERY BENEFIT ADDED OR LIBERALIZED HAS A PRICE TAG. When the benefit is based on *service already performed and either not contributed for at all, or contributed for at a rate which did not FULLY cover its cost*—which is the case with MOST new or increased benefits—the price is one that the system is not financed to meet, and the unfunded liability goes up accordingly.

Now, I want to make it clear at this point that we believe it neither possible nor desirable to put a stop to the addition or the liberalizing of benefits. It is equally impossible and undesirable to start prepaying now all of the new or liberalized benefits that might be authorized in the future—for none of us has foresight good enough, nor crystal ball clear enough, to tell us what these benefits might be and therefore what they might ultimately cost.

Nevertheless, SOMETHING must be done to meet a serious future problem.

Pages 8 and 9 show what will happen *if present financing practices continue unchanged.*

Even assuming no further benefit changes, no further cost-of-living adjustments, no additional annuity increases, and with no provision for pay raises after 1966, the present $16.8 billion balance will hit zero in about 20 years.

We must plan in advance to meet this problem in an orderly and systematic way. We propose a three-step approach, the first to cover normal costs, the second to cover increases in the unfunded liability created by changes authorized in the future, and the third to discharge Government's responsibility for the unfunded liability created by legislation already enacted.

Step One of the proposal, on page 10, is that FULL NORMAL costs, both of present benefits and of all changes legislated in the future, be paid currently.

Employees and agencies would share *on a 50–50 basis*, via matching contributions, the normal costs of the present benefits and of all future liberalizations.

This means that contribution rates would have to be raised on a 50–50 basis whenever eligibility requirements for retirement are liberalized or prospective benefits for active employees are increased.

In *Step Two*, page 11, we propose that Government identify, recognize as its own responsibility, and make specific and timely provision to cover costs of all increases in the unfunded liability created by future legislation—*at the time these costs are incurred.* This would include unfunded liability increases created by—

a. general pay raises for the active workforce;

b. liberalizations that would give active employees higher benefits based on service performed before the increased benefit is authorized, and therefore contributed for at a below-cost rate;

c. newly authorized annuity increases for persons already on the rolls; and

d. coverage of any new groups brought into the system.

The mechanism we recommend for accomplishing this (page 12) would require that all future pay raise or other substantive legislation which would otherwise increase the unfunded liability specifically authorize payments to the Trust Fund in accordance with a *30-year amortization table written into the legislation itself.* These payments would—

begin at a nominal rate the first year;

increase in regular amounts, by arithmetic progression, each succeeding year; and

cover within a 30-year period the entire cost, *including interest*, of the unfunded liability created by the substantive legislation.

In every case the authorization would be accompanied by an immediate appropriation in the amount called for by the schedule for the first year. In each subsequent year, the appropriation requests submitted to Congress would be sufficient to cover all amounts scheduled to be deposited in the Trust Fund in that particular year.

The recommended amortization schedule is shown on page 13. The amounts shown in the "annual payment" columns are the amounts that would be required to cover each *$1 million increase* in the unfunded liability.

Under this proposal, funds would be authorized, and appropriations would be scheduled in specific dollar amounts, *at the time the additional liability was incurred.* However, appropriations would actually be made, and expenditures would be shown in the annual administrative budget, only as scheduled.

The *Third Step* we propose is that Government discharge its responsibility for the unfunded liability attributable to *legislation already enacted* by authorizing permanent, indefinite appropriations to "peg" the Trust Fund at a predetermined level high enough to assure an ample margin of safety.

This means that in any fiscal year in which the Commission estimates that the balance in the Fund at the end of the year will be below that predetermined level, the Commission would so notify the Secretary of the Treasury. The Secretary would then have transferred from the General Fund to the Trust Fund, as a Government contribution, the amount necessary to keep the Trust Fund balance at the required level of adequacy.

We propose that this level be the highest year-end balance the Trust Fund reaches under this recommendation *or* "employee equity," whichever is greater. Employee equity is the total amount of the retirement contributions made by, and still remaining to the credit of, employees and former employees.

We make this proposal for the dual purpose of insuring that there will always be on hand in the Fund a balance at least equal to the amount that employees and former employees have contributed to but not received back from the Fund and of maintaining confidence in integrity of the Fund. That confidence might be impaired if the balance began to drop.

The net result of this financing proposal is shown graphically on pages 16 and 17. Income would keep pace with outgo. The Trust Fund balance, instead of dropping to zero, would be maintained at a sound, safe level.

If we assume no additional changes that would increase benefits for employees who have already retired or for those who retire in the future, and no new general pay increases, this financing method would require—

1. an increase in contribution rates for both employees and agencies, to bring contributions up to a level sufficient to cover the full normal cost of present benefits, and

2. direct Government contributions from the General Fund, beginning around 1975, to peg the retirement trust fund at its peak of $24.0 billion, so that the balance will not drop.

If, on the other hand, we assume for illustrative purposes a $5 billion increase in the unfunded liability, part of which is due to future legislation, and liberalizations that raise normal costs about ½ of one percent, then the third feature of the proposal—the scheduled 30-year payments to cover increases in the unfunded liability—would become effective. Page 18 shows graphically the sources from which the Trust Fund would be deriving its income under such circumstances.

The bottom level shows employee contributions and the next level, agency contributions. The shaded band at the top of each of these levels represents the added income that would result from raising contribution rates for employees and agencies to cover full normal cost of the benefit package, including the liberalizations. The next level represents interest earned by investing those contributions. Interest would remain at a fairly constant level beginning in 1975, because the Fund's balance would level off about that time. Next, there are the scheduled 30-year payments required to cover increases in the unfunded liability that result from liberalizing legislation enacted in the future.

And last are the direct transfers from the General Fund to the Trust Fund, made under permanent indefinite authority to peg the Trust Fund at the desired level—$3.6 billion, in this illustration.

Total annual income, which would equal annual disbursement, would level off at about $6.9 billion soon after the turn of the century.

Three tables showing estimated progress of the Trust Fund under present financing; under the proposed financing method, assuming for illustrative purposes no further liberalizations and no general pay raises; and under the proposed financing method, assuming liberalizations and future cost-of-living adjustments resulting from legislation already on the books, have been placed in the Appendix of the booklet for such reference use as you may wish to make of them. This proposal is one of many different ways the financing problem might be dealt with, and each method has its legitimate pros and cons. It is our judgment that this particular approach will identify, recognize, and meet full costs of future changes; will minimize the impact of these costs on the administrative budget; will control further growth of the unfunded liability; will keep the Fund solvent, yet prevent an excessive build-up of its balance in advance of actual need for the money; and—very important to annuitants and to us—will assure that there is always enough money in the Fund to permit issuance of all annuity checks, in full and on time, without awaiting appropriation action to provide funds for payments already due. Its impact on the administrative budget will be sudden and sharp, beginning around 1975, but that impact will nevertheless be far less drastic than if present financing continues unchanged. The precise method of approach is, to me, less important than getting started, for the longer we delay, the larger is the problem we have to deal with. I urge, therefore, that some action be taken reasonably soon to solve this problem of financing the retirement system—to assure that the necessary funds are available as needed and to maintain confidence in the soundness of the fund.

Retirement Funding and Financing

Purposes —

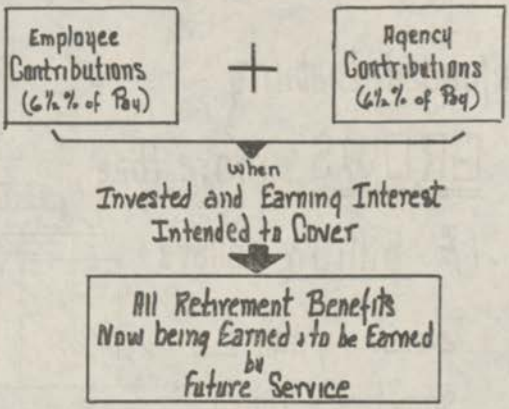
- Full recognition of retirement costs
- Orderly advance preparation to meet them
- Control of "Unfunded Liability"
- Fund balance sufficient to assure prompt, full benefit payments

Proposal in Brief—

1. Employees and agencies share "Normal Costs" of present benefits and future liberalizations
2. Government identify and make advance plans to cover other costs of future changes
3. Government "peg" trust fund at adequate predetermined level

Where We Are

- Fund Balance $16.8 billion
- Annual Receipts $2.8 billion
  - $1.1 billion from agencies
  - $1.1 billion from employees
  - $0.6 billion from interest
- Annual Disbursements $1.9 billion



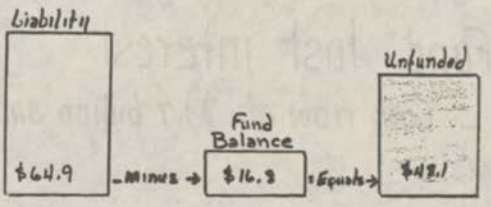
This is "NORMAL COST" Financing

Now 13.96%

Normal Cost Only Part of Story:

Liabilities Exceed Assets by $48.1 billion

This is the "Unfunded Liability"



The Unfunded Liability

GROWS more than

1½ billion dollars

each year—

sometimes More

Why ??

Reasons for the

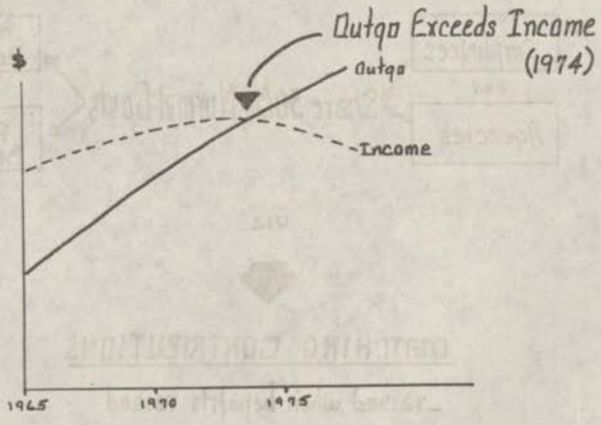
1. Government hasn't always paid
   - No contributions at first
   - 50/50 sharing only since 1957
2. Fund lost interest
   - Loss now at $1.7 billion annually

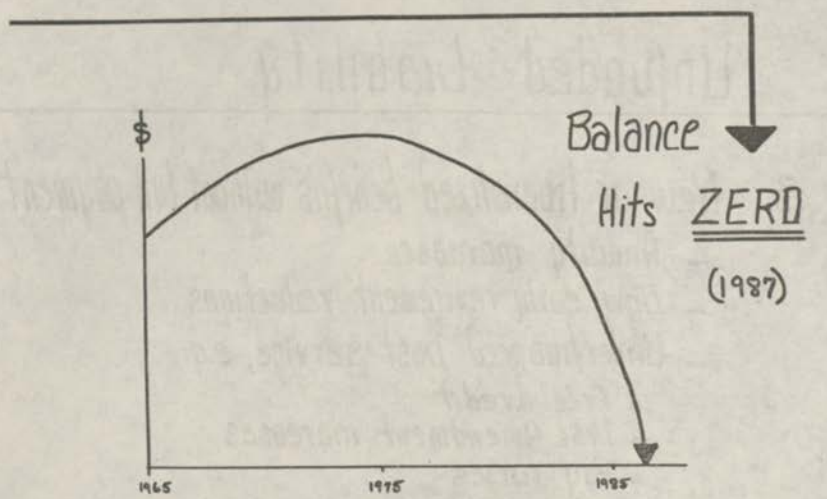
Unfunded Liability

3. New or liberalized benefits without full payment
   - Annuity increases
   - Low "early retirement" reductions
   - Underfinanced past service, e.g.
     - "Free" credit
     - 1956 Amendment increases
     - Pay raises

Every $1 general pay increase adds $2.50 to Unfunded Liability

Under Present Financing

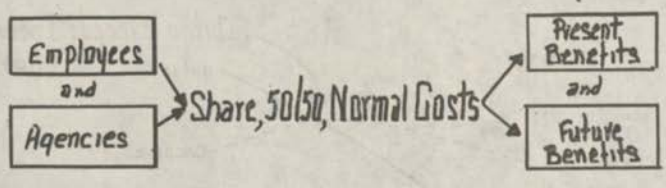




We Must Plan to Meet This Problem

How to Do It

1. Cover Full Normal Costs Currently



via

MATCHING CONTRIBUTIONS

- raised when benefits raised

How to Do It

2. Cover Unfunded Liability increases Created in the future —

- Identify costs when incurred and schedule payment to meet all increases due to future legislation, including
  - pay increases } for actives
  - liberalizations }
  - newly authorized annuity increases
  - coverage of new groups

Do This via

Authorization in law, when cost is incurred, of a 30-Year schedule of payments. to

- begin at nominal rate 1st year
- increase in regular amounts each succeeding year
- cover entire cost in 30 years

75-491—67—pt. 1——24

30-Year Amortization Schedule

for each $1 Million Increase in Unfunded Liability
@ 3½% Interest

Year	Annual payment	Year	Annual payment
1	$ 4,051*	17	$ 68,869
2	8,102	18	72,920
3	12,153	19	76,971
4	16,205	20	81,023
5	20,256	21	85,074
6	24,307	22	89,125
7	28,358	23	93,176
8	32,409	24	97,227
9	36,460	25	101,278
10	40,511	26	105,329
11	44,562	27	109,380
12	48,613	28	113,431
13	52,665	29	117,483
14	56,716	30	121,534
15	60,767		
16	64,818	Total payments	$1,883,774

* 1st installment due upon enactment of legislation creating the increased liability

How to Do It

3. Government cover liability created by laws already passed

_present unfunded liability
_cost-of-living increases

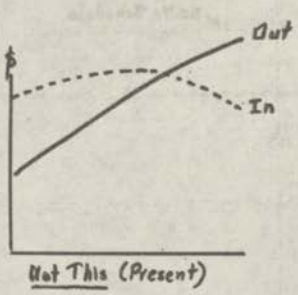
via

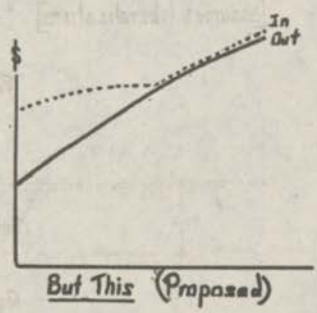
Permanent Indefinite Authority

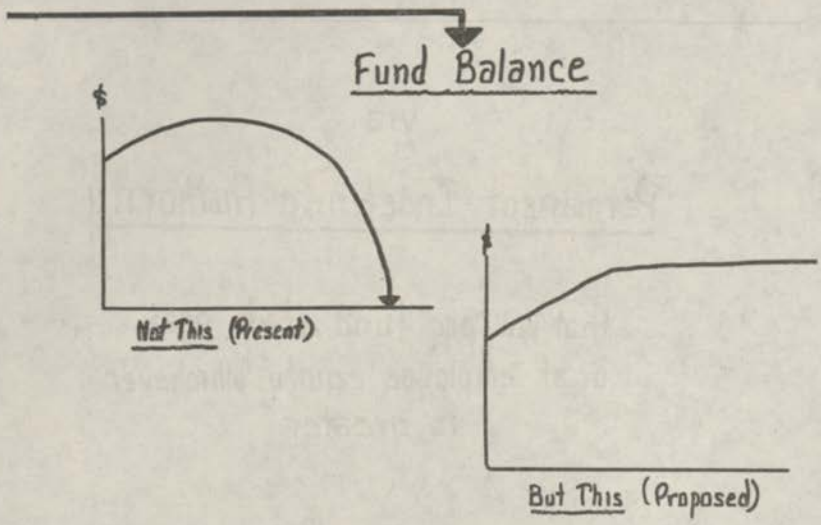
that will "peg" fund at its peak
or at "employee equity", whichever
is greater

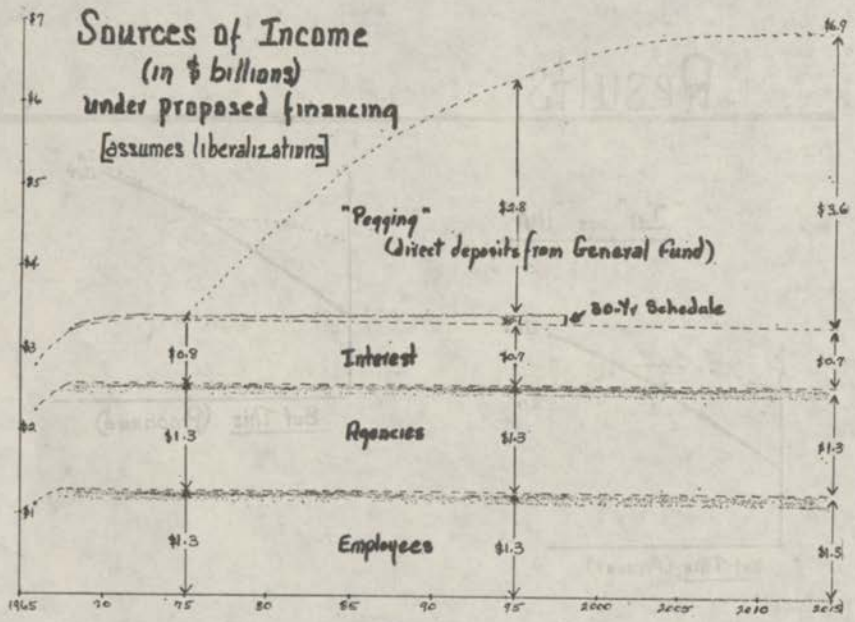
Results

"In" vs "Out"






Fund Balance
$
Not This (Present)
$
But This (Proposed)


Sources of Income
(in $ billions)
under proposed financing
[assumes liberalizations]
"Pegging"
(Direct deposits from General Fund)
30-Yr Schedule
Interest
Agencies
Employees
$6.9
$3.6
$2.8
$0.9
$0.7
$1.3
$1.3
$1.3
$1.3
$1.5
1965
70
75
80
85
90
95
2000
2010

This Proposal Will —

- Recognize and meet full costs of future changes
- Ease their budget impact
- Control unfunded liability growth
- Keep Fund solvent
- Prevent excessive Fund build-up in advance of need
- Assure prompt, full benefit payment

Appendix

1. Progress of fund under present financing
2. Progress of fund under proposed financing, assuming no liberalizations
3. Progress of fund under proposed financing, assuming liberalizations

TABLE 1.—*Estimated progress of the fund, assuming agency contributions matching employee deductions at 6½ percent, plus direct appropriations when needed to meet benefit payments*

[In millions]

Fiscal year	Employee deductions and deposits	Government payments		Interest at 3½ percent	Total receipts	Benefit payments	Balance in fund at end of year
		Agency contributions	Direct appropriations				
1965							$15,601
1966	$1,113	$1,097	$87	$546	$2,823	$1,688	16,736
1967	1,155	1,140	73	594	2,962	1,945	17,753
1968	1,155	1,140	(1)	624	2,919	2,121	18,551
1969	1,155	1,140		650	2,945	2,278	19,218
1970	1,155	1,140		670	2,965	2,445	19,738
1971	1,155	1,140		685	2,980	2,618	20,100
1972	1,155	1,140		695	2,990	2,796	20,294
1973	1,155	1,140		698	2,993	2,977	20,310
1974	1,155	1,140		696	2,991	3,163	20,138
1975	1,155	1,140		686	2,981	3,354	19,765
1976	1,155	1,140		670	2,965	3,555	19,175
1977	1,155	1,140		646	2,941	3,750	18,366
1978	1,155	1,140		614	2,909	3,940	17,335
1979	1,155	1,140		575	2,870	4,125	16,080
1980	1,155	1,140		528	2,823	4,304	14,599
1981	1,155	1,140		473	2,768	4,491	12,876
1982	1,155	1,140		409	2,704	4,665	10,915
1983	1,155	1,140		338	2,633	4,828	8,720
1984	1,155	1,140		258	2,553	4,979	6,294
1985	1,155	1,140		171	2,466	5,118	3,642
1986	1,155	1,140		76	2,371	5,240	773
1987	1,155	1,140	2,285		4,580	5,353	
1988	1,155	1,140	3,161		5,456	5,456	
1989	1,155	1,140	3,255		5,550	5,550	
1990	1,155	1,140	3,339		5,634	5,634	
1991	1,155	1,140	3,404		3,699	5,699	
1992	1,155	1,140	3,464		5,759	5,759	
1993	1,155	1,140	3,520		5,815	5,815	
1994	1,155	1,140	3,571		5,866	5,866	
1995	1,155	1,140	3,618		5,913	5,913	
1996	1,155	1,140	3,656		5,951	5,951	
1997	1,155	1,140	3,691		5,986	5,986	
1998	1,155	1,140	3,725		6,020	6,020	
1999	1,155	1,140	3,755		6,050	6,050	
2000	1,155	1,140	3,783		6,078	6,078	
2001	1,155	1,140	3,808		6,103	6,103	
2002	1,155	1,140	3,831		6,126	6,126	
2003	1,155	1,140	3,851		6,146	6,146	
2004	1,155	1,140	3,869		6,164	6,164	
2005	1,155	1,140	3,885		6,180	6,180	
2006	1,155	1,140	3,894		6,189	6,189	
2007	1,155	1,140	3,903		6,198	6,198	
2008	1,155	1,140	3,912		6,207	6,207	
2009	1,155	1,140	3,921		6,216	6,216	
2010	1,155	1,140	3,929		6,224	6,224	
2011	1,155	1,140	3,941		6,236	6,236	
2012	1,155	1,140	3,950		6,245	6,245	
2013	1,155	1,140	3,958		6,253	6,253	
2014	1,155	1,140	3,963		6,258	6,258	
2015 and after	1,155	1,140	3,967		6,262	6,262	

[1] Presumes legislative action removing the requirement for appropriations to continue benefits provided by Public Law 87-793, effective from and after fiscal year 1968.

TABLE 2.—*Estimated progress of the fund under proposed financing, assuming current benefit and pay levels (Dec. 31, 1966)*

[Dollars in millions]

Fiscal year	Employee deductions and deposits		Government payments			Interest at 3½ percent	Total receipts	Benefit payments [1]	Balance in fund at end of year
			Agency contributions		Direct Treasury deposits—"pegging"				
	Amount	As percent of payroll	Amount	As percent of payroll					
1965									$15,601
1966	$1,113	6½	$1,097	6½	[1] 67	$546	$2,823	$1,688	16,736
1967	1,155	6½	1,140	6½	[1] 73	594	2,962	1,945	17,753
1968	1,199	7	1,184	7		626	3,009	2,121	18,641
1969	1,243	7	1,228	7		656	3,127	2,278	19,490
1970	1,243	7	1,228	7		683	3,154	2,445	20,199
1971	1,243	7	1,228	7		704	3,175	2,618	20,756
1972	1,243	7	1,228	7		721	3,192	2,796	21,152
1973	1,243	7	1,228	7		731	3,202	2,977	21,377
1974	1,243	7	1,228	7		736	3,207	3,163	21,421
1975	1,243	7	1,228	7	149	734	3,354	3,354	21,421
1976	1,243	7	1,228	7	353	731	3,555	3,555	21,421
1977	1,243	7	1,228	7	552	727	3,750	3,750	21,421
1978	1,243	7	1,228	7	745	724	3,940	3,940	21,421
1979	1,243	7	1,228	7	933	721	4,125	4,125	21,421
1980	1,243	7	1,228	7	1,115	718	4,304	4,304	21,421
1981	1,243	7	1,228	7	1,306	714	4,491	4,491	21,421
1982	1,243	7	1,228	7	1,483	711	4,665	4,665	21,421
1983	1,243	7	1,228	7	1,649	708	4,828	4,828	21,421
1984	1,243	7	1,228	7	1,802	706	4,979	4,979	21,421
1985	1,243	7	1,228	7	1,944	703	5,118	5,118	21,421
1986	1,243	7	1,228	7	2,068	701	5,240	5,240	21,421
1987	1,243	7	1,228	7	2,183	699	5,353	5,353	21,421
1988	1,243	7	1,228	7	2,288	697	5,456	5,456	21,421
1989	1,243	7	1,228	7	2,383	696	5,550	5,550	21,421
1990	1,243	7	1,228	7	2,469	694	5,634	5,634	21,421
1991	1,243	7	1,228	7	2,535	693	5,699	5,699	21,421
1992	1,243	7	1,228	7	2,596	692	5,759	5,759	21,421
1993	1,243	7	1,228	7	2,653	691	5,815	5,815	21,421
1994	1,243	7	1,228	7	2,705	690	5,866	5,866	21,421
1995	1,243	7	1,228	7	2,753	690	5,913	5,913	21,421
1996	1,243	7	1,228	7	2,791	689	5,951	5,951	21,421
1997	1,243	7	1,228	7	2,827	688	5,986	5,986	21,421
1998	1,243	7	1,228	7	2,861	688	6,020	6,020	21,421
1999	1,243	7	1,228	7	2,892	687	6,050	6,050	21,421
2000	1,243	7	1,228	7	2,920	687	6,078	6,078	21,421
2001	1,243	7	1,228	7	2,946	686	6,103	6,103	21,421
2002	1,243	7	1,228	7	2,969	686	6,126	6,126	21,421
2003	1,243	7	1,228	7	2,990	685	6,146	6,146	21,421
2004	1,243	7	1,228	7	3,008	685	6,164	6,164	21,421
2005	1,243	7	1,228	7	3,024	685	6,180	6,180	21,421
2006	1,243	7	1,228	7	3,033	685	6,189	6,189	21,421
2007	1,243	7	1,228	7	3,043	684	6,198	6,198	21,421
2008	1,243	7	1,228	7	3,052	684	6,207	6,207	21,421
2009	1,243	7	1,228	7	3,061	684	6,216	6,216	21,421
2010	1,243	7	1,228	7	3,069	684	6,224	6,224	21,421
2011	1,243	7	1,228	7	3,081	684	6,236	6,236	21,421
2012	1,243	7	1,228	7	3,090	684	6,245	6,245	21,421
2013	1,243	7	1,228	7	3,098	684	6,253	6,253	21,421
2014	1,243	7	1,228	7	3,104	683	6,258	6,258	21,421
2015 and after	1,243	7	1,228	7	3,108	683	6,262	6,262	21,421

[1] Special appropriations required to continue benefits provided by Public Law 87-793. Presumes legislative action removing this requirement from and after fiscal year 1968.

TABLE 3.—*Estimated progress of the fund under proposed financing, assuming liberalizations that increase normal costs by ½ of 1 percent of payroll and the unfunded liability by $5,000,000,000*

[Dollars in millions]

Fiscal year	Employee deductions and deposits		Government payments				Interest at 3½ percent	Total receipts	Benefit payments [1]	Balance in fund at end of year
			Agency contributions		Direct Treasury deposits—"pegging"	30-year increasing amortization				
	Amount	As percent of payroll	Amount	As percent of payroll						
1965										$15,601
1966	$1,113	6½	$1,097	6½	[2] 67		$546	$2,823	$1,688	16,736
1967	1,155	6½	1,140	6½	[2] 73		594	2,962	1,945	17,753
1968	1,221	7¼	1,206	7¼		5	627	3,059	2,121	18,691
1969	1,287	7¼	1,272	7¼		10	659	3,228	2,283	19,636
1970	1,287	7¼	1,272	7¼		15	689	3,263	2,453	20,446
1971	1,287	7¼	1,272	7¼		20	715	3,294	2,634	21,106
1972	1,287	7¼	1,272	7¼		25	735	3,319	2,819	21,606
1973	1,287	7¼	1,272	7¼		30	749	3,338	3,003	21,941
1974	1,287	7¼	1,272	7¼		35	757	3,351	3,192	22,100
1975	1,287	7¼	1,272	7¼	23	40	760	3,382	3,382	22,100
1976	1,287	7¼	1,272	7¼	235	45	756	3,595	3,595	22,100
1977	1,287	7¼	1,272	7¼	441	50	753	3,803	3,803	22,100
1978	1,287	7¼	1,272	7¼	641	55	749	4,004	4,004	22,100
1979	1,287	7¼	1,272	7¼	837	59	746	4,201	4,201	22,100
1980	1,287	7¼	1,272	7¼	1,025	64	743	4,391	4,391	22,100
1981	1,287	7¼	1,272	7¼	1,221	69	739	4,588	4,588	22,100
1982	1,287	7¼	1,272	7¼	1,404	74	736	4,773	4,773	22,100
1983	1,287	7¼	1,272	7¼	1,576	79	733	4,947	4,947	22,100
1984	1,287	7¼	1,272	7¼	1,735	84	730	5,108	5,108	22,100
1985	1,287	7¼	1,272	7¼	1,882	89	728	5,258	5,258	22,100
1986	1,287	7¼	1,272	7¼	2,005	94	726	5,384	5,384	22,100
1987	1,287	7¼	1,272	7¼	2,122	99	724	5,504	5,504	22,100
1988	1,287	7¼	1,272	7¼	2,233	104	722	5,618	5,618	22,100
1989	1,287	7¼	1,272	7¼	2,338	109	720	5,726	5,726	22,100
1990	1,287	7¼	1,272	7¼	2,438	114	718	5,829	5,829	22,100
1991	1,287	7¼	1,272	7¼	2,518	119	717	5,913	5,913	22,100
1992	1,287	7¼	1,272	7¼	2,600	124	715	5,998	5,998	22,100
1993	1,287	7¼	1,272	7¼	2,681	129	714	6,083	6,083	22,100
1994	1,287	7¼	1,272	7¼	2,762	134	713	6,168	6,168	22,100
1995	1,287	7¼	1,272	7¼	2,845	139	711	6,254	6,254	22,100
1996	1,287	7¼	1,272	7¼	2,956	144	709	6,368	6,368	22,100
1997	1,287	7¼	1,272	7¼	3,052	149	708	6,468	6,468	22,100
1998	1,287	7¼	1,272	7¼	3,293		704	6,556	6,556	22,100
1999	1,287	7¼	1,272	7¼	3,368		702	6,629	6,629	22,100
2000	1,287	7¼	1,272	7¼	3,430		701	6,690	6,690	22,100
2001	1,287	7¼	1,272	7¼	3,455		701	6,715	6,715	22,100
2002	1,287	7¼	1,272	7¼	3,479		700	6,738	6,738	22,100
2003	1,287	7¼	1,272	7¼	3,500		700	6,759	6,759	22,100
2004	1,287	7¼	1,272	7¼	3,518		700	6,777	6,777	22,100
2005	1,287	7¼	1,272	7¼	3,535		699	6,793	6,793	22,100
2006	1,287	7¼	1,272	7¼	3,544		699	6,802	6,802	22,100
2007	1,287	7¼	1,272	7¼	3,553		699	6,811	6,811	22,100
2008	1,287	7¼	1,272	7¼	3,562		699	6,820	6,820	22,100
2009	1,287	7¼	1,272	7¼	3,571		699	6,829	6,829	22,100
2010	1,287	7¼	1,272	7¼	3,579		699	6,837	6,837	22,100
2011	1,287	7¼	1,272	7¼	3,592		698	6,849	6,849	22,100
2012	1,287	7¼	1,272	7¼	3,601		698	6,858	6,858	22,100
2013	1,287	7¼	1,272	7¼	3,609		698	6,866	6,866	22,100
2014	1,287	7¼	1,272	7¼	3,614		698	6,871	6,871	22,100
2015 and after	1,287	7¼	1,272	7¼	3,618		698	6,875	6,875	22,100

[1] Including transfer-of-credit payments to OASDI trust fund.

[2] Special appropriations required to continue benefits provided by Public Law 87-793. Presumes legislative action removing this requirement from and after fiscal year 1968.

Mr. MACY. The proposal really constitutes a triple attack on this, because what is needed is a statement of policy that normal costs will be met jointly by the employees and the Federal Government. The normal costs now run pretty close to 14 percent, whereas we are producing 13 percent from 6.5 percent from the employees and 6.5 percent from the agencies.

The unfunded liability should not be allowed to continue to grow through liberalization. You see, last year's liberalization increased the unfunded liability by about $4 billion. The unfunded liability will be $48 billion by June 30, 1967.

The important thing to recognize is that every liberalization of retirement, every liberalization of annuities, every liberalization of pay has an impact on that fund.

Mr. EVINS. I think you should take the initiative to go before the appropriate legislative committees of both the House and the Senate and make known to them these facts, figures, and situation. I know you have done this upon invitation, but I think by the matter of initiative, at the suggestion of this committee, you should again impress upon the legislative committees the status of this fund.

Mr. JONAS. For several years we undertook not to let this deficiency grow by more than the earned interest by having the agencies pay into it a certain amount of money. Is that in the current budget?

Mr. MACY. Yes, the agencies are paying 6.5 percent of payroll.

Mr. JONAS. That would be reflected in the agency budgets?

Mr. MACY. Yes, sir.

Mr. JONAS. Will that prevent—it will not, will it—an increase in the deficit?

INCREASING DEFICIENCY IN THE RETIREMENT FUND

Mr. MACY. If there were no further liberalization of any kind, the deficiency would continue to grow at about a billion and a half dollars per year just on the loss of interest.

Mr. JONAS. I understand we are not making up any of that failure to earn interest.

Mr. MACY. We are further slipping behind because now the 6.5 percent from the employees plus the 6.5 percent from the agencies do not meet full normal costs. We are drawing down the fund that way.

Mr. JONAS. Did we not establish this morning, though, that you have an item in your budget for about $70 million to take care of the liberalization voted last year?

Mr. MACY. No; that takes care of the liberalization voted in 1962. Subsequent liberalizations are paid for out of the fund.

Mr. EVINS. This $71 million budgeted here and recommended to be appropriated will not reduce the retirement deficit. It is but to take care of two special acts of liberalization. That is all it does.

Mr. MACY. That is right.

Mr. TALCOTT. Mr. Chairman, I do not understand. We are getting in such bad shape it looks like something drastic has to be done. Very simply it could be raised to 7.5 percent or 8.5 percent. Who cries from that effort?

Mr. MACY. You will have an outcry from the employees.

Mr. TALCOTT. But are they not concerned about the increasing jeopardy of the fund?

Mr. MACY. Not overly. They would not oppose a program for improved financing.

Mr. JONAS. You see, they take the position that if this were made whole, the money would be put in Government bonds, anyway. They have to be redeemed when they are cashed. So, they think they are safe by having the full faith and credit of the United States backing the retirement. It is not a trust fund, really.

Mr. MACY. That is right. It is the faith and credit of the United States.

Mr. JONAS. It has turned out to be simply a bookkeeping matter.

PRESERVING EMPLOYEES EQUITY

Mr. MACY. I do not want to mislead you. I would not recommend that the full unfunded liability be funded, because then you would tie up too much money for too long a time. The proposal that I spoke of earlier would set as an amount in the fund that would be preserved, the amount that the employees have in it as equity, and make sure that the fund did not fall below that point. This would necessitate periodic appropriations to the fund over and above the 6.5 percent that is presently contributed as a protion of payroll. This is what is proposed.

There is even greater discipline in here in that it would necessitate the inclusion of a financing plan with any subsequent liberalization, because it is a liberalization that tends really to increase the level.

Mr. TALCOTT. This is very complicated. It seems to me we should not have too much appropriation in this fund, because that makes the general taxpayer pay for the pensions of the Federal employees.

Mr. MACY. The reason we are in this condition is that the employees have been contributing through the year——

Mr. TALCOTT. Some.

Mr. MACY (continuing). But the Federal Government up until 1957 did not.

Mr. EVINS. This situation exists only because the Federal Government has not made their payments into the fund.

Mr. JONAS. The employees have paid their full amount due. If the Government had paid its share, the fund theoretically would not have a deficit.

Mr. EVINS. Have the actuaries made recommendations on this?

Mr. MACY. They recommend a variety of things. I would say that the consensus, if I may be excused for using the word, is that a plan along the lines of the one that was proposed last year would be appropriate. Let me say in response to your point, Mr. Chairman, that the Commission has every intention of presenting to the substantive committees the urgency of this matter and presenting the details of this proposal as soon as a hearing can be arranged.

PROCESSING ANNUITY CLAIMS

Mr. EVINS. "Influenced by the accelerated workload of annuity claims attributable to Public Law 89–205, actual unit cost was $7.94 at rates comparable to the 1968 pay level." The unit cost is now $8.33.

Why has the unit cost gone up in the processing of these retirement claims?

Mr. MACY. Do you want to explain that, Mr. Overend?

Mr. OVEREND. Mr. Chairman, the reason for the increase from $7.94 up to $8.33 is that a good part of the excess work we had as a result of retirements in December 1965 was done on overtime, and we were able to do it at a lower unit cost than was normal. This $8.33 is considered to be more realistic.

Mr. EVINS. A man working for the Government over a good number of years ought to have up to date records. When he gets ready to retire, you should not have to have overtime to tell him how much he is entitled to draw.

Mr. OVEREND. The overtime was because of the extra 25,000 claims that we had in fiscal year 1966.

Mr. MACY. And the necessity for processing those in a given time so as not to delay the issuance of the checks to the individuals.

CONTROL OF RETIREMENT FUND

Mr. EVINS. You speak on page 133 about maintaining control. I think you are about to lose control, Mr. Chairman.

Mr. MACY. That is right, maintain control over what we have so the situation will not deteriorate any further.

Mr. EVINS. This job includes maintenance of an alphabetical file of approximately 14 million individual retirement records. You make a periodic evaluation of assets and liabilities of the Civil Service Retirement and Disability Fund. For modernizing administration of the monthly payroll, 11 new jobs in 1968, as shown on page 136.

Mr. MACY. This is a temporary provision for the installation of the automated system.

Mr. EVINS. Administrative services, $304,300. Will all of this come out of the trust funds?

Mr. MACY. Yes; this is all part of the retirement administrative costs.

Mr. EVINS. While you are appearing before the committee on the status of the trust funds, I think you should also make some recommendations regarding the administrative costs being withdrawn from the trust funds so the committees may act on this.

Mr. MACY. Mr. Chairman, I will certainly do that.

Mr. EVINS. You have a precedent in two instances. The committee has gone along with your recommendations and the recommendations of the Comptroller General.

Mr. MACY. All right, sir.

EMPLOYEES LIFE INSURANCE PROGRAM

Mr. EVINS. Let us take a look at the employees' life insurance program. Approximately 2.4 million employees participate in the employees' life insurance program, both in this country and overseas. Approximately 95 percent of the employees are eligible. In addition, about 400,000 retired employees are insured. Estimated life insurance

coverage for both groups is $21 billion. Covered employees contribute 25 cents per $1,000 of insurance each biweekly pay period. Approximately 104,000 former members of beneficial associations whose agreements were assumed continue to pay premiums directly to the Commission according to the rate schedules in effect, but the Government makes no contributions for these individuals as it does for employees covered by the regular program.

This is insurance that the employees buy outside of their retirement plan?

Mr. MACY. That is right.

Mr. EVINS. Is it straight life insurance, or is it health benefit insurance?

Mr. MACY. This is straight life insurance on a group basis. The beneficial association agreements are agreements that predated the passage of the employees' life insurance program in 1954.

PAYMENTS TO INSURANCE COMPANIES

Mr. EVINS. Are these payments made to the Commission or are they made to the insurance companies by withholding from the employees' salaries with the Commission acting as agent and transfering the money to the insurance companies, the carriers?

Mr. MACY. That is right. The Metropolitan Life Insurance Co. serves as the representative of the carriers.

Mr. EVINS. One company that you deal with.

Mr. MACY. We deal with one company, but the insurance is carried by virtually all the insurance companies in the country that have group life insurance.

Mr. EVINS. They prorate it among their colleagues?

Mr. MACY. Right.

Mr. EVINS. But the Commission withholds the money from the employees and deals with one insurance company?

Mr. MACY. Right.

Mr. PRYOR. Is the insurance carrier determined on some type of bid system?

Mr. MACY. It was determined back in 1954 at the time the act was passed. The act set up a means for having one company serve as the agent for the industry so it would not be necessary for the Government to deal with every one of the carriers. They selected the Metropolitan for the Federal life insurance program.

They have a contingency fund set up to cover conditions. They invest that along with their own portfolio. The income from that redounds back to this program. We also keep a contingency fund in the Treasury which is invested in Treasury securities. This has been a highly successful program.

Since 1954, the carriers have paid $1 billion in insurance to survivors of about 200,000 Federal employees.

Mr. EVINS. Is the fund considered sound?

Mr. MACY. Yes, the fund is sound. At the moment there is legislation pending to permit the Commission to increase the premiums.

Mr. EVINS. And to increase the amount of coverage?

Mr. MACY. No; to increase the premium.

Mr. EVINS. I would think the insurance companies would want to increase the premiums so more would be withheld from Government employees. You act as agent for them, this appears to be a wholesale method of selling insurance.

COST OF THE PLAN

Mr. MACY. The cost of the plan at the present time is slightly over the 37½ cents per thousand which is being collected. This is not a serious overage, but there is legislation pending which would give the Commission discretion to raise the employee's share of premium to a maximum of 35 cents per thousand. This is the program where the Congress last year passed a bill that would substantially liberalize this program at a cost of about $91 million a year, which the President vetoed in September. A similar bill has been introduced, and there are hearings underway. That would liberalize the plan to permit up to a maximum of $40,000 insurance. Now the maximum is $20,000. It would permit an employee to carry the equivalent of his salary plus one-third. It would provide $2,000 extra insurance which would be nonreducing after retirement.

At the present time, the insurance carried into retirement reduces at the rate of 2 percent a month down to 25 percent of the face value. If you were to have more insurance nonreducing, this would significantly increase the cost.

The President felt this was an excessively high price for a liberalization primarily designed to benefit long service employees who are about to retire. The increased insurance, nonreducing, is from an actuarial point of view very expensive. The bill is up again.

I testified in the Senate on this last week. What I agreed to as the administration position was to raise the maximum to $30,000 or the equivalent of level 2 in the Executive Pay Act of 1964, and coincidentally, the congressional salary level. Also, to permit discretion to the Commission to raise the premium to meet the current costs. This would cost about $13.5 million.

GOVERNMENT EMPLOYEES' CONTRIBUTION

Mr. EVINS. You have 2.4 million employees participating in this insurance program and how much, in round figures, is withheld from the salaries of Government employees monthly? How much is this annually?

Mr. MACY. The employee withholdings in 1967 are estimated to be $124.8 million.

Mr. EVINS. Annually?

Mr. MACY. Annually.

Mr. EVINS. $124.8 million?

Mr. MACY. Right. The agency contribution is half of that, $62.4 million.

Mr. EVINS. That is a payment of $187.2 million to the insurance company annually. That is a pretty good bonanza.

Mr. MACY. There is interest revenue of $17.3 million, so this is the total receipts. The disbursements estimated for 1967 are $158 million.

PROFIT TO THE INSURANCE COMPANIES

Mr. EVINS. How much net profit is that for the company?

Mr. MACY. The company does not get the net profit. The balance is put in these contingency funds.

Mr. WILLIAMS. The amount of profit is prescribed by the act itself.

Mr. MACY. It is.

Mr. WILLIAMS. One-half of 1 percent of premium.

Mr. EVINS. I think the insurance companies are going to own the world one of these days. I do not think they are suffering. I think they are pretty well off. I do not think they need any special pleaders.

Mr. MACY. Mr. Chairman, at the time this legislation was up in 1954, we seriously considered the alternative of the Government being a self-insurer on this. The judgment of the committees at that time was that a group policy of this magnitude ought to be put into the industry rather than the Government going into the insurance business.

Mr. EVINS. You say it is not necessary for the Commission to be involved in any recordkeeping for such individuals?

Mr. MACY. The only recordkeeping the Commission maintains are on those 104,000 carried over from the beneficial associations. There the Commission has to perform the administrative services that would otherwise be taken care of.

AMOUNT OF RENEGOTIATION

Mr. EVINS. The insurance companies are all wanting to increase the rate. One of the laws requires and empowers the Commission to negotiate and renegotiate with insurance companies to provide for these benefits that are authorized. How much cost has been reduced as a result of any renegotiation?

Mr. OVEREND. I know of one situation where the risk charge was six-tenths of 1 percent and by renegotiation a few years back it dropped back to five-tenths of 1 percent.

Mr. EVINS. Health benefits?

Mr. OVEREND. No, the life insurance.

Mr. EVINS. You are empowered to do this in both cases?

Mr. MACY. Yes.

Mr. EVINS. In life insurance and health benefits?

Mr. MACY. We are reviewing these plans all the time to make sure the Government is getting the best possible buy.

Mr. EVINS. How long has this been on the books?

Mr. MACY. Since 1954.

Mr. EVINS. How many conferences have you had in holding the premium down?

Mr. MACY. I am unable to answer that. I will check and find out just what the record is. Do you have that information?

Mr. OVEREND. I recall we have had about 40 amendments to the contract since it began.

Mr. MACY. Would you like to characterize the substance of some of those?

Mr. OVEREND. They are many and varied.

Mr. MACY. One of them was a reduction in the rates charged from six-tenths of 1 percent down to five-tenths. Another I recall specifically was the payment of the accidental death benefits to civilian Federal employees who are in combat zones. We can attach a statement for the record.

(The information follows:)

RENEGOTIATION OF CONTRACTS

LIFE INSURANCE

The Commission purchased a policy from the Metropolitan Life Insurance Company to provide the benefits specified in the Federal Employees' Group Life Insurance Act. From the premiums it receives, the Company retains amounts needed to pay claims and expenses, plus a risk charge. The excess of premiums over these charges is held as a contingency reserve for the program which earns interest. When the reserve reaches a level set by the Commission, any excess is returned by the Company and deposited in the Employees' Life Insurance Fund, held by the Treasury Department.

The policy has been amended 43 times, primarily to conform to changes in the law and regulations. An amendment negotiated by the Commission has reduced the original risk charge from 0.6% to 0.5% of premiums. To the best of our knowledge, this risk charge is as small as is in effect on any large employer-sponsored group contract, and is smaller than most.

HEALTH BENEFITS

The character of health insurance is more complex than life insurance. Renegotiation of contracts with each of the 38 plans or carriers is essentially on an annual basis. Our purpose is to provide the best benefit packages to Federal employees and annuitants at the lowest possible costs. This is done in the face of rising medical and hospital costs. Although the frequency of conferences and negotiations will vary greatly from one plan to another, those not changing benefits or premiums will not require as frequent consultation as those planning such changes. Every plan has its own price tag, based on many factors such as scope of benefits, cost of medical and related services, geographic, age, and sex distribution of the plan's membership. The cost of the plan is a composite figure of the prices of all benefits of the plan plus its operating expenses, and, usually, a risk charge. Most of these plans are experience rated. Simply stated, this means that when the money that a plan pays out exceeds the amount collected in premiums the plan must have a premium increase to keep the contract in effect. There is not much latitude in determining whether a plan needs an increase. There is a little greater latitude in determining the amount of a needed increase. We, of course, try to keep these increases as small as possible.

In an experience rated insurance contract of the type we have for life insurance and for most health benefits plans, even if an excess premium were paid to the insurer, the result would be merely one of building a reserve which can be used only to benefit the employees insured under that contract. Excess premiums can not be drained off as profit by the carrier. Negotiating a lower premium with any carrier would result primarily in a reduction of current reserves and a necessity premium to a higher level at a later date.

HEALTH INSURANCE

Mr. EVINS. The law requires the Commission to carry out these responsibilities, prescribe rules and regulations. What rules has the Commission prescribed? Are they complying with the rules? I am referring to health now.

Mr. MACY. Health insurance?

Mr. EVINS. Yes.

Mr. MACY. On the health benefits, Mr. Chairman, you have a much more complicated situation. That is because you have two basic group health plans providing benefits. One is a service contract, the Blue Cross, Blue Shield, nationwide, Government wide.

Second, you have an indemnity type plan which is in the industry and operated through Aetna. Then you have a series of special plans largely promoted by the employee unions and carried by a variety of carriers. This was included in the 1959 act because a number of these plans were already in being and were a very important membership-promoting device for the employee organizations. Congress decided they did not want to put those out of business. They have been carried over. Beyond that, Congress has permitted the reopening of the act for additional plans because some employees' groups did not have them and felt they were at a competitive disadvantage because they did not have them. This is an area where costs, as I pointed out this morning, continue to rise very fast and consequently, premiums have been going up.

Mr. EVINS. Some of the original offers of health insurance plans provided for several situations, options, and later on they eliminated some of them. My point is that their rates are going up, the benefits are being narrowed, more restricted.

Mr. MACY. The benefit level has been maintained and actually improved in some cases, but the costs clearly are going up. We have had to review these plans very carefully to make sure that in the competition for members, additional benefits that were not adequately financed did not get included in the policies.

They always have more benefits. They offer a great variety of benefits. I am a little suspicious of some of these plans. I throw that out for the record. I am not afraid to say so.

Mr. JONAS. May I ask a question there?

Mr. EVINS. Yes.

Mr. JONAS. What percentage of the employees take the Blue Cross and what percentage of the Aetna plan? Half and half, or what?

Mr. MACY. More of them choose Blue Cross-Blue Shield. Let me get you the exact figures on that. I was looking at them the other day.

We have just recently had what we called an open season on in November of 1966 to permit employees to change plans if they wished. A very small number changed. Let me provide that for the record. My recollection is that more than 80 percent of the coverage is in one or the other of the two Government-wide programs. Approximately 50 percent of the total is in Blue Cross-Blue Shield.

Let me insert in the record the exact figures so that I am completely responsive.

(The information follows:)

Preliminary figures on the November 14–30, 1966 open season indicate that there were approximately 42,000 new enrollments (a net gain of 1.8%) and 41,000 employees and annuitants changed from one plan to another. Approximately 57% are enrolled in the Blue Cross-Blue Shield plan and 22% in Aetna. The remaining 21% are participating in the various employee organization and comprehensive Medical plans.

SETTLEMENT OF CLAIMS

Mr. EVINS. Your claims are settled directly between the claimant and the underwriter and the Commission is not, therefore, a claims settlement agency and does not maintain claims records, but does intervene in the settlement of claims where there appears to be a breach of the cotract by a carrier. How many times has the Commission intervened? How many times has it been necessary?

Mr. MACY. Mr. Overend, can you give me that?

Mr. OVEREND. This is it in terms of numbers. It is relatively infrequent but the Commission does get employee complaints from time to time. It has to discuss these complaints with the carriers.

Mr. EVINS. How many cases of breach of contract have there been, in your judgment?

Mr. OVEREND. I cannot give any answer to that.

Mr. EVINS. You do not know of any cases where you have intervened?

Mr. MACY. We have intervened in individual cases where an employee has complained about a delayed claim or has complained about less coverage than he anticipated in a claim.

Mr. EVINS. Do you write to the carrier and does he give better coverage or promptly settle the claim? Does it have any effect?

Mr. MACY. Yes, my impression is that they have been very responsive to claims of this type and that considering the complexity of the coverage, that the program has really functioned very well.

One of the interesting features to me is that employees have the option of either a high plan or a low plan. The great bulk of them have selected the high plan. In other words, they have tried to get the maximum amount of coverage that was available under the plan that they selected.

CONTRIBUTION TO EMPLOYEES LIFE INSURANCE

Mr. EVINS. How much does the Government contribute to the employees' life insurance program?

Mr. MACY. Life insurance, $62 million.

Mr. EVINS. I mean percentage of the cost. What percentage of the cost is assumed by the Government?

Mr. MACY. In the life insurance program the Government is paying one-third.

Mr. EVINS. How much does that amount to annually?

Mr. MACY. $62 million.

CONTRIBUTION TO EMPLOYEES HEALTH BENEFITS

Mr. EVINS. What about the employees' health benefits—percentagewise—and the amount that the Government contributes?

Mr. MACY. That is more difficult to cite because of the variety of programs. The Government cannot under the law pay more than 50 percent. The most recent figures I show——

Mr. EVINS. They pay the maximum.

Mr. MACY. The Government is paying 38 percent of the total premium for the entire program.

Mr. EVINS. How does it happen that if the law permits you to pay up to 50 percent, you do not pay 50 percent?

Mr. MACY. Because it is 50 percent of the low option. Because of the use of the high option, the Government's percentage has fallen off. This is one of the reasons why the Fringe Benefit Act last year increased the Government's contribution to restore it to the 38 percent the Government was contributing at the start of the program. What would you estimate, Mr. Overend, is now the proper percentage since that act?

Mr. OVEREND. I believe it is down. Because of the premium rate increase it is about 34 percent.

Mr. EVINS. Once you have a fixed contract with an insurance company, either on a life insurance policy or health benefit policy, are the companies permitted to raise their rates? Do you have a fixed contract?

Mr. OVEREND. These are year-by-year contracts, Mr. Chairman.

Mr. EVINS. It is very easy to get the Government employees on the rolls and after a year say the rate is going up because there have been increased costs.

Mr. OVEREND. On the employees' life insurance program there has been no increase to employees. Since the program began it started with the——

Mr. EVINS. How many times have the health benefits been increased since the original contracts were made?

Mr. MACY. It varies from plan to plan. What would you say, an average of three times?

Mr. OVEREND. Two to three times in the 6 years.

Mr. MACY. Since 1959.

Mr. EVINS. In other words, they raise the rates every 2 years. The Commission allows this to continue? The Commission authorizes it?

Mr. MACY. The Commission reviews the indication of costs for the coverage provided and the carriers have made a case for the increased rates and the Commission has extended the contract with new rates.

Mr. PRYOR. Do these carriers, Aetna and Blue Cross, come in together and say, "We need an increase," or does one come in and then the other follow?

Mr. MACY. We do them individually. They have stayed pretty much in tandem on rates although there is some difference between the two, a case of slight differences in coverage.

Mr. PRYOR. What brings about this open season on changes?

Mr. MACY. Under the law Congress wanted to assure employees that they would have some discretion in making a change if they did not like the plan that they were under. The language in the law is that there should be a free, informed choice, so we do this periodically. We have averaged an open season every 2 years. At that time all of the plans produce new brochures describing what they have and there is competition for switches.

Actually, the percentage of employees that change is very small, which should be an indication that by and large they are satisfied with what they are getting.

Mr. EVINS. Mr. Chairman, I want to admonish you to exercise your authority and your power on these matters of supervision in your renegotiations and attempt to hold down the premium costs to the employee and to the Government, and also prohibit these companies, wherever you can, from restricting the benefits.

Mr. MACY. Mr. Chairman, I will take that very seriously and make certain that we have a current review of all of those contracts.

SUMMARY OF OPERATION OF EMPLOYEES' LIFE INSURANCE AND HEALTH BENEFITS PROGRAMS

Mr. EVINS. We will place in the record pages 141 through 145 on the employee life insurance program, pages 146 through 154 on the employees health benefits program, and pages 155 through 161 on retired employees health benefits.

(The pages follow:)

ADMINISTRATION OF THE EMPLOYEES' LIFE INSURANCE PROGRAM

REGULAR PROGRAM

There are approximately 2.4 million employee participants in this country and overseas. This is approximately 95% of the employees who are eligible. In addition, about 400,000 retired employees are insured. Estimated life insurance coverage for both groups is $21 billion. Covered employees contribute, by withholding from their salary, 25 cents per $1,000 of insurance each bi-weekly pay period, and the Government contributes one-half of that amount from appropriations.

BENEFICIAL ASSOCIATION AGREEMENTS

Approximately 104,000 former members of beneficial associations whose agreements were assumed by the Life Insurance Fund, continue to pay premiums directly to the Commission according to the rate schedules in effect at the time they were taken over, but the Government makes no contributions for these individuals as it does for employees covered under the regular program.

The law requires the Commission to carry out a number of responsibilities in administering the Employees Life Insurance Program. Some of the more important ones are: (1) The purchase of a group policy from a private insurance company to provide the benefits authorized, and the negotiation for amendments to the policy; (2) determining or redetermining that the insurers and reinsurers meet the eligibility conditions and comply with contract provisions for carrying the policy under which Federal employees are insured; (3) collecting premiums from members of beneficial associations whose life insurance agreements have been assumed; (4) determining eligibility of employees retiring under the Civil Service Retirement System and other Federal civilian retirement systems for continuance of their life insurance after retirement without cost to them; (5) arranging for insured individuals to receive appropriate certificates, notices, and information concerning their rights, privileges, and benefits; (6) auditing the mortality and other claim charges, and expenses incurred in the administration of the program by the insurance companies; (7) prescribing the operating regulations, rules, procedures, and forms for the Commission, employing agencies, and individuals; (8) developing and maintaining financial and statistical data for management use, and for annual reporting to the Congress; (9) receiving and accounting for employee withholdings and agency contributions to the Fund, and maintaining necessary control accounts and records; and (10) answering inquiries from individuals and agencies on insurance matters.

Under the program, all insurance payments to claimants are settled by an administrative office of the insurer upon receipt of certification of the insurance status of the person on whose account the claim is being made. In the case of an active employee, the certification is made by the last employing office, and it is unnecessary for the Commission to be involved in any record keeping for

such individuals. For retired employees, and those individuals insured because of the assumption of life insurance agreements of beneficial associations, the Commission acts as the central agency for certification of insurance status when the insured person dies. Therefore, the Commission already has all necessary records, obtained from employing agencies at retirement, or at time of taking over the beneficial associations' life insurance agreements, and there is some individual record keeping in these cases.

Estimates for fiscal years 1967 and 1968 provide for slightly increased costs in maintaining the *regular* insurance program because the number of insured annuitants is increasing, thereby increasing the number of eligibility determinations at retirement, and certification to be made at the time of death of these annuitants. The cost of servicing *beneficial association* members in fiscal year 1968 is expected to approximate the 1967 program level.

NARRATIVE JUSTIFICATION

Collecting, accounting, and auditing

	1966	1967	1968
Average positions	14	15	15
Cost	($110,200)	$112,200	$111,300

This is the entire accounting and fund control function. It includes (1) Operating complete control accounts for the entire program; (2) receiving and depositing employee withholdings and agency contributions; (3) receiving, depositing and accounting for individual premium payments on beneficial association agreements; (4) computing amounts of premiums due and authorizing payments to insurance carriers; (5) managing assets of beneficial associations; (6) preparing summary financial statements; (7) reviewing the effectiveness of the Government-wide accounting system for the program; (8) auditing individual claims and insurance companies' records to determine propriety of claims and compliance with insurance contracts or agreements; (9) developing, compiling and analyzing statistical data pertaining to the insurance program; and (10) analyzing and preparing reports on insurance legislation and policy proposals.

Estimates for 1968 reflect a slight decrease in beneficial association work because of declining membership resulting from deaths and lapses.

Determining and certifying insurance status

	1966	1967	1968
Average positions	9	9	9
Cost	($68,100)	$68,900	$72,100

This function consists of determining whether employees retiring under the several Federal civilian retirement systems are eligible for continuing coverage under the Act. It includes: (1) Technical and clerical work involved in obtaining necessary data from agencies in retirement cases; (2) determining whether or not employees meet the requirement of the law for continuance of life insurance during retirement without cost to them, and notifying them of the determinations; and (3) certifying insurance status to the insurer at time of death of retired employees. The cost of this function is expected to be higher in fiscal years 1967 and 1968 because the number of insured annuitants in the regular program is increasing, thereby increasing the number of eligibility determinations at retirement and certifications to be made at the time of death of these annuitants.

Answering insurance inquiries

	1966	1967	1968
Average positions	4	4	4
Cost	($31,200)	$31,900	$31,200

This function covers the work of replying to telephone, written and personal inquiries; designing necessary forms; and preparing and issuing external instructions and informational releases. Estimated requirements for 1968 approximate the 1967 program level.

Administrative services

	1966	1967	1968
Average positions	2	3	3
Cost	($14,200)	$22,850	$22,000

The level of funds requested for 1968 represents this program's proportionate share of required administrative services, including personnel, budget and fiscal, and office services, as further explained in the "General Statement" of this presentation.

Other objects of expense

	1966	1967	1968
Cost	($55,100)	$56,300	$56,400

This item provides for all expenses other than personnel compensation. Funds requested for fiscal year 1968 are about the same as programed for 1967.

ADMINISTRATION OF THE EMPLOYEES HEALTH BENEFITS PROGRAM—COMPARATIVE SUMMARY TABLE

Function	1966 actual		1967 program		1968 estimate	
	Average positions	Cost [1]	Average positions	Cost	Average positions	Cost
Providing and administering legislative and program policy	15	$175,029 ($181,900)	15	$187,000	15	$186,300
Collecting, accounting, and auditing	33	291,654 ($303,000)	31	278,400	31	277,400
Determining coverage eligibility and answering inquiries	22	146,975 ($152,700)	27	183,100	28	186,000
Conducting actuarial and statistical studies	5	55,813 ($58,000)	4	52,900	5	57,800
Administrative services	12	115,661 ($120,200)	12	90,040	12	87,300
Subtotal, personnel compensation	87	785,132 ($815,800)	89	791,440	91	794,800
Other objects of expense		307,075 ($309,375)		460,580		473,800
Total program	87	1,092,207 ($1,125,175)	89	[1] 1,252,020	91	1,268,600

[1] Includes $16,000 as part of the supplemental needs for related health benefits work associated with the additional 15,000 annuitants expected to retire as the result of the cost-of-living increase, effective Jan. 1, 1967.

EMPLOYEES HEALTH BENEFITS PROGRAM—COMPARATIVE SUMMARY STATEMENT BY OBJECT CLASS

Other objects of expenditure

Object classification	Actual, 1966	Program, 1967	Estimate, 1968
12 Personnel benefits	$58,412	$59,000	$59,300
	(60,712)		
21 Travel and transportation of persons	14,016	20,300	25,000
22 Transportation of things	342	500	500
23 Rent, communications, and utilities	26,289	49,000	49,000
24 Printing and reproduction	194,470	317,000	327,000
25 Other services	5,802	7,780	6,000
26 Supplies and materials	4,915	5,000	5,000
31 Equipment	2,829	2,000	2,000
Total, other obligations	307,075	[1] 460,580	473,800
	(309,375)		

[1] Includes $1,000 as part of the supplemental needs for the added 15,000 annuitants.

The Federal Employees Health Benefits Act of 1959 provides that there shall be created an Employees Health Benefits Fund to be administered by the Commission, in which employees and Government contributions are to be deposited. The Act also provides that the Employees Health Benefits Fund will be available to pay for administrative expenses incurred by the Commission, within such limitations as may be specified annually by the Congress.

More than 2 million employees and 273,000 annuitants are participating in this program. Contributions by participants are based on the type of enrollment (self or family) plan, and option they select. The Government contribution to the cost of any plan is fixed by law plus and add-on for administrative expenses and a contingency reserve, but not to exceed 50% of the total charge for any plan. Amounts are withheld from enrolled employees' salary and retired employees' annuity, while the Government's share is contributed from appropriations.

The law requires the Commission to carry out a number of responsibilities in administering the Employees Health Benefits Program. Some of the more important ones are: (1) Negotiating and renegotiating with insurance underwriters, employee organizations, and other health benefits carriers to provide the health benefits authorized; (2) determining and redetermining that the carriers meet standards and eligibilty requirements for participating in the program and comply with contract provisions; (3) conducting a continuing study of the operation and administration of the Health Benefits Act, including surveys, analyses, and reports on the fiscal aspects of the program, and also of the utilization of the benefits provided through the health benefits plans available to employees under the Act; (4) prescribing the regulations, rules, procedures and forms for carriers, employing agencies, and enrolled employees and annuitants; (5) instructing agencies so that they can effectively fulfill their administrative responsibilities, and foster the intelligent and economical use of health benefits by employees; (6) determining the eligibility of retiring employees to continue receiving health benefits under the Act after their retirement, and determining eligibility of the survivors of active employees and the survivors of annuitants for continuing benefits; (7) arranging for eligible employees to receive appropriate brochures, notices, and information concering their rights, privileges, and benefits; (8) receiving, depositing and accounting for employee withholdings and agency contributions to the Fund, and maintaining necessary control accounts and records; (9) withholding and depositing subscription charges from annuity payments of retirees and survivors; (10) answering inquiries from individuals, agencies, carriers, and the medical and related professions on health benefit matters; (11) developing and maintaining financial and statistical data for management use, and for annual reporting to Congress; and (12) auditing records of the carriers and insurance underwriters to insure conformity with the law and with contracts and agreements.

Under the Program, claims are settled directly between the claimant and the underwriter, the claimant and the employee organization-sponsored plan, or the

carrier and the hospital, doctor, or other practitioner. The method depends upon the particular plan in which an employee is enrolled. The Commission is therefore not a claims settlement agency, and does not maintain claims records, but does intervene in the settlement of a claim where there appears to be a breach of contract by a carrier. For retiring employees and survivors entitled to benefits under the program, however, the Commission must make eligibility determinations for continued coverage, make withholdings from annuity payments, and also make the necessary certifications to carriers. As the number of participating retiring employees and survivors grows an increasing amount of work in servicing these enrollments is expected.

The cost of administering this program is substantially higher than that of the Group Life Insurance Program which is also administered by the Commission, because of the multiplicity of health benefits carriers and the basic difference between the programs, as for example, the frequent usage of health benefits plans compared to one-time use of life insurance, the more complex regulations, procedures and rate structures, the greater incidence of changes, and the greater volume of inquiries in the health benefits program.

Providing and administering legislative and program policy

	1966	1967	1968
Average positions	15	15	15
Cost	($181,900)	$187,000	$186,300

This function consists of analyzing and directing carrier agreement operations and formulating and recommending policy. It includes: (1) Determining continuing eligibility of carriers for contracting under the health benefits law and approving new carriers for participation in the program; (2) determining and enforcing standards for health benefits plans; (3) negotiating and renegotiating with carriers to develop and maintain acceptable contracts; (4) developing and issuing regulations to implement health benefits legislation; (5) developing and issuing external operating, accounting and other procedures and instructions to agencies and carriers; (6) providing advisory services on interpretation and application of the law, regulations, procedures, and contract agreements; (7) initiating proposals for necessary changes in health benefits laws; (8) analyzing and reporting on proposed legislation; and (9) conducting continuing research on health benefits programs and plans, including non-Government plans. Also included in this function is the entire instructional program necessary to promote effective administration and intelligent use of the health benefits plans.

Requirements for this function in fiscal year 1968 are adequate for the necessary contacts to be made with carriers on a continuing basis, annual renegotiation of contracts, reviewing carrier operations, checking into complaints of alleged contract violations, and contacting carriers about other problems arising out of operations under their contracts with the Commission. Provision is also made for the work of developing instructional and other materials concerning the general open season expected in 1968.

Collecting, accounting, and auditing

	1966	1967	1968
Average positions	33	31	31
Cost	($303,000)	$278,400	$277,400

This is the entire accounting and fund control function. It includes: (1) Operating complete control accounts for the entire program; (2) receiving and depositing employee withholdings and agency contributions; (3) deducting subscription charges from annuity payments for retirees and survivor annuitants; (4) computing amounts of premiums due and authorizing payments to carriers; (5) preparing summary financial reports; (6) reviewing the effectiveness of the Government-wide accounting system for the program; and (7) planning, con-

ducting and reporting on audits of carrier contracts and records throughout the United States.

Funds required for fiscal year 1968 will maintain this function on a current basis.

Determining coverage eligibility and answering inquiries

	1966	1967	1968
Average positions	22	27	28
Cost	($152,700)	$183,100	$186,000

This function consists of: (1) Reviewing cases of participants to determine if retiring employees and survivors of deceased employees or retirees are entitled to continue or change health benefits coverage; (2) processing requests from employees for reconsideration of agency determinations of eligibility and changes in enrollment; (3) certifying benefit entitlement or nonentitlement to carriers for annuitants and survivors; and (4) answering a variety of inquiries on health benefits matters received from employees, annuitants, survivors, private organizations interested in the program, and the general public.

Increased funds for fiscal year 1968 are required because the number of annuitants and survivors is increasing, and there will be a growing volume of changes in coverage, new enrollments, transfers of enrollment, and inquiries of all types related to the health benefits program. At the end of fiscal year 1966 a total of 273,000 annuitants and survivors were enrolled in this program. By the end of fiscal year 1968 an additional 107,000 annuitants and survivors are expected to be enrolled in the program, bringing total participation to approximately 380,000.

Conducting actuarial and statistical studies

	1966	1967	1968
Average positions	5	4	5
Cost	($58,000)	$52,900	$57,800

This function consists of: (1) Developing, compiling, and analyzing statistical data pertaining to the health benefits program; (2) preparing special reports and the annual report to Congress; (3) furnishing estimated costs of proposed legislation; and (4) providing actuarial services.

The amount required for fiscal year 1968 will maintain this function at the same level as 1966 experience.

Administrative services

	1966	1967	1968
Average positions	12	12	12
Cost	($120,200)	$90,040	$87,300

The level of funds requested for 1968 represents this program's proportionate share of required administrative services, including personnel, budget and fiscal, and office services, as further explained in the "General Statement" of this presentation.

Other objects of expense

	1966	1967	1968
Cost	($309,375)	$460,580	$473,800

This item provides for all expenses other than personnel compensation. The increase in 1968 over 1967 results primarily from greater printing requirements and penalty mail costs for distributing printed materials. The Commission furnishes brochures, standard Health Benefits forms, pamphlets and the like to all agencies, employees, retired employees and survivor annuitants. Since contracts with carriers are renewable annually, and consequently subject to benefit and subscription rate changes each year, such changes must be communicated to employees and annuitants.

The amount estimated for fiscal year 1968 includes the cost of printing revised brochures and other issuances to reflect benefit and subscription rate changes expected to become effective in January 1968, and a distribution of instructional and other materials concerning the general open season. The increase in 1968 also reflects the cost of printing revised brochures and other issuances for the growing number of retired employees and survivors covered under the 1959 Act.

ADMINISTRATION OF THE RETIRED EMPLOYEES HEALTH BENEFITS PROGRAM

Comparative summary table

Functions	1966 actual		1967 program		1968 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Providing and administering legislative and program policy	2	$18,424 (19,200)	1	$14,000	1	$13,900
Collecting, accounting and auditing	8	55,979 (58,200)	8	58,600	8	58,400
Determining coverage eligibility and answering inquiries	26	177,635 (184,600)	27	185,600	27	184,900
Conducting actuarial and statistical studies	1	6,880 (7,100)	1	9,300	1	9,300
Administrative services		(------)	2	15,340	2	14,600
Subtotal, personnel compensation	37	258,918 (269,100)	39	282,840	39	281,100
Other objects of expense		45,037 (45,800)		34,600		36,300
Total program	37	303,955 (314,900)	39	317,440	39	317,400

RETIRED EMPLOYEES HEALTH BENEFITS PROGRAM—COMPARATIVE SUMMARY STATEMENT BY OBJECT CLASS

Other objects of expenditure

Object classification	Actual, 1966	Program, 1967	Estimate, 1968
12 Personnel benefits	$17,459 (18,222)	$21,200	$22,000
21 Travel and transportation of persons		500	1,500
22 Transportation of things			
23 Rent, communications, and utilities	12,796	7,000	7,000
24 Printing and reproduction	10,856	3,000	3,000
25 Other services	2,538	1,500	1,400
26 Supplies and materials	1,023	900	900
31 Equipment	365	500	500
Total, other obligations	45,037 (45,800)	34,600	36,300

The Retired Federal Employees Health Benefits Act provides that there shall be created a Retired Employees Health Benefits Fund to be administered by the Commission, in which retired employee and Government contributions are to be deposited. This fund is available for the payment of administrative expenses incurred by the Commission within such limitations as may be specified annually by the Congress.

This Act provides a health benefits program for those qualified annuitants and survivors who are not eligible to enroll in the active employees program (under the 1959 Act) because of the termination of the employee's service prior to the effective date of that Act. As of June 30, 1966, there were 215,450 participants in this program. All qualified retired employees and survivors may elect to enroll in and receive a contribution to the Government-sponsored Uniform Plan or to receive a Government contribution toward the payment of other qualified health insurance they may have. The amounts paid by annuitants enrolled in the Uniform Plan are withheld from their monthly annuity; those who have private health insurance receive a Government contribution which is added to their monthly annuity. Amounts authorized to be contributed by the Government as its share of the cost of this program and for administrative expenses of the Commission are paid from annual appropriations.

The law requires the Commission to carry out a number of responsibilities in administering the Retired Employees Health Benefits Program. Some of the more important ones are: (1) Negotiating and renegotiating with a carrier for the Government-sponsored Uniform Plan to provide health benefits; (2) determining and redetermining that the Uniform Plan carrier and carriers of private plans meet eligibility requirements for participating in the program and that the Uniform Plan carrier complies with contract provisions; (3) prescribing the rules, regulations, procedures, and forms for the program; (4) determining the eligibility of retired employees and survivors to elect coverage or make changes in coverage; (5) arranging for retirees and survivors to receive appropriate notices, brochures, information concerning their rights, privileges and benefits, and enrollment forms; (6) withholding and depositing subscription charges or making additions to annuity payments of retirees and survivors electing coverage under the Act; (7) determining that annuitants enrolled in private plans continue to be eligible to receive Government contributions; (8) accounting for subscription charges and Government contributions to the Fund, and maintaining necessary control accounts and records; (9) answering inquiries from individuals, retirees, and survivors, carriers and others on retired employee health benefit matters; (10) developing and maintaining financial and statistical data for management use, and for annual reporting to the Congress; (11) auditing financial and other operations of the carrier of the Uniform Plan to insure conformity with the law and with the contract; (12) reviewing and initiating legislative proposals for changes in the program.

Under the program, claims are settled directly between a claimant and his carrier. However, a substantial amount of work will be required by the Commission in connection with election notices, withholdings or additions to annuity payments, carrier certifications and recertifications of membership in private plans, changes and terminations of enrollment, and answering inquiries.

Providing and administering legislative and program policy

	1966	1967	1968
Average positions	2	1	1
Cost	($19,200)	$14,000	$13,900

This function consists of formulating and recommending policy. It includes: (1) Prescribing the rules, regulations, procedures, and forms; (2) providing advisory services on interpretation and application of regulations, procedures, and contract provision; (3) reviewing and initiating legislative proposals for changes in the program; (4) negotiating and renegotiating with the carrier of the Uniform Plan; and (5) determining continued eligibility of private plan carriers.

Estimated costs for fiscal year 1968 will maintain this function at the same level as the 1967 program.

Collecting, accounting, and auditing

	1966	1967	1968
Average positions	8	8	8
Cost	($58,200)	$58,600	$58,400

This is the entire accounting and fund control function. It includes: (1) Arranging for deductions from annuities of retirees and survivors electing coverage under the Uniform Plan, depositing subscription charges, and making additions to annuity payments of those electing coverage under private plans; (2) accounting for subscription charges and Government contributions to the Fund, and maintaining necessary control accounts and records; (3) authorizing payments to the carrier and preparing summary reports; and (4) auditing financial and other operations of the carrier of the Uniform Plan to insure conformity with law and the contract.

Funds required for fiscal year 1968 will provide full coverage of the anticipated workloads.

Determining coverage eligibility and answering inquiries

	1966	1967	1968
Average positions	26	27	27
Cost	($184,600)	$185,600	$184,900

This function consists of: (1) Determining the eligibility of retirees and survivors to elect or retain coverage under the Act; (2) arranging for retired employees and survivors to receive appropriate notices, brochures, information concerning their rights, privileges, and benefits, and enrollment forms; (3) filing election and enrollment information as required; and (4) answering inquiries from individuals and other interested parties on matters related to the health benefits program for retired employees.

There were 215,450 enrolled as of June 30, 1966, and the number is expected to decrease to 191,450 by June 30, 1968. Although the number of annuitants enrolled under the program is declining, costs for this function in fiscal year 1968 are expected to continue at approximately the same level as 1966 experience. Normally, most drops are due to deaths; however, in fiscal year 1966 and primarily in 1967 additional drops result because somewhat comparable coverage is provided by Medicare for those age 65 and over. The number is not as large as might be expected since many annuitants who are dropping the Uniform Plan continue their coverage under a private plan to supplement Medicare. This trend is expected to continuue in fiscal year 1968, creating heavy workloads of changes and inquiries in this function.

Conducting actuarial and statistical studies

	1966	1967	1968
Average positions	1	1	1
Cost	($7,100)	$9,300	$9,300

This function consists of: (1) Developing, compiling and analyzing statistical data pertaining to the retired employees health benefits program; (2) preparing special reports and surveys; (3) providing actuarial services; (4) preparing annual reports of operations to the Congress; and (5) furnishing estimated costs of proposed legislative changes.

The amount required for fiscal year 1968 will maintain this function at the same level as the 1967 program.

Administrative services

	1966	1967	1968
Average positions		2	2
Cost		$15,340	$14,600

The level of funds requested for 1968 represents this program's proportionate share of required administrative services, including personnel, budget and fiscal, and office services, as further explained in the "General Statement" of this presentation.

Other objects of expense

Cost:	
1966	($45,800)
1967	34,600
1968	36,300

This item provides for all expenses other than personnel compensation. Funds requested for 1968, substantially below the 1966 experience have been reduced to a minimum operating level.

RETIRED EMPLOYEES HEALTH BENEFITS PROGRAM

Mr. MACY. The former program is the pre-1959 retired employees' program.

Mr. EVINS. Former Government employees?

Mr. MACY. That is right. That group should—over a period of time—be reduced in numbers and hopefully reduced in dollars as more and more of the retired employees are covered under the 1959 act.

Mr. EVINS. This was by special act which permitted those who are not eligible under the active employees program?

Mr. MACY. That is right. The sequence was this: In 1959 Congress passed the Health Benefits Act, which included a provision for continuing the health benefits for employees into their retirement period. This immediately mobilized those employees already retired to seek equivalent benefits that were then enacted in 1960. At the present time there are 215,000 participants in this program out of a total of roughly 800,000.

Mr. EVINS. The amount is paid or withheld from their monthly annuity?

Mr. MACY. That is correct.

Mr. OVEREND. That is under the uniform plan of the retired program. Some annuitants can elect private coverage and we add either $3.50 for a self-only enrollment or $7 for a family enrollment to each monthly check.

Mr. MACY. You might explain, Mr. Overend, how this ties in to medicare.

Mr. EVINS. In other words, when they passed this law, all retired employees were advised that they could take this insurance if they wanted to by filling in the card and having you withhold so much from the pay. They then sent in the card and you started withholding the pay.

Mr. OVEREND. That is right.

Mr. EVINS. Another plan said, "If you want to take another one, sign this card"?

Mr. OVEREND. Yes, sir.

Mr. EVINS. "We will withhold some more on another plan." So the Commission is selling insurance for the insurance companies, circulating your retired employees. You are a good agent for the insurance companies. It makes it easy for them.

RELATIONSHIP TO MEDICARE PROGRAM

Mr. OVEREND. There was an enactment of 1960 that required the Commission to either offer the Government-wide uniform plan or to offer to pay $3.50 or $7 a month if a retired employee had private insurance. With respect to the relationship to medicare we are required by the social security law to deduct the part B which is the doctor portion of $3 a month from civil service annuity if an annuitant is not receiving social security benefits.

Mr. EVINS. Say that again. If he is under social security and he is not receiving any benefits?

Mr. JONAS. From which it would be taken if he had it?

Mr. OVEREND. We only get into the medicare deduction if the man is on our annuity roll and not receiving social security annuity.

Mr. JONAS. If he were drawing social security it would be deducted from that check?

Mr. MACY. That is right. He could still carry——

Mr. JONAS. He has to elect to carry it before you deduct it?

Mr. OVEREND. Yes, sir; but he elects with the Social Security Administration.

Mr. JONAS. Then you deduct the $3 and turn it over to the social security?

Mr. MACY. That is right.

Mr. EVINS. What effect is this going to have long range on your retired employees' health benefit program?

Mr. OVEREND. We would expect long range that our program, uniform plan part of it which is where we take deductions from an annuitant, has already decreased some but what has happened so far is that the retired employees have dropped this uniform plan but then asked to have a $3.50 or $7 a month added to civil service annuity, and they go out and buy supplemental coverage to their medicare coverage. What we are finding so far is a dropoff in the uniform plan but an increase in the additions to annuity.

Mr. MACY. Really, many of them are viewing these two plans as supplementary rather than one replacing the other. Of course, since medical costs are such a large budget item for older people, any means for buying insurance can be beneficial.

Mr. EVINS. Those who have a private insurance, private health insurance, receive the Government contribution added to their monthly annuity. What does the law authorize you to do?

Mr. OVEREND. $3.50 a month or $7 for the family.

Mr. MACY. You might be interested, Mr. Chairman, in the distribu-

tion on this. Under the uniform plan as of June 30, 1966, 115,850 employees, retirees, were included and private plans came to 99,600. That is the 215,000. Six months later the number for the uniform plan had dropped to 91,924 and the private plan figure had gone up to 101,688.

We are predicting that there will continue to be a drop in the uniform plan and a moderate increase in the private plan during the next 18 months.

Mr. EVINS. Among the many responsibilities imposed upon the Commission is negotiating and renegotiating with the carriers, determining and redetermining uniform plans, prescribing rules and regulations and procedures, arranging for retirees to receive appropriate notices, brochures and information which the insurance companies should give them, withholding subscription charges, accounting for subscription charges, answering inquiries, auditing statements of financial statistics, and reviewing and initiating legislation. That is a major function for you right there.

Mr. MACY. Right.

Mr. EVINS. These insurance companies should be taking care of that.

ADMINISTRATION OF VOTING RIGHTS ACT

Turn to activity 9 and place in the record the chart on page 99 and 100 and the text pages on 101 through 104.

(The pages follow:)

COMPARATIVE SUMMARY STATEMENT BY FUNCTION

Activity 9—Administration of the Voting Rights Act of 1965—CSC

Functions	1966 actual		1967 program		1968 estimate	
	Average positions	Cost [1]	Average positions	Cost	Average positions	Cost
Listing voters	50	$443,498 (460,800)	21	$157,000	29	$257,000
Hearing and defending challenges	3	42,687 (44,300)	2	26,000	2	26,000
Observing at elections	20	350,891 (364,600)	31	516,000	35	573,500
Total, activity 9	73	837,076 (869,700)	54	[2] 699,000	66	856,500

[1] Figures in parentheses on the above table and in the following text are adjusted to reflect 1968 pay rates for comparability.

[2] Includes $10,100 anticipated supplemental for pay increase costs.

PERSONNEL REQUIREMENTS

Average number of positions and salary costs

	1966 actual		1967 program		1968 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Central office	3	$27,000 (28,100)	2	$20,600	1	$10,000
Regional offices	70	810,076 (841,600)	52	678,400	65	846,500
Total, activity 9	73	$837,076 (869,700)	54	$699,000	66	$856,500

NOTE.—Figures in parentheses are adjusted to reflect 1968 pay rates for comparability.

ACTIVITY 9—ADMINISTRATION OF THE VOTING RIGHTS ACT OF 1965—CIVIL SERVICE COMMISSION

GENERAL STATEMENT

Under the Voting Rights Act of 1965 (PL 89–110), the Commission is responsible for (1) Appointing examiners and other persons as necessary to prepare and maintain lists of eligible voters in States or other political subdivisions designated by the Attorney General under the provisions of the Act; (2) administering the challenge procedure as defined in the Act; (3) supporting the defense of decisions, made by hearing officers under the challenge procedure, which have been appealed in the applicable United States Circuit Court of Appeals; (4) receiving complaints from any eligible voter, claiming he was not permitted to vote; and (5) observing at elections at the request of the Attorney General.

To carry out these responsibilities, the Commission has established Activity 9 "Administration of the Voting Rights Act of 1965—CSC" which includes the functions of (1) Listing Voters; (2) hearing and defending challenges; and (3) observing at elections.

The funds requested for personnel compensation in fiscal year 1968 are slightly below the 1966 actual experience level.

NARRATIVE JUSTIFICATION

Listing voters

	1966	1967	1968
Average positions	50	21	29
Cost	($460,800)	$157,000	$257,000

The Congress, by the "Voting Rights Act of 1965", has directed the Commission to appoint examiners and other persons deemed necessary for the preparation and maintenance of lists of eligible voters without regard to the provisions of any statute administered by the Civil Service Commission, except section 9 of the Act of August 2, 1939, as amended (now codified as 5 USC 7324) prohibiting partisan political activity. This entails responsibilities on the part of the Commission for—

Developing and prescribing the application form for listing voters;

Promulgating regulations and procedures for listing of applicants, and arranging the times, places, etc.;

Instructing examiners on the requirements applicants must meet to be placed on an eligible list;

Performing other duties to assure the proper and timely accomplishment of provisions of the Act.

The major portion of the funds required for this function provides for the personnel compensation of examiners and clerical assistants whose basic duties include: (1) Examining applicants concerning their qualifications; (2) making decisions of applicant eligibility; (3) listing promptly those found eligible; (4) certifying and transmitting lists of eligibles to the parties concerned; (5) presentng lists for public inspection in accordance with the Act; (6) removing, under specified circumstances, the names of persons from the eligibility lists; and (7) performing any other necessary duties in connection with the listing of voters.

The examiner will also receive complaints, made within 48 hours after the closing of the polls, from any eligible person claiming that he was not permitted to vote. If, in the examiner's opinion, the complaint is well founded, it will be conveyed to the Attorney General.

Funds required in fiscal year 1968 for this phase of listing voters are estimated at a level to accomplish the expected increased listing activity associated with the number of local, county and state elections scheduled during the year. An increase of $100,000 over the 1967 program is requested for this item.

Hearing and defending challenges

	1966	*1967*	*1968*
Average Position	3	2	2
Cost	($44,300)	$26,000	$26,000

Funds for this function provide for the personnel compensation of persons involved in any phase of the challenge procedure as defined in the "Voting Rights Act of 1965" as well as all work in connection with the defense of decisions made by hearing officers on challenge cases filed in accordance with the Act.

Under the challenge procedure, an individual whose name appears on a list of eligible voters, can be challenged within 10 days of such listing if such challenge is supported by affidavits of at least two persons having personal knowledge of the facts; and a certification that a copy of the challenge and affidavits have been served by mail or in person upon the person challenged at his place of residence set out in the application.

Under the Act, any challenge thus made shall be heard and determined within 15 days of filing by a hearing officer appointed by and responsible to the Civil Service Commission, under rules which the Commission shall by regulation prescribe. Work involved in defending the challenge decisions of hearing officers will primarily be the collection and preparation of data for presentation in court, and the follow-up work required by court decision.

Funds requested for fiscal year 1968 are at the same level as 1967 based on the number of listed voters expected to be challenged.

Observing at elections

	1966	1967	1968
Average positions	20	31	35
Cost	($364,600)	$516,000	$573,500

This function includes all work performed by the Commission in response to the Attorney General's requests to provide personnel to serve as observers during elections in those political subdivisions where an examiner has been assigned. Specifically, this includes entering and attending at any place holding an election to observe that persons eligible to vote are permitted to do so and being present at any place where votes are being tabulated to observe that votes cast by eligible voters are being properly counted.

Due to the irregular duty hours for observations, a significant number of overtime man-years are required. This work, performed in accordance with provisions of the Voting Rights Act, requires observers on duty from poll opening through closing and counting of ballots. Therefore, reflected in the request for this function in fiscal year 1968 are funds to cover 23 man-years of overtime, which approximates the 1966 experience and 1967 program levels.

In fiscal year 1968 an increase in observations activity is expected in connection with the many elections to be held involving local and county offices. In addition, the Congressional primaries are scheduled in the latter part of fiscal year 1968. In view of the potential number of observations subject to being scheduled, an increase of $57,000 is requested for fiscal year 1968 over the 1967 program level.

Mr. EVINS. You have 54 employees in this activity this year and you are asking for 66 positions next year and $856,500.

Mr. Chairman, as I recall the testimony right after the passage of the act when there was great enthusiasm and interest, we gave you a large appropriation and this was determined to be more than needed and required. You have not had as much activity now. It seems that you are not going to need all this money?

Mr. MACY. Your memory is accurate, Mr. Chairman.

Mr. EVINS. As to the first part.

Mr. MACY. The committee recommended and Congress appropriated $2 million the first year for this program and the actual expenditures, as indicated on page 99, came to $837,000 for personal services. The total costs, considering all matters, came to $1,344,000.

One of the large items in this program is traveling. Travel came to $393,000. That is over and above the personal costs that are listed on page 99.

The average positions is clearly a man-year figure because, as I pointed out earlier this morning, the listing activity is now on a 1-day-a-month basis. In virtually every county we have one or two people on duty on a one-Saturday-out-of-the-month basis because of the dropoff in work.

Mr. EVINS. Mr. Chairman, feel at liberty to amplify the record on this, giving the number of counties, number of cases, elections in which you participated, and the number of requests from the Attorney General.

NUMBER OF COUNTIES DESIGNATED

Mr. MACY. Yes sir. The Commission has been directed by the Attorney General to send examiners into 44 counties in Alabama, Mississippi, South Carolina, and Louisiana.

Mr. EVINS. Four States, forty-four counties?

Mr. MACY. Right. The Commission has been directed by the Attorney General to provide observers in a number of local, primary, runoff, and general elections in those States. The largest operation was the general election in 1966 when the Commission assigned some 610 employees as observers for the polls primarily in Mississippi and Alabama.

In addition, the Commission has provided observers in fiscal year 1967——

Mr. EVINS. Of course, the law uniformly applies to the entire United States. You have had a case or two in California and Maine and a few other States; have you not?

Mr. MACY. No. The observers are only assigned in those counties where examiners have been previously assigned. It has been limited to those four States.

Mr. EVINS. Only where the Attorney General makes a request?

Mr. MACY. That is right. In other words, the Commission is not the initiating authority. The Commission provides the manpower and supervises the operation where the Attorney General has made the designation.

Mr. JONAS. Where did you get those 600 people?

Mr. MACY. We used the Commission's investigators. The Commission investigators were transported to the areas where the observation was to take place. They first gathered for training and briefing in central cities and then were asigned out on election day to these points. We used only civil service personnel.

The reason the travel figure is so high is that we did bring these people in for this particular purpose on these occasions.

As far as the listing activity is concerned, we used, in addition to Civil Service Commission employees, some employees from other Federal agencies and some private citizens on a per diem payment basis.

VOTING RIGHTS ACT JURISDICTION

Mr. PRYOR. Is this an activity which comes within the original intent of the Civil Service Commision, do you think, or is this something which might be outside of it?

Mr. MACY. This is clearly outside. This was a determination of the Congress in 1965. As I understand it, there was a good deal of discussion as to which Federal agency would be most appropriate to perform this function. There was consideration to give it to employees of the Justice Department, but that was viewed as being too close to law enforcement. There was some consideration of handling it through the post offices. That was discussed. The decision was reached by the Congress that the Civil Service Commission, because of its experience in employment and because of its reputation as being objective and nonpartisan, would be the more appropriate agency to call upon.

Also, the Commission had in being in its investigative force, people who were accustomed to dealing with people in the localities across the country. They had been trained in getting information politely and courteously and getting along with a great variety of people.

The conclusion was reached that the Commission should be used. Let me assure you neither the Commission Chairman nor the Commission nor anyone else asked for this function, but we have been proud of our performance. We feel we have done a good, objective job. There have been virtually no instances in the administration of this very sensitive legislation in the 44 counties in the four States.

As far as the future is concerned, the estimate you have before you is the best we can provide. We do not know until the last minute where it is going. We have people now who have had enough experience that we can call them on fairly short notice. They are involved in supervising special situations. This is a program in which the Commission responded, and we feel we have responded effectively and carefully.

Mr. EVINS. You respond only after the Attorney General has requested it.

Mr. MACY. That is right.

OTHER OBJECTS OF EXPENDITURE

Mr. EVINS. We turn to "Other objects." This is a large item for the Commission, $5,334,100 requested for 1968, as against $5,973,000 this year. You have made a reduction, but you have a supplemental. Your personnel benefits are up. "Travel and transportation," is decreased. "Printing and reproduction," is increased.

I notice in looking over your justification you say you need repairs. You are in a brandnew building with new furniture. You do not require a large repair bill down there.

COST OF REPAIRS

Mr. WILLIAMS. This has to do with repairs to machines and equipment, typewriters, calculators, and so forth.

Mr. EVINS. You have brandnew equipment. You want $88,900 for repairs. Is that not too high, Mr. Williams?

Mr. WILLIAMS. We have to reimburse GSA for a good many things they do for us, Mr. Chairman, that are outside of their normal field of endeavor. This has been pretty much our general experience in this area. This is our best estimate based upon our experience in the current year and the year before.

Mr. MACY. Isn't this, Mr. Williams, part of a regular cyclical repair proposition which the GSA recommends in order to keep equipment in serviceable condition?

Mr. WILLIAMS. Certainly the effort nowadays is to do that for new equipment to try to make it last as long as we can.

Mr. EVINS. You have new furniture and a new computer. I was thinking that if these were old and worn out, you might need this much for repairs, but it struck me as being a large repair bill for new equipment.

Mr. WILLIAMS. It is not that kind of thing, Mr. Chairman. For example, we have in the neighborhood of 800 typewriters in use throughout the Commission in connection with "Salaries and expenses," which are actually overage in accordance with GSA standards. If there was money available, we really should re replacing those typewriters.

Mr. EVINS. The President told them to stretch out even the replacing of automobiles.

Mr. WILLIAMS. This is true, but then you get into more repairs because of this. It is as true of automobiles as it is of typewriters.

Mr. EVINS. Have you any rental or royalties to pay to these machine companies?

Mr. WILLIAMS. We have a service contract on our computer, which is only for maintenance. This amounts, as I recall, to about $12,000. That is the only substantial contract of any kind we have for maintenance.

Mr. EVINS. Personnel compensation is $18,748,000, and you deduct for retirement contributions 6.5 percent from your own employees?

Mr. MACY. That is right.

Mr. EVINS. $1,210,800 is your own employees' retirement contributions?

Mr. MACY. That is right. There are contributions for health benefits and life insurance. This is the Commission's contribution for its own employees.

Mr. EVINS. Place in the record pages 105 through 120.

(The pages follow:)

COMPARATIVE SUMMARY STATEMENT BY OBJECT CLASS

Other objects of expenditure

	Object classification	1966 actual [1]	1967 program	1968 estimate
12	Personnel benefits	$1,162,064 (1,207,384)	$1,380,100	$1,470,000
21	Travel and transportation of persons	779,494	855,100	846,100
22	Transportation of things	98,616	83,200	83,200
23	Rent, communications, and utilities	836,818	877,300	877,300
24	Printing and reproduction	594,850	501,100	700,300
25	Other services	914,571	1,998,900	1,060,600
26	Supplies and materials	200,525	187,700	193,600
31	Equipment	91,833	90,100	103,000
	Total, other obligations	4,678,771 (4,724,091)	[2] 5,973,500	5,334,100

[1] Figures in parentheses on the above table and in the following text are adjusted to reflect 1968 pay rates for comparability.

[2] Includes: $15,600 anticipated supplemental for pay increase costs; and $80,000 anticipated supplemental for "Activity 2—Investigations of Character and Fitness for Employment."

NOTE.—Includes for comparability $545,631 for fiscal year 1966 and $549,400 for fiscal year 1967 appropriated under the heading "Investigation of Citizens for Employment by International Organizations."

12 Personnel benefits

Actual, 1966	$1,162,064	($1,207,384)
Program, 1967	1,380,100	----------
Estimate, 1968	1,470,000	----------

This object class consists of payments to other Government funds for the benefit of employees, and allowances paid to employees incident to their employment.

The items included under this heading are indicated in the following table:

	1966 actual	1967 program	1968 estimate
Contribution to retirement fund	$985,570	$1,126,000	$1,210,800
Contribution to employees' health benefits fund	101,130	115,500	124,200
Contribution to employees' life insurance fund	50,491	57,700	62,100
Incentive awards	6,936	7,900	----------
FICA taxes	17,937	15,700	15,600
Reimbursement for—			
Real estate costs	----------	28,700	28,700
Subsistence and temporary expenses	----------	28,600	28,600
Total	1,162,064 (1,207,384)	1,380,100	1,470,000

Contribution to retirement fund

Payments are made to the Civil Service Retirement and Disability Fund as required by Title IV of Public Law 854 (84th Congress), approved July 31, 1956. The amount requested represents 6½ percent of the personnel compensation requirements for those positions covered by the Civil Service Retirement System computed as follows:

	Fiscal year 1967	Fiscal year 1968
11 Personnel compensation	$17,844,500	$18,748,900
Deduct salaries not subject to retirement contributions	521,400	121,200
Personnel compensation subject to retirement contributions	17,323,100	18,627,700
	×6½ percent	×6½ percent
Amount of contribution	1,126,000	1,210,800

Contribution to employees' health benefits and employees' life insurance funds

The amounts programed for fiscal year 1967 and requested for 1968 for both funds are based on current experience on employee participation in the programs applied to the total amount of personnel compensation for the respective fiscal years.

Incentive awards

The Commission makes cash awards to those employees who submit beneficial suggestions under the Incentive Awards Program and to those employees who merit awards for superior accomplishment. No funds are being requested for fiscal year 1968, although the Commission will continue to make such awards during that year.

FICA taxes

This item provides for social security tax payments made by the Commission as an employer for those temporary or indefinite employees not under the Civil Service Retirement System. Since most of the Commission's regular employees now serve in a career or career-conditional status and are included under the Retirement System, requirements cover only such temporary personnel as the Commission may employ from time to time. The funds requested for fiscal year 1968 approximate the 1967 program level.

Real estate costs, subsistence and temporary expenses

The costs and expenses reflected under these headings provide for reimbursements to employees for certain moving and related expenses, as authorized under Public Law 89-516 which became effective in fiscal year 1967. The amounts programed for 1967 and requested for 1968 are based on 1966 experience, priced out to include commissions, leases, settlement costs, and compensation.

For fiscal year 1967, this additional cost will be absorbed within the overall appropriation. Similarly, no increase in funds has been requested for this purpose in 1968.

21 Travel and transportation of persons

Actual, 1966	$779,494
Program, 1967	855,100
Estimate, 1968	846,100

This object class provides for transportation of persons, their per diem allowances while in authorized travel status, other expenses incident to travel which are paid by the Government either directly or by reimbursing the traveler, and rental of passenger-carrying vehicles.

A total of $846,100 is requested for travel expenses for fiscal year 1968, distributed as follows:

	1966 actual	1967 program	1968 estimate
Recruiting and examining	$115,219	$110,100	$110,100
Investigation of character and fitness for employment	50,584	77,000	88,000
Inspections	137,161	140,600	140,600
Administration of Voting Rights Act	393,480	370,000	350,000
All other programs	83,050	129,200	129,200
Reimbursement for family travel expenses		28,200	28,200
Total	779,494	855,100	846,100

Recruiting and examining

In order for the Commission to maintain adequate supervision, training, and control over the Interagency Board network, it is necessary that periodic visits be made to these Boards. In addition, travel requirements include: Service to the network of Post Office examination points; support for Recruiting and College Relations Officers; and the needs of Civil Service Representatives in the performance of recruiting responsibilities.

The funds requested for fiscal year 1968 are at the same level as programed for 1967.

Investigation of character and fitness for employment

Travel requirements for this item are based on the number of points of investigation to be conducted. The amount requested for fiscal year 1968 reflects an increase of $11,000 over the 1967 program to cover the estimated number of cases to be processed.

Inspections

For fiscal year 1967 sufficient travel funds have been programed to carry out the number of inspections planned. As in 1966, the following areas will receive intensive reivews: Equal employment opportunity (including minority groups and women), employee-management cooperation, new agency systems for appeals and grievances, and complete reviews of experts and consultant employment. Also, assistance will continue to be rendered to the Bureau of the Budegt in both fiscal years 1967 and 1968 in the conduct of agency manpower surveys.

Funds requested for fiscal year 1968 are based on the 1967 programed level.

Administration of the Voting Rights Act

Under the "Voting Rights Act of 1965," the Commission has responsibility for preparing and maintaining lists of eligible voters for areas designated by the Attorney General of the United States.

Persons involved in travel include Examiners, covering areas of assigned duties; Hearing Officers, in the conduct of Hearings in cases "challenged" under the provisions of the Act; and Observers, appointed to observe at all elections as designated by the Attorney General.

Funds requested for 1968 are commensurate with the level of observation and listing activity as discussed under the Activity 9 portion of this budget.

All other programs

This category provides for travel of the Commissioners, Executive Director, regional directors, staff officers, and administrative personnel of the Commission. Travel funds related to occupational standards development are also included under this heading. For fiscal year 1968, the funds requested are based on the 1967 programed amount.

Reimbursement for family travel expenses

According to the provisions of Public Law 89-516, officers or employees of the Federal Government are now authorized per diem allowances for their immediate families while enroute between old and new official duty stations. In addition, where deemed necessary and appropriate, an employee and his spouse may be authorized one round-trip to seek a permanent residence at the new official station.

The amounts programed for fiscal year 1967 and requested for 1968 are based on 1966 experience. For 1967, this additional cost will be absorbed within the overall appropriation. Similarly, no increase in funds has been requested for this purpose in 1968.

22 Transportation of things

Actual, 1966	$98,616
Program, 1967	83,200
Estimate, 1968	83,200

This object class consists of charges for the transportation of things and for the care of such things while in process of being transported. Also included are postage used in parcel post, rental of trucks and other transportation equipment, and reimbursements to personnel for the authorized movement of household effects.

The following table summarizes the requirements under this heading:

	1966 actual	1967 program	1968 estimate
Parcel post	$46,823	$42,600	$42,600
Freight and other transportation expenses	51,793	40,600	40,600
Total	98,616	83,200	83,200

The amounts for parcel post are paid to the Post Office Department in accordance with the Commission's agreement, and are principally for shipments of supplies and examination materials to regional offices and examining points throughout the county.

The heading "Freight and other transportation expenses" includes: (1) Shipment (other than via parcel post) of test materials and supplies to the regional offices; (2) freight charges for transportation of supplies from General Services Administration warehouses to regional offices which are not within free delivery zones; and (3) shipment of household goods and personal effects of Commission employees transferred from one official duty station to another.

23 Rent, communications, and utilities

Actual, 1966	$836,818
Program, 1967	877,300
Estimate, 1968	877,300

This heading includes charges for penalty mail, telephone and other communication services, utility services, and rental of equipment and office space.

The following table shows these charges by major category:

	1966 actual	1967 program	1968 estimate
Penalty mail	$440,961	$513,500	$513,500
Telephone, telegraph, and teletype services	291,190	259,200	259,200
Rental of punched card, computing, and test scoring equipment	86,032	86,000	86,000
Rental of examination rooms and office space	18,635	18,600	18,600
Total	836,818	877,300	877,300

Discussion of the requirements for each of the above items is contained in the following paragraphs:

Penalty mail

Included under this item are first and third clas mail, air mail, special delivery, and registered and certified mail, for which the Commission pays postage.

The funds requested for fiscal year 1968 are based on the amount programed for 1967, which includes anticipated supplemental request of $41,000 to cover mailing costs related to the heavier volume of investigative cases to be processed.

Telephone, telegraph, and teletype services

This category includes payments to the General Services Administration and other suppliers for local calls, switchboard services, long distance or toll calls, teletype and telegraph services.

The funds requested for fiscal year 1968 are based on the 1967 programed amount.

Rental of punched card, computing, and test scoring equipment

Included under this heading are costs incurred for the rental of alphabetical punches, verifiers, sorters, collators, interpreters, accounting machines, computer accessories, test scoring equipment, and miscellaneous items which are used in support of data processing operations and other functions.

Funds requested for fiscal year 1968 are at the same level as programed for 1967.

Rental of examination rooms and office space

Included under this heading are costs incurred for rental of examination rooms and office space used in conducting written examinations of applicants for Federal employment.

Funds requested for fiscal year 1968 are the same as programed for 1967.

24 Printing and reproduction

Actual, 1966	$594,850
Program, 1967	501,100
Estimate, 1968	700,300

This object class provides for contractual printing and reproduction and the related composing and binding operations performed by the Government Printing Office, by other agencies on a reimbursable basis, or by commercial printers. It also includes standard forms when specially printed or assembled to order, and printed envelopes and letterheads.

An analysis of the Commission's printing requirements by major category is as follows:

	1966 actual	1967 program	1968 estimate
Position classification standards	$11,551	$10,700	$24,000
Examination announcements	55,745	27,500	27,500
Test questions	144,752	103,600	145,500
Pamphlets, handbooks, manuals, and printed reports	92,795	114,200	186,500
Cards, letterheads, printed envelopes, and forms	290,007	245,100	316,800
Total	594,850	501,100	700,300

In past years, the limited funds available to the Commission for the purchase of printed matter were insufficient to adequately support various programs. As a consequence, production was curtailed in a number of areas and needs postponed in many others.

To meet the expanded printing requirements of the Commission and to provide effective support for the major programs, funds requested for fiscal year 1968 reflect an increase of $199,200 over the 1967 programed amount, as discussed in the following paragraphs:

$13,300 for Occupational and Classification Standards which reflects, in part, the need for providing new job evaluation standards for Wage Board and Classification Act positions.

$41,900 for Test Materials based on a comprehensive review of inventory, current year requirements and program needs for new and additional tests. To maintain quality in the examining program and integrity in the testing process, it is essential that an adequate supply of the different tests be available, on a timely basis, to provide for periodic rotation.

$72,300 for Pamphlets, Handbooks, Manuals, and Reports. Included in this category are items in support of management-approved programs, such as: The "quest for quality" in recruiting activities; efforts to improve the image of the Federal service; the Civil Service Journal; Federal Career Directory; and Science and Engineering Careers in Government, etc.

$71,700 to cover requirements for Cards, Letterheads, Printed Envelopes and Forms.

25 Other Services

Actual, 1966	$914,571
Program, 1967	1,998,900
Estimate, 1968	1,060,600

This Object class provides for all contractual services not otherwise classified. The following table summarizes costs for these services by major category:

	1966 actual	1967 program	1968 estimate
Repairs, alterations, and maintenance	$86,145	$82,900	$88,900
Investigations under Executive Order 10450	100,457	45,800	45,800
Investigations under Executive Order 10422:			
U.S. Civil Service Commission	475,945	481,800	605,900
Federal Bureau of Investigation	65,528	63,200	80,600
Payment to Interagency Board of Examiners consolidated working fund	23,477	1,107,000	
Other miscellaneous	163,019	218,200	239,400
Total	914,571	1,998,900	1,060,600

Repairs, alterations, and maintenance

This item includes: (1) Repairing and reconditioning typewriters, calculating machines, and other office equipment; (2) repairing and refinishing office furniture; and (3) providing those building maintenance services for which General Services Administration is authorized to accept reimbursement.

The funds requested for fiscal year 1968 reflect an increase of $6,000 over the amount programed for 1967 to cover the costs for major overhaul of overage office machines.

Investigations under Executive Order 10450

Executive Order 10450 (Security Requirements for Government Employment) requires investigations to determine the suitability of applicants for, and appointees to, sensitive positions in the Commission. Payments for these investigations are made to the revolving fund which finances the Security Investigations Program conducted by the Civil Service Commission.

The funds requested for fiscal year 1968 are based on the number of investigations programed for 1967.

Investigations under Executive Order 10422

Executive Order 10422, as amended, requires investigations of United States citizens employed, or being considered for employment by international organizations to determine whether or not there is reasonable doubt as to the loyalty of the person involved to the United States. The investigations are made by the Civil Service Commission and, by the Federal Bureau of Investigation, when derogatory loyalty information is revealed during the Commission investigation.

Based on workload estimates received from the Department of State, 1,300 investigations are forecast in fiscal year 1967. This represents an increase of 140 cases over the amount programed within the 1967 appropriation.

For fiscal year 1968, an additional 10% increase is estimated by the Department of State, with the expectation that cases received for investigation could possibly reach 1,600. This forecast is based on an increase of over 10% in the general budget level of international organizations, and an intensified recruitment effort by the United States Government. However, by weighing past experience, a more conservative estimate of 1,460 cases is reflected in the request for 1968.

The 1968 budget request of $686,600 represents an increase of $141,500 over the 1967 programed amount and is considered the minimum necessary to provide for the expected level of receipts.

Payment to Interagency Board of Examiners consolidated working fund

The amounts obligated in fiscal year 1966 and programed in 1967 represent the cost of work transferred to the Interagency Board program in those years. For

fiscal year 1968 these costs will be included in the amounts reimbursed to the Commission from the agencies supporting the IAB program.

Other miscellaneous services

Included under this heading are payments for security alarm system, janitorial services in school buildings used for conducting examinations, credit reports incident to investigations, contract stenographic reporting, laundry service, and miscellaneous items.

For fiscal year 1968, funds requested reflect an increase of $21,200 to cover: (1) The cost of services to be performed by the Interagency Board of Examiners for the benefit of the Commission; and (2) to provide for increased requirements for contractual key-punching and verifying services.

26 Supplies and materials

Actual, 1966	$200,525
Program, 1967	187,700
Estimate, 1968	193,600

This object class comprises all commodities, whether required by formal contract or other form of purchase, which are ordinarily consumed or expended within one year after they are put into use or which are used to form a minor part of equipment or fixed property. The supplies used by the Commission consist of paper, envelopes, standard forms, and other miscellaneous office supplies required to carry out the day-to-day operating functions.

The following table shows the requirements for supplies and materials by major categories:

	1966 actual	1967 program	1968 estimate
General office supplies and standard forms	$129,405	$114,100	$120,000
Duplicating plant supplies	62,413	64,900	64,900
Subscriptions, periodicals, books, and newspapers	8,707	8,700	8,700
Total	200,525	187,700	193,600

To adequately support normal operations, the funds requested for general office supplies and standard forms in 1968 reflect an increase of $5,900 over the 1967 program.

31 Equipment

Actual, 1966	$91,833
Program, 1967	90,100
Estimate, 1968	103,000

This object class provides for non-expendable personal property which may be expected to have a period of service of one year or more after being put into use, without material impairment of its physical condition. It excludes commodities which are used to form a minor part of equipment or fixed property.

The following table shows total equipment requirements:

	1966 actual	1967 program	1968 estimate
Typewriters:			
Normal	$29,486	$9,800	$9,800
Replacement program		32,000	34,000
Office machines	14,217	8,400	11,700
Furniture and filing equipment	30,441	24,900	28,500
Miscellaneous nonexpendable property	17,689	15,000	19,000
Total	91,833	90,100	103,000

For fiscal year 1968, the funds requested for equipment reflect an increase of $12,900 over the 1967 program. This requirement is based on the need to provide office machines, furniture, and miscellaneous equipment to support the expected increase in staff for the new Bureau of Career Development and Training, and the new Bureau of Executive Manpower.

PER DIEM RATES

Mr. JONAS. What is your per diem rate now?

Mr. MACY. The maximum is $16.

Mr. JONAS. Is that what you pay?

Mr. MACY. We have a fluctuating amount, depending upon where the travel is performed.

Mr. WILLIAMS. We base our per diem on the amount which must be paid for the hotel. We tie it to that. We give an extension of that of $8 a day, not to exceed $16.

We have so many people traveling, particularly in the investigations area, where they are going all over the country. In many cases we find they can get completely suitable accommodations for $4 or $5 a day.

Mr. JONAS. You do not just allow $16 as a blanket thing?

Mr. WILLIAMS. No. This would be too expensive. Our average comes out to about $14.25 on a Commission-wide basis.

PAYMENT TO INTERAGENCY BOARD

Mr. EVINS. The chart on page 116, payment to Interagency Board of Examiners, $1,107,000, nonrecurring in 1968.

Mr. WILLIAMS. That was for the examining work previously performed by the Civil Service Commission which has been taken over by the Interagency Board. Funds for that were in our 1967 budget, and we simply transferred them.

Mr. EVINS. The corresponding amount will be taken out of the trust funds?

Mr. WILLIAMS. The trust funds will not be involved in this. This is all in activity 1 for the 1967 budget.

PAYMENTS TO GSA

Mr. EVINS. How much do you pay the GSA annually in round figures? How much do they bill you?

Mr. MACY. For communications?

Mr. EVINS. For all services.

Mr. WILLIAMS. I do not have a figure on that.

Mr. EVINS. You speak here of building maintenance paid to GSA.

Mr. WILLIAMS. I believe this item for GSA is for alterations—that is changing partitions from time to time due to office rearrangements, and our bill there runs quite high.

Mr. EVINS. Furniture, $28,500. I believe your furniture repair is too high.

Mr. WILLIAMS. This item covers the purchase of furniture for both central office and the field offices throughout the country.

TELEPHONE COSTS

Mr. JONAS. Why do you have to use the telephone so much? Have you any emergencies that you cannot handle by letter?

Mr. WILLIAMS. In many cases, Mr. Jonas, it is much cheaper to do it by telephone than by letter. The average long distance call under

the FTS system cost us about 70 cents per call in fiscal year 1966. It will up somewhat in fiscal year 1967. By the time you dictate a letter, write a letter get it mailed, pay the mail both ways, and get an answer to it, in most cases it will cost you more than 70 cents, in addition to which by calling you can do more than you can by letter in terms of what you can say. There is no time requirement imposed on us, incidentally, on long distance calls through FTS. For your 70 cents you can talk as long as you——

Mr. JONAS. Want to.

Mr. WILLIAMS (continuing). Need to, I would hope.

Mr. MACY. We try to apply terminal facilities on the conversations.

Mr. WILLIAMS. We haven't used FTS excessively. In some code call areas it is cheaper to go commercial, for 20 or 25 cents or something of this kind.

Mr. JONAS. We argued that with GSA in here quite at length. There is a tendency on the part of some people, if it is free, to talk longer than necessary.

PAYMENTS TO TRUST FUNDS

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Program by activities:			
	1. Government contributions for annuitants benefits (1959 act)	16,180	19,731	28,789
	2. Government contributions for retired employees benefits (1960 act)	12,736	11,682	11,642
	3. Administrative expense (1960 act)	304	317	317
	4. Payment to civil service retirement and disability fund	67,000	73,000	71,000
10	Total program costs, funded—obligations	96,220	104,730	111,748
	Financing:			
16	Comparative transfers from other accounts	−96,220	−104,730	
40	New obligational authority (appropriation)			111,748
	Relation of obligations to expenditures:			
10	Total obligations	96,220	104,730	111,748
70	Receipts and other offsets (items 11–17)	−96,220	−104,730	
71	Obligations affecting expenditures			111,748
90	Expenditures			111,748

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
13.0	Benefits for former personnel	95,916	104,413	111,431
25.3	Payments to salaries and expenses	304	317	317
99.0	Total obligations	96,220	104,730	111,748

Mr. EVINS. Payments to trust funds. Place in the record pages 166 through 180.

(The pages follow:)

Beginning in fiscal year 1968 it is proposed to combine for purpose of simplifying appropriation structure, two appropriations formerly submitted as: (A) "Government Payment for Annuitants, Employees Health Benefits" and (B) "Payment to Civil Service Retirement and Disability Fund."

The amount required for fiscal year 1968 is shown below with comparable figures contained in 1966 and 1967 appropriations. The individual portions of this appropriation are developed later in this submission.

	Appropriated 1966	Authorized and/or required 1967	Estimated 1968	Changes 1968 compared to 1967
Government payment for annuitants employees health benefits	$29,220,000	[1] $36,644,000	$40,748,000	+$4,104,000
Payment to civil service retirement and disability fund	67,000,000	73,000,000	71,000,000	−2,000,000
Total	[2] 96,220,000	[2] 109,644,000	111,748,000	2,104,000

[1] Includes a supplemental request of $4,914,000 to be submitted later, resulting from Public Law 89-504 which increases the Government's contribution.

[2] For comparability with the 1968 proposed appropriation structure, the 1966 and 1967 amounts for the 2 appropriations have been combined.

GOVERNMENT PAYMENT FOR ANNUITANTS, EMPLOYEES' HEALTH BENEFITS

GENERAL STATEMENT

This appropriation is required for payment of Government contributions under the Federal Employees Health Benefits program (Chapter 89 of Title 5, U.S.C.) and the Retired Federal Employees Health Benefits Act of 1960 (P.L. 86-724).

The Commission is authorized to operate two trust funds, both financed by contributions from participants and the Government. These funds are available for (1) payment of subscription charges to approved carriers for the cost of health benefits protection; (2) contributions to qualified retired employees and survivors who carry private health insurance; and (3) the payment of expenses incurred by the Civil Service Commission in administration of these programs. Because each fund is maintained separately and the need of each is computed on a different basis, a discussion of each fund follows under separate captions.

EMPLOYEES HEALTH BENEFITS FUND

The Federal Employees Health Benefits program (chapter 89 of title 5, U.S.C.) provides that the fund shall be available without fiscal year limitation for all payments to approved health benefits plans and that the amounts authorized to be contributed by the Government shall be paid into the fund from annual appropriations. That chapter also provides that amounts available to pay for administrative expenses incurred by the Commission shall be within a dollar limitation as specified annually by the Congress. Commencing with fiscal year 1967 provision is made to include these administrative expenses in the "Salaries and Expenses" appropriation by transfer from this fund.

Over 2.0 million employees and about 273,000 annuitants are participating in this program. For fiscal year 1966, $363.2 million was withheld from enrolled employees and annuitants and $155.7 million was contributed by the Government as its share of the cost of health beenfits. An estimated $472.7 million will be deposited into the fund for fiscal year 1968 from amounts withheld from employees and annuitants, and $217.9 million will be contributed by the Government.

The Government contribution to the cost of any plan is fixed by law plus an add-on for administrative expenses and a contingency reserve. In no case does the Government contribution exceed 50% of the total charge for any plan. For fiscal year 1966, $499.0 million was paid from the fund to approved health benefits plans as the cost of providing health benefits; an estimated $664.0 million will be paid out in fiscal year 1968. An amount equal to 3% of the contribution toward each plan is set aside in the fund to provide a contingency reserve for that plan. The contingency reserve is used to defray future increased rates, to reduce contributions, or to provide increased benefits. In addition, an amount equal to 1% of contributions is set aside for administrative expenses incurred by the Commission in the administration of the program. Section 8909 (b) of title 5, U.S.C., provides that the Commission, from time to time and in such amounts as it considers appropriate, may transfer unused funds for administrative expenses to the contingency reserves of the plans then under contract.

All covered employees have a choice between two types of Government-wide plans: (1) a service type plan; and (2) an indemnity-benefit type plan. Many employees may also choose from among (1) employee organization plans, (2) group practice prepayment plans, or (3) individual-practice prepayment plans. Most plans offer a further choice between two options, thus offering two levels of benefits. Contributions by participants are based on the type of enrollment (self or family), plan, and option they select. New enrollments and changes in existing enrollments are permitted upon the happening of certain events, e.g. marriage. Additionally, employees are by regulation guaranteed an unrestricted opportunity (i.e. on open season) to enroll or change an existing enrollment at least once every three years. A general open season was held in November 1966.

The funds to be appropriated for payment to the Employees Health Benefits Fund on behalf of enrolled annuitants under the 1959 Act depend on the number of enrolled annuitants, the type of enrollment (self only or family) and the amount of the Government's contribution to subscription charges. This contribution which is fixed by law, was recently increased for many enrollees under P.L. 89-504, beginning August 1, 1966. Of the 273,000 annuitants enrolled at June 30, 1966, 63% were enrolled for family and 37% were enrolled for self only. Using projected experience under the Civil Service Retirement Act and other retirement systems affected, it is estimated that there will be a net increase of 53,000 in fiscal year 1967 and a further net increase of 54,000 in the fiscal year 1968 in the number of annuitants with health benefits coverage. These figures are the basis for estimating funds required to cover the Government's contributions to these annuitants for the fiscal year 1968.

RETIRED EMPLOYEES HEALTH BENEFITS FUND

The Retired Federal Employees Health Benefits Act of 1960 (P.L. 86-724) provides that the fund shall be available without fiscal year limitation for all payments toward the health benefits subscription charges of the Uniform Plan or contributions to qualified annuitants with private health insurance and that the amounts authorized to be contributed by the Government shall be paid into the fund from annual appropriations. The Act also provides that amounts available for administrative expenses incurred by the Commission shall be within a dollar limitation as specified annually by the Congress. Commencing with fiscal year 1967 provision is made to include these administrative expenses in the "Salaries and Expense" appropriation by transfer from this fund.

The 1960 Act provides a health benefits program for those qualified annuitants and survivors who are not eligible to enroll in the active employees program (under the 1959 Act) because of termination of the employee's service prior to the effective date of that Act. All qualified retired employees and survivors may elect to enroll in and receive a contribution to the Government-sponsored Uniform Plan (for which the Commission has contracted with the Aetna Life Insurance Company); to receive a Government contribution toward payment of other qualified health insurance they may have; or not to enroll under the Act. Enrollees in the Government-sponsored Uniform Plan initially had three choices: (1) "Basic" health coverage, providing first-dollar hospital and surgical benefits; (2) "major medical" health coverage, providing protection against catastrophic medical expenses; and (3) both "basic" and "major medical" coverages. How-

ever, "major medical" coverage is not now available to those retirees and survivors who failed to elect it on initial enrollment. The amounts paid by annuitants enrolled in the Uniform Plan are withheld from their monthly annuity payments and together with Government contribution are paid as premiums to the carrier of the Uniform Plan, the Aetna Life Insurance Company. Those who have private health insurance receive a Government contribution, which is added to their monthly annuity, equal to the amount paid for self-only or family enrollment in the Uniform Plan.

The amount of Government contribution toward enrollments of annuitants depends on the type of enrollment (self-only or family) and the amount specified by the Commission, within a range authorized by law, as the Government's contribution toward their subscription charges. This amount is currently specified at $3.50 a month for self-only and $7.00 a month for a family enrollment.

As of June 30, 1966, there were 215,450 participants in this program, 58% of whom were enrolled for self-only and 42% of whom were enrolled for family Enrollees in the Government-sponsored Uniform Plan numbered 115,850, and in private plans the enrollment was 99,600. It is estimated that there will be approximately 86,450 enrolled in the Government-sponsored Uniform Plan and 105,000 enrolled in private plans for a total of 191,450 participants by the end of fiscal year 1968. The overall decrease in the number of participants in the program and the increase of those enrolled in private plans is expected to occur primarily because of death of annuitants and the impact of medicare for those age 65 and over.

For fiscal year 1966 $19.5 million in premiums were paid to the carrier of the Uniform Plan and $6.1 million to annuitants as the Government contributions toward the cost of their private health insurance plans. Approximately $14.3 million will be paid out for fiscal year 1968 in premiums to the carrier of the Uniform Plan and $6.6 million will be paid to those enrolled in private plans.

Appropriation request, fiscal year 1968

	Appropriated 1966	Required 1967	Estimated 1968	Changes 1968 compared with 1967
1959 act (EHB)	$16,180,000	[1] $24,645,000	$28,789,000	$4,144,000
1960 act (RHB)	13,040,000	11,999,000	11,959,000	(40,000)
Total funds	29,220,000	[1] 36,644,000	40,748,000	4,104,000

[1] Includes supplemental request of $4,914,000 to be submitted later.

The budget request for the fiscal year 1968 is for (1) payment to the *Employees Health Benefits Fund* on behalf of enrolled annuitants, retiring employees, and their survivors, (2) payment to the *Retired Employees Health Benefits Fund* on behalf of enrolled pre-1960 retirees and their survivors, and (3) administrative expense of the Commission in connection with the *Retired Employees Health Benefits Act.*

For the fiscal year 1967, an estimated $24,898,000 will be required for the Government's contribution under the E.H.B. program. This exceeds the amount available by approximately $4,914,000 primarily due to the increase in the Government's contribution under P.L. 89–504 effective August 1, 1966.

The net increase of $4,104,000 for fiscal year 1968 is due primarily to the growing number of participating retired employees and survivors covered by the 1959 Act (EHB), which will require increasing appropriations each year. Also P.L. 89–504 increases the Government contribution for the entire fiscal year 1968, whereas the increase is effective for 11 months of fiscal year 1967. The amount of increase in the E.H.B. program exceeds the decrease in the R.H.B. program due to deaths and those dropped due to the impact of medicare.

On the following pages are two tables setting forth (1) detailed computations of the estimated requirements for this appropriation by the respective funds and (2) administrative expense requirements under the 1960 Act.

Statement of funds required to finance Government payment for annuitants—Employees health benefits fund for fiscal years 1967 and 1968

	Number	Average annual rate	Fiscal year 1967	Average annual rate	Fiscal year 1968
Enrollment, June 30, 1966	273,000	[1] $83.13	$22,695,000	[2] $85.17	$23,252,000
Net additions to roll, fiscal year 1967	[3] +53,000	83.13	[3] 2,203,000	85.17	[4] 3,237,000
Funds required, fiscal year 1967	326,000		24,898,000		26,489,000
Allocation, fiscal year 1967			(19,731,000)		
Unobligated balance in fund		253,000.00	19,984,000		
Estimated deficit, fiscal year 1967			−4,914,000		
Net additions to roll, fiscal year 1968	[3] +54,000			85.17	[3] 2,300,000
Funds required, fiscal year 1968	380,000				28,789,000

[1] Average for annuitants enrolled based on Government contributions of $2.82 for 1 month and $3.64 for 11 months for self only coverage and $6.76 for 1 month and $8.88 for 11 months for self and family coverage, plus additional contributions for those added to the roll who receive coverage retroactive to commencing date of their annuity.

[2] Average for annuitants enrolled based on the Government contribution of $43.68 per year for self-only coverage, and $106.56 per year for self and family, plus additional contributions for those added to the roll who receive coverage retroactive to the commencing date of their annuity.

[3] Funds required based on an average number of these additions or 50 percent.

[4] Net additions to the roll were revised from 38,000 to 53,000 to reflect the expected increase in retirements during fiscal year 1967 brought about primarily by the incentive of higher annuity benefits due to the cost-of-living adjustment effective Jan. 1, 1967. However, the computation of funds required for this purpose in 1968 is not revised because it is uncertain at this time the extent to which additional funds will be needed in 1968.

Statement of funds required to finance Government contributions—Retired employees health benefits fund for fiscal years 1967 and 1968

	Number	Average annual rate	Fiscal year 1967	Fiscal year 1968
Enrollment, June 30, 1966	215,450	[1] $59.72	$12,867,000	$12,867,000
Net loss, fiscal year 1967	[2] −17,000	59.72	[2] −508,000	−1,016,000
Add Government cost of administering the fund for fiscal year 1967			+317,000	
Funds required, fiscal year 1967	198,450		12,676,000	
Allocation, fiscal year 1967			(11,999,000)	
Unobligated balance in fund		677,000.00	12,676,000	
Net loss, fiscal year 1968	[2] −7,000	59.72		[2] −209,000
Add Government cost for administering the fund for fiscal year 1968				+317,000
Funds required, fiscal year 1968	191,450			11,959,000

[1] Average for all enrollees based on the Government contribution of $42 per year for self-only coverage and $84 per year for self and family coverage.

[2] Funds required based on an average number of these losses, or 50 percent.

Payment to civil service retirement and disability fund

	Appropriated 1966	Authorized 1967	Estimate 1968	Changes 1968 compared with 1967
Payment to civil service retirement and disability fund	$67,000,000	$73,000,000	$71,000,000	−$2,000,000

The appropriation requested for fiscal year 1968 is needed to pay for increased benefits provided in Part III "Adjustment of Annuities," Public Law 87-793, which are contingent on specific annual appropriations. The benefits for which appropriations are currently required include: (1) an increase of 5 percent, effective January 1, 1963, in all annuities beginning on or before that date and progressively smaller increases in all annuities that begin in the 4-year period

after January 1, 1965; (2) removal of "ceilings" on increases provided by legislation enacted in 1962 and 1955; (3) lesser reduction in annuity to provide widow's or widower's benefits; and (4) an increase from 50 to 55% in survivorship benefit as a proportion of the employee annuity. The net change in requirements for 1968 of $2,000,000 less than 1967, is principally due to effectively removing, under Public Law 89–504, the appropriation requirement for payment of student child benefits.

GENERAL STATEMENT

The Civil Service Retirement and Disability Fund was created to provide annuities for eligible employees who retire because of age and service or disability and for benefits to eligible survivors of employees who die in service or after retirement.

Membership in the Civil Service Retirement System consists of approximately 2.4 million active employees in this country and overseas. Currently, over 800,000 retired employees and survivors receive monthly benefits totalling about $1.7 billion annually. The financing of this fund, which is shared by employees and the Government, is discussed later in this submission.

SPECIAL ESTIMATE REQUIRED BY 1962 DIRECTIVE

During fiscal year 1968 an estimated $30,000,000 will be paid out of the Civil Service Retirement and Disability Fund to cover benefits provided by Public Law 84–465, effective August 1, 1958. This amount is mentioned here because of a directive in the 1962 Independent Offices Appropriation Act, which stated that the Commission should include the estimate annually in its budget submission. However, no such appropriation is being requested, in view of Public Law 87–114, approved July 31, 1961, which removed the appropriation requirement under Public Law 85–465.

ESTIMATES ON A NORMAL COST PLUS INTEREST BASIS

The present method of financing the Retirement Fund has been in effect since the beginning of the fiscal year 1958. Employing agencies contribute, from their appropriations, amounts equal to the sums withheld from the salaries of their employees at the deduction rate of 6½% of basic salary. These agency contributions are less than the Government's portion of retirement cost on a normal cost plus interest basis. The difference is developed in this submission as directed by section 17(e) of the 1956 amendments to the Retirement Act, which states that "The Commission shall submit estimates of the appropriations necessary to finance the fund on a normal cost plus interest basis and to continue this Act in full force and effect." However, an appropriation request for this purpose is not being made.

Periodic actuarial valuations are necessary for the determination of the normal cost and the unfunded liability, or deficiency. The results of the latest valuation, as of June 30, 1965, are used in this submission.

COMPUTATION OF NORMAL COST

From the June 30, 1965 valuation, on the basis of a 3½% interest rate, the normal cost of benefit provisions not covered by annual appropriation requirements was estimated at 13.47% of the total salaries of employees covered by the Retirement Act. With employees paying 6½%, this leaves a Government normal cost of 6.97%. Retirement provisions of Public Law 89–504 (approved July 18, 1966) increased the total normal cost by 0.12% to an estimated 13.59% of salaries. At the same time this law in effect removed the appropriation requirements for payment of student-child benefits, and placed such benefits (for which the normal cost is 0.01%) in the category to be covered by estimates on a normal cost plus interest basis. For fiscal years 1968 and after, when the total normal cost is 13.60%, the corresponding Government normal cost is 7.10% (13.60% less 6½% employee contributions).

It is estimated that the annual payroll of covered employees in fiscal year 1968 will total $17,538,000,000.

The Government's normal cost in fiscal year 1968 is estimated as follows:

1. Estimated total salaries of 2.4 million covered employees	$17,538,000,000
2. Government normal cost percentage	7.10
3. Government normal cost—fiscal year 1968: (1) X (2)	$1,245,198,000

COMPUTATION OF INTEREST ON THE DEFICIENCY

The Board of Actuaries estimates that the deficiency amounted to $40,350,019,000 as of June 30, 1965. This estimate does not include the effect of additional benefits under Part III of Public Law 87–793 since payment of these benefits is contingent on annual appropriations.

During fiscal year 1966, the deficiency was increased by an estimated $3,671,940,000 to $44,021,959,000 at June 30, 1966. During fiscal year 1967, it is expected that the deficiency will increase by an estimated $4,030,077,000 to $48,052,036,000 at June 30, 1967. The increase items for fiscal years 1966 and 1967 are fully developed in the table on page 15. These deficiency increases are due to (1) total income (excluding interest) less than normal cost plus interest on deficiency, plus administrative expenses, (2) interest income in 1966 at less than the assumed rate of 3½%, and (3) statutory salary increases and annuity increases (including the cost-of-living adjustment effective January 1, 1967) not assumed in the actuarial valuation.

The following table shows the factors used in estimating the deficiency and interest thereon for fiscal years 1966 and 1967.

	Fiscal year 1966	Fiscal year 1967
1. Deficiency at beginning of fiscal year	$40,350,019,000	$44,021,959,000
2. (a) Government's normal cost as percent of estimated annual payroll:		
6.97 percent of $16,884,000,000 in 1966	1,176,815,000	
7.09 percent of $17,538,000,000 in 1967		1,243,444,000
(b) Administrative expenses	60,000	4,667,000
3. Agency contributions, 6½ percent of estimated annual payroll of:		
$16,884,000,000 in 1966	1,097,453,000	
$17,538,000,000 in 1967		1,140,000,000
4. Excess of item 2(a) plus 2(b) over item 3	79,422,000	108,111,000
5. Amount by which interest income falls short of (+) or exceeds (−) income at assumed rate of 3½ percent. (See detail on following page.)	5,270,000	−32,589,000
6. Increase in deficiency due to salary increases provided by Public Laws:		
89–301 for 1966	1,070,000,000	
89–504 for 1967		880,000,000
7. Increase in deficiency due to annuity increases provided by Public Laws:		
89–205 and 89–314 for 1966	1,054,000,000	
89–205 for 1967		739,000,000
89–504 for 1967		730,000,000
8. Deficiency at June 30, excluding interest (items 1 + 4 + 5 + 6 + 7)	42,558,711,000	46,446,481,000
9. Interest at 3½ percent on deficiency (3½ percent of item 1)	1,412,251,000	1,540,769,000
10. Interest at 3½ percent (for ½ year) on excess of Government normal cost over agency contributions (1¾ percent of item 4)	1,390,000	1,892,000
11. Interest to June 30 at 3½ percent on item 6	28,088,000	30,800,000
12. Interest to June 30 at 3½ percent on item 7	21,519,000	32,094,000
13. Total interest (items 9 + 10 + 11 + 12)	1,463,248,000	1,605,555,000
14. Total deficiency at June 30 (items 8 + 13)	44,021,959,000	48,052,036,000

Detail of item 5 in previous table

	Fiscal year 1966 actual	Fiscal year 1967 estimate
1. Investments in fund at beginning of year	$15,480,820,000	$16,589,674,000
2. Receipts from employee deductions, voluntary contributions, service credit payments, and agency contributions	2,210,013,000	2,295,800,000
3. Benefit disbursements and other expense (exclusive of Public Law 87-793)	1,650,047,000	1,871,667,000
4. Excess of item 2 over item 3	559,966,000	424,133,000
5. Computation of 3½ percent interest:		
(a) Item 1 for 12 months	541,829,000	580,639,000
(b) Item 4 for 6 months	9,799,000	7,422,000
(c) Total interest at 3½ percent	551,628,000	588,061,000
6. Interest income	546,358,000	620,650,000
7. Amount by which interest income falls short of (+) or exceeds (−) interest at assumed rate of 3½ percent (item 5c—6)	5,270,000	−32,589,00

Summary of computation on a normal cost-plus-interest basis—Fiscal year 1968

1. Government normal cost (item 3, p. 416)	$1,245,198,000
2. Interest on deficiency for 1967 (item 13, p. 416)	1,605,555,000
3. Total required on normal cost-plus-interest basis (items 1 plus 2)	2,850,753,000
4. Less contributions by agencies	1,140,000,000
5. Amount on normal cost-plus-interest basis not met by agency contributions (items 3 and 4)	1,710,753,000

Annuities Under Special Acts

Program and financing

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Program by activities:			
1. To employees engaged in construction of the Panama Canal	1,109	1,046	974
2. To widows of former employees of the Lighthouse Service	369	384	362
10 Total program costs funded—obligations (object class 13.0)	1,478	1,430	1,336
Financing:			
25 Unobligated balance lapsing	72		
40 New obligational authority (appropriation)	1,550	1,430	1,336
Relation of obligations to expenditures:			
71 Total obligations (affecting expenditures)	1,478	1,430	1,336
72 Obligated balance, start of year	130	119	108
74 Obligated balance, end of year	−119	−108	−100
77 Adjustments in expired accounts	−2		
90 Expenditures	1,487	1,441	1,344

Mr. EVINS. Let us take a look at annuities under special acts. You are asking for $1,336,000.

Mr. MACY. Right. That is a reduction of $94,000.

Mr. EVINS. $94,000 less than last year.

Mr. MACY. The Panama Canal annuitants, on page 164, are decreasing by about 100 a year. That accounts for the drop there. The other group is decreasing, 10 in 1967 and another 14 in 1968.

Mr. EVINS. You say, under the law, Panama Canal Construction Act claims require retroactive payment to the beginning date of the act. What is the nature of those retroactive payments?

Mr. OVEREND. Where a person worked on the Panama Canal during the construction period——

Mr. EVINS. During Theodore Roosevelt's administration?

Mr. OVEREND. Yes, sir. Betwen the period 1904 to 1914, and became a citizen before Pearl Harbor Day, we are required to pay an annuity to him effective May 29, 1944.

NUMBER ON ANNUITY ROLLS

Mr. EVINS. How many of those do you have?

Mr. OVEREND. How many on the annuity roll?

Mr. EVINS. Yes.

Mr. MACY. We had 1,276 at last June 30. We forecast we will have 1,169 in 1967, and 1,056 in 1968.

Mr. OVEREND. We are estimating one new one in 1967.

Mr. EVINS. You found a new one.

Mr. JONAS. What is the total for lighthouse employees?

Mr. MACY. We have 404 on the annuity roll now. We think the additions will come to two where there will be retroactivity, 19 where there won't be. And we will lose 31. That gives us a net at the end of the year of 394. We expect to get down to 380 by the end of 1968.

Mr. JONAS. Like the VA. They are still paying pensions for service in the Indian wars.

Mr. MACY. The War of 1812, or something like that.

(Off the record.)

Mr. EVINS. Mr. Chairman, you have not told us anywhere that you can make reductions in your budget. You have an important Commission with an important task. You look after a lot of Government employees in your recruiting, your examining, and in your retirement programs. I think you should look into these insurance programs a little closer.

Also, we are concerned about the civil service retirement fund. We hope you can get this improved in time.

Mr. JONAS. May I ask a question before you close. Will you have any unobligated funds at the end of 1967?

Mr. MACY. I do not expect to. We may have some funds to carry over for the health benefits activities.

Mr. JONAS. Say in salaries and expenses.

Mr. WILLIAMS. In 1966, we had $41,000 left in the "Salaries and expenses" appropriation.

NUMBER OF VACANCIES

Mr. JONAS. Are there any unfilled jobs in the Commission?

Mr. WILLIAMS. Normally, you always have some. You are in the process of filling them. Our biggest recruiting area is in staffing up the interagency boards. Here we have roughly 225 vacancies which we are very actively recruiting for and filling.

Mr. JONAS. You say there are 225 vacancies now?

Mr. WILLIAMS. Yes.

Mr. JONAS. That is all?

Mr. WILLIAMS. That is all.

Mr. MACY. You asked earlier, I believe, Mr. Jonas, what the actual employment of the Commission was as of January 1. The figure on that is 4,975. The authorized Budget Bureau ceiling is 5,100 for June 30.

Mr. EVINS. Let me commend you for your good work and encourage you to sharpen your pencil and stand firm with the insurance companies at the conference table, because they surely will try to outbargain you for higher rates and limited benefits. I think you have a responsibility to hold these rates down.

Mr. MACY. We certainly will look to that.

Mr. EVINS. Mr. Chairman, we commend you and your important Commission. If there are no further questions, thank you very much, gentlemen.

Mr. MACY. Thank you, gentlemen.

TUESDAY, FEBRUARY 14, 1967.

VETERANS' ADMINISTRATION

WITNESSES

W. J. DRIVER, ADMINISTRATOR
C. F. BRICKFIELD, DEPUTY ADMINISTRATOR
A. H. MONK, ASSOCIATE DEPUTY ADMINISTRATOR
A. T. McANSH, ASSISTANT DEPUTY ADMINISTRATOR
L. J. HOOK, EXECUTIVE ASSISTANT TO THE ADMINISTRATOR
J. D. SHYTLE, CONTROLLER
V. P. MILLER, DIRECTOR, BUDGET SERVICE
B. E. TURNER, ASSISTANT ADMINISTRATOR FOR MANAGEMENT ENGINEERING AND EVALUATION
E. J. GORMAN, MANAGER, ADMINISTRATIVE SERVICES
I. PARSONS, ASSISTANT ADMINISTRATOR FOR PERSONNEL
R. C. FABLE, JR., THE GENERAL COUNSEL
J. W. STANCIL, CHAIRMAN, BOARD OF VETERANS' APPEALS
F. R. HOOD, DIRECTOR, INFORMATION SERVICE
A. K. MAIERS, ASSOCIATE DIRECTOR, INVESTIGATION AND SECURITY SERVICE

ASSISTANT ADMINISTRATOR FOR CONSTRUCTION

W. ASHBRIDGE, ASSISTANT ADMINISTRATOR FOR CONSTRUCTION
L. G. SCHWEICKART, DEPUTY ASSISTANT ADMINISTRATOR FOR CONSTRUCTION
J. C. GARVER, CHIEF, PROGRAM CONTROL DIVISION

DEPARTMENT OF DATA MANAGEMENT

P. J. BUDD, CHIEF DATA MANAGEMENT DIRECTOR
D. W. KLINE, CHIEF, BUDGET STAFF

DEPARTMENT OF MEDICINE AND SURGERY

DR. O. T. SKOUGE, DEPUTY CHIEF MEDICAL DIRECTOR
R. W. WISE, DIRECTOR, BUDGET SERVICE, D.M. & S.
DR. T. CAMP, MEDICAL DIRECTOR
DR. P. A. L. HABER, DIRECTOR OF DOMICILIARIES AND RESTORATION CENTERS
DR. B. B. WELLS, ASSISTANT CHIEF MEDICAL DIRECTOR FOR RESEARCH AND EDUCATION IN MEDICINE
D. P. WHITWORTH, DIRECTOR, SUPPLY SERVICE
R. H. BUCKNELL, DIRECTOR, VETERANS' CANTEEN SERVICE

DEPARTMENT OF VETERANS' BENEFITS

A. W. STRATTON, CHIEF BENEFITS DIRECTOR
A. W. FARMER, DEPUTY CHIEF BENEFITS DIRECTOR
J. C. PECKARSKY, DIRECTOR, COMPENSATION, PENSION, AND EDUCATION SERVICE
E. R. SILBERMAN, DIRECTOR, PROGRAM PLANNING AND BUDGETING SERVICE.
J. M. DERVAN, DIRECTOR, LOAN GUARANTY SERVICE
H. F. MOORE, DIRECTOR, INSURANCE SERVICE
E. A. ECHOLS, DEPUTY DIRECTOR, LOAN GUARANTY SERVICE

Mr. EVINS. The committee will come to order.

We have with us the Administrator of the Veterans' Affairs, his able staff, and friends of the Veterans' Administration.

We shall be glad to hear you, Mr. Administrator.

Mr. DRIVER. Thank you, Mr. Chairman. I am happy to have this opportunity to talk with you.

I might point out at the outset that our Chief Medical Director is ill this week and we have with us the Deputy Chief Medical Director who came from his assignment as the director of our Oklahoma City Hospital last April, Dr. Skouge.

Mr. EVINS. Doctor, we are glad that you are well. Tell the Chief Medical Officer that we are sorry he is ill. A medical man should keep in the best of health. He doctors the veterans; he should keep himself in good shape.

GENERAL STATEMENT

Mr. DRIVER. In his budget message, the President identified, as one of three basic considerations reflected in his 1968 budget, that "In our urgent domestic programs we will continue to press ahead, at a controlled and reasoned pace." Our budget is in keeping with that basic consideration.

It provides additional health resources for an aging population; new and improved specialized treatment facilities in hospitals; and expansion of medical research and training programs;

It provides for educational and other benefits authorized post-Korean conflict veterans by the new "GI bill" enacted by the 89th Congress;

It anticipates increases in fund requirements for compensation and pensions, as caseloads and average payments increase with the advancing average age of the veteran and his survivors; and

It reflects continuing emphasis on economy in administration through automatic data processing methods, cost reduction efforts and other programs to improve efficiency and increase economy in our administrative operations.

Our appropriation requests for 1968 total $6,651,664,000. This is $173 million more than 1967 appropriations, including anticipated supplementals. Approximately $104 million of this increase is in Veterans Benefits programs, $66 million in medical programs, and $2 million in general operating expenses. A comparative summary of 1967 and 1968 requirements, by appropriation account, is provided in the accompanying table.

General Operating Expenses

Our 1968 budget for "General operating expenses" reflects continuing emphasis on economy of administration. Administrative costs are estimated to decline by more than $3 million from 1967, offset by transfer of additional functions to this account ($1.3 million), purchase of additional ADP equipment ($1.9 million), plans to proceed with a disability rating schedule study ($1 million) and normal average salary increases ($1 million), for a net increase of $2.1 million in new obligational authority.

GENERAL ADMINISTRATION

General administration, one of three major budget activities under "General operating expenses," comprises my immediate office and agency staff services. Cost of this activity increase $246,000 in 1968 over 1967. Normal within-grade salary advancements and workload increases in the Board of Veterans Appeals are the principal factors causing the increase.

DEPARTMENT OF DATA MANAGEMENT

In the Department of Data Management, a net increase of $1,574,000 is estimated for 1968. Increases of $1.4 million for the purchase of three ADP computers currently leased (gross purchase price of $1.9 million partially offset by rental savings of $0.5 million); $0.5 million for a net increase of 49 in staffing and for normal within-grade salary advancements; and $0.4 million for the lease of an additional large-scale computer are partially offset by decreases of $0.7 million in savings from management improvements, cost reduction efforts, and other miscellaneous items.

We are realizing significant savings in administrative operations as we progress toward our goal of a "Total information processing sys-

tem" for the agency. We estimate that ADP applications already installed and in operation are saving the VA more than $14 million annually. A continued progressive growth in the amount of recurring annual savings is expected to reach a level in excess of $75 million by 1975. Investments in this effort are proving wise.

DEPARTMENT OF VETERANS BENEFITS

Costs of the 1968 Department of Veterans Benefits are estimated at $156.2 million—$2.3 million less than 1967. This decrease is projected despite increased requirements of $1 million for a study to validate the disability rating schedule and $0.8 million for normal within-grade salary advancements. A related decrease in average employment of 222 is projected for fiscal year 1968.

Major items comprising the net decreases of $2.3 million and 222 man-years are—

Completion of workload associated with the recent reopening of NSL insurance, $1.1 million;

Employment reductions due to other workload decreases, cost reduction efforts and improved operating procedures, $0.7 million;

Reductions in terminal leave, vocational rehabilitation counseling and other miscellaneous items, $2.3 million.

The reductions in Department of Veterans Benefits' costs will be accomplished with no impairment of services to veterans, their families and survivors.

BENEFIT APPROPRIATIONS

Approximately 75 percent ($4,992 million) of our total appropriation requirements for 1968, are for Veterans Benefits programs. These are direct payments to veterans or their dependents. This is an increase of $104 million over 1967. The increase is principally in compensation and pensions and readjustment benefits appropriations.

COMPENSATION AND PENSIONS

In compensation and pensions, our 1968 request of $4,558 million is $44 million over the appropriation and proposed supplemental for the current year. This request is predicated on a combined compensation and pension caseload of 4,589,000, an increase of 23,000 over the current year.

Mr. EVINS. At the end of the last Congress, after the House had acted on your regular budget, you had a supplemental which was added in the Senate and included in the conference. Now, at the beginning of the new session you tell us there is going to be another supplemental. Why can't you figure these matters a little more carefully and a little more precisely so that your estimates are included in the regular budget, rather than always submitting a supplemental at the last and the first?

Mr. DRIVER. We would like to do that.

Mr. EVINS. The Budget Bureau won't let you, is that it?

Mr. DRIVER. No, sir. I think that with our estimating procedure and with a budget now in the $41/2 billion range, we probably can't get much closer than we do.

Mr. EVINS. You are good at estimating, you are good at calculating, you have computers, you have the brain trust, you have the staff,

and you have the experience. You should be able to calculate more accurately.

Mr. MONK. We had some new legislation, Mr. Chairman, that added some cost.

Mr. EVINS. I know. That justified the supplemental on the new legislation.

Mr. DRIVER. We had increases in survivors among the population.

Mr. MONK. We had new legislation after our last supplemental with an additional cost to the compensation and pension program. Also, part of our supplemental which we were up here for is for the pay increase.

Mr. EVINS. We want you to have the necessary funds and appropriations for all the veterans programs, but the VA is constantly requesting these supplementals. We would like to have it in one package.

Mr. DRIVER. We will certainly keep trying, Mr. Chairman.

Compensation payments are expected to increase $27 million in 1968 over the $2,408 million 1967 level. The increase is about equally divided between "veterans" and "survivors." Caseloads will continue to increase slightly in both categories.

Pension payments are estimated at $2,042 million in 1968—up $18 million over 1967. An increase of $30 million in the "survivors" category is partially offset by a decrease of $12 million in the "veterans" category, reflecting continuing decreases in World War I "veterans" caseloads and increases in World War II "survivors" cases.

READJUSTMENT BENEFITS

In readjustment benefits, we are requesting $427,200,000—an increase of $57.8 million over 1967 appropriations. Educational assistance payments to post-Korean conflict veterans, authorized by the new "GI bill," account for this increase. We expect more than ½ million veterans and servicemen to enroll for training under this program in 1967 and an additional 255,000 in 1968. The average number of trainees are estimated at 240,000 in 1967 and 286,000 in 1968.

Requirements for educational assistance to children of deceased and disabled veterans decrease $2.8 million in 1968. Training loads in this category peak in the current fiscal year and begin a gradual decline in 1968. The average cost per trainee also drops in 1968 due to an estimated increase in the number of children of Philippine veterans for whom payments are made in pesos at a rate equivalent to 50 cents for each dollar authorized.

Mr. EVINS. The statute which we passed, balancing the peso with the dollar, was that satisfactory to the Philippine Government?

Mr. DRIVER. In that regard, it is very agreeable.

Mr. EVINS. Satisfactory?

Mr. DRIVER. Yes, sir; no question.

Costs of rehabilitative training of disabled veterans are expected to decrease slightly, from $7.7 million to $7.6 million, as the average number of trainees drops from 8,000 to 7,400.

VETERANS INSURANCE AND INDEMNITIES

Our appropriation requirements for "Veterans insurance and indemnities" increase from $4.2 million in 1967 to $5.8 million in 1968. This is due to a decrease in the amount we will be able to transfer from the veterans special term insurance fund—$8 million will be transferred in 1967; only $2 million will be available for transfer in 1968.

Cost levels decrease from $12.7 million in 1967 to $9.6 million in 1968 due principally to reductions in payments to the service-disabled veterans insurance fund and the phasing out of servicemen's indemnities payments.

MEDICAL PROGRAMS

Of our total appropriation requirements for 1968, $1,475,376,000, or approximately 22 percent, is for medical programs. Our estimates reflect requirements for additional health resources for an aging veteran population and for implementation and extension of advancing medical treatment modalities to insure that the VA medical program keeps pace with the quality of care provided in the medical community at large. Our 1968 requirements for medical programs represent an increase of $66,420,000 over 1967 levels, including proposed supplementals. I would like to speak briefly about our 1968 plans in these programs.

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

The 1968 appropriation request for medical administration and miscellaneous operating expenses of $14.3 million continues the 1967 funding level. A reduction of $1.3 million due to the transfer of funding for finance, personnel, and statistical functions to the general operating expenses appropriation is offset by additional requirements of $309,000 for postgraduate and inservice training and $1 million to initiate the new exchange of medical information program authorized by Public Law 89–785.

EXCHANGE OF MEDICAL INFORMATION

Mr. EVINS. Have you requested the $1 million to disseminate information on the medical research to the colleges?

Mr. DRIVER. Principally, Mr. Chairman, to disseminate information from VA hospitals associated with medical schools to outlying hospitals that do not have this close affiliation, trying to bring the level of medical information available to the doctor in a rural setting up to a somewhat equal status with those in a medical center.

Mr. EVINS. We have been building our veterans hospitals near the medical colleges and universities, where there is close liaison and cooperation?

Mr. DRIVER. Right.

Mr. EVINS. And they get the benefit of all the VA knowledge and we pick up some from them.

Mr. DRIVER. We have half of our hospitals, about, so happily located; the other half are not. They are many miles distant from a medical center. What we are trying to do is make this information available to them. That is what this program is aimed at.

Mr. EVINS. Very good.

MEDICAL AND PROSTHETIC RESEARCH

Mr. DRIVER. Our 1968 appropriation requirements for medical and prosthetic research are $46,458,000, which represents a modest increase of $2.2 million over the 1967 level. Although this a relatively small increase, we consider it essential to permit continued growth in research studies related to diseases of the veteran population which, of course, are similar to those of like age groups through the total population. The VA medical research program is making a significant contribution in the field of medicine. It is a vital factor in our ability to recruit qualified professional personnel and essential in a balanced medical program.

Mr. BOLAND. This is a program which really has escalated in the years that we have been sitting in this committee—at least since I have been sitting here. I don't remember exactly, was it around $10 million when we first started on this committee?

Mr. MONK. About $5 million in 1955.

Mr. BOLAND. Now it is up to $46 million. I think in some cases it has been justified, you have justified it. I would hope when we get to this area that you can tell us exactly what you are doing in this field and let us know where this money is going.

I have always had the feeling that there is an expenditure of money here which is being expended in the same fashion by the NIH and other agencies of the Government and that the VA perhaps comes up with less dramatic research in this area than do some of the other great agencies of this Government.

I would hope that we could address ourselves to this matter. You say it is a modest increase, the $2.2 million. Next year we will have a "modest" increase of $3.3 million; the following year a "modest" increase again, and suddenly we will find ourselves with a $100 million research program which none of us would object to if it is justified properly.

Mr. DRIVER. We will have a chance to point these out to you.

Mr. BOLAND. Very good.

MEDICAL CARE

Mr. DRIVER. Our 1968 estimates for "Medical care" total $1,357,293,000, an increase of $64,418,000 over 1967 requirements, including a proposed pay supplemental.

It will provide for 138,427 average daily number of inpatient beneficiaries—an increase of 1,070 over 1967.

The number of patients treated in VA hospitals and nursing home care facilities will increase by 22,200 to a record level of 774,700.

It will provide full year funding for new medical services, such as, hemodialysis, open heart surgery, intensive coronary care, pulmonary emphysema, that are being activated at a number of our hospitals this year and will permit activation of additional units throughout our hospital system during 1968.

It will permit employment of additional professional personnel to strengthen the intensity of patient care.

It will provide for activation of new hospitals in Miami, Fla., and San Juan, P.R., and continued activation of the new hospitals at Charleston, S.C., and Gainesville, Fla.

Outpatient medical visits will increase by 142,100 to a total of 6,435,100 visits, reflecting the advancing age of beneficiaries and implementation of prehospital and posthospital care resulting from recent legislation.

GRANTS TO THE REPUBLIC OF THE PHILIPPINES

This appropriation provides grants-in-aid to the Republic of the Philippines for medical care and treatment of eligible Philippine Commonwealth Army veterans and Philippine Scouts. Public Law 89–612, enacted last September, extended this program for an additional 5-year period through June 30, 1973. The act liberalized eligibility requirements for medical care, authorized $500,000 to upgrade equipment and the physical plant of the Veterans Memorial Hospital and authorized annual grants of $100,000 for medical research and training of health services personnel.

Requirements for 1967, including a proposed supplemental of $1 million to implement the new law, total $1,386,000. Requirements for 1968 are estimated at $1,325,000. This will provide funds for an average daily patient load of 457 and $100,000 for medical research training.

CONSTRUCTION OF HOSPITAL AND DOMICILIARY FACILITIES

The request of $52 million in 1968 for "Construction of hospital and domiciliary facilities" is the eighth annual increment of our long-range program to replace, relocate, and modernize our medical facilities. It will provide a continuation of the funding level experienced in 1967. Including our 1968 request, a total of $598 million of this program will have been funded for this purpose. The request provides: $34 million for replacement and relocation hospitals, of which $29 million is for the construction of the 1,140-bed hospital at San Diego, Calif.; $3 million for research facilities; $13 million for other improvement projects, including $7 million for construction necessary to establish 720 intensive care beds at 60 different locations; and $2 million for general administration.

In 1968, we also plan to award construction contracts for the following major projects for which funds were appropriated in prior years: 760-bed hospital at Chicago, Ill.; 1,040-bed hospital at Los Angeles, Calif.; 480-bed MS&N hospital at Northport, N.Y.; and 720-bed hospital at Tampa, Fla.

In total, we plan award of construction contracts in the amount of $147 million in 1968.

GRANTS FOR CONSTRUCTION OF STATE NURSING HOMES

The request of $4 million for grant funds for the "Construction of State nursing homes" is the same as was appropriated in 1967. To date, we have approved grants for the construction of 824 nursing home beds for eight projects in seven States. The interest expressed by the States for additional projects indicates that the $4 million requested will be required in 1968.

VETERAN'S LEGISLATION

In his message of January 31 (H. Doc. No. 48), the President proposed important legislation relating to benefits for America's servicemen and veterans. This legislation would—

(1) Remove the inequities in the treatment of veterans of the Vietnam conflict by extending the following benefits to veterans who have served on or after August 5, 1964:

Disability compensation at full wartime rates for all veterans;

Disability pensions for veterans and death pensions for widows and children;

Special medical care benefits, including medicines and drugs for severely disabled veterans on the pension rolls; and

$1,600 toward the purchase of an automobile by veterans with special disabilities.

(2) Enlarge the opportunities for educationally disadvantaged veterans, so that they can complete high school without losing their eligibility for follow-on college benefits;

(3) Expand educational allowances under the GI bill—increasing monthly allowances from $100 to $130 for a veteran and by $10 a month for the second and each additional child dependent.

Mr. EVINS. Mr. Administrator, is this the most liberal GI bill that we have had with respect to education?

Mr. DRIVER. With this rate increase, I would say so, yes, sir. Because it is open ended; it does not have a terminal date. Certainly, the provision here that you wouldn't charge high school training against college entitlement is a distinct liberalizing feature.

This proposal would also—

(4) Increase the amount of servicemen's group life insurance from a maximum of $10,000 to a minimum of $12,000, with higher amounts scaled to the pay of the serviceman, up to a maximum of $30,000;

(5) Effective July 1, 1967, increase pensions of 1.4 million veterans, widows, and dependents by 5.4 percent; and

(6) Enact safeguards to assure that no veteran will have his pension reduced as a result of increases in Federal retirement benefits, such as social security.

Budgetary requirements and appropriation requests relating to the above items will be transmitted separately following legislative action by the Congress.

This concludes my opening statement.

(The attachment follows:)

New obligational authority

In thousands

	1966	1967	1968	Change
General operating expense	$162,227	$182,200	$184,342	+$2,142
Benefit programs:				
Compensation and pension	4,429,000	4,514,000	4,558,000	+44,000
Readjustment benefits	42,500	369,400	427,200	+57,800
Veterans insurance and indemnities	10,536	4,170	5,800	+1,630
Loan guarantee revenue fund			946	+946
Soldiers' and sailors' civil relief fund	25			
Subtotal, benefit programs	4,482,061	4,887,570	4,991,946	+104,376
Medical programs:				
Medical administrative and miscellaneous operations expense	13,496	14,312	14,300	−12
Medical and prosthetic research	41,258	44,258	46,458	+2,200
Medical care	1,209,407	1,292,875	1,357,293	+64,418
Grants to Republic of Philippines	386	1,386	1,325	−61
Construction of H. & D.F	90,512	52,125	52,000	−125
Grants for construction of State nursing homes	2,500	4,000	4,000	
Subtotal, medical programs	1,347,559	1,408,956	1,475,376	+66,420
Total, Veterans' Administration	6,001,847	6,478,726	6,651,664	+172,938

SIZE OF VA BUDGET

Mr. Evins. Thank you, Mr. Administrator; that is an excellent statement. It is concise, yet comprehensive, it is one of the best statements presented to this committee.

We have all had a chance to look over your budget. It is a big budget, but it is well prepared. It has a lot of facts and tables. It has immense information in depth. You have splendid charts, very graphically displayed. I think the man who made up your budget is to be commended for doing such a good job.

We are impressed with the size of this budget. As the President recommends further legislation and we pass legislation, the budget gets larger and larger.

I came on this committee shortly after World War II, after a period of service on the Veterans' Affairs Committee. I remember that the budget at the time seemed very high. I had the impression it was around $7 or $8 billion, then it got down to $4 or $5 billion. The highest figure was $8,352,909,655, in 1947, following World War II. Then it declined. Now, with the Korean conflict and the Vietnam war, it has gone up again, and it is going to mount further, according to all predictions.

The decline after the war was in the area of veterans rehabilitation, but the pension rolls have continued to increase; haven't they?

Mr. Driver. Yes, they have; substantially. In that period they have gone up more than 100 percent.

The rates associated with those programs have gone up too. Going back to the years that you were referring to, the total compensation rate was about $180. Today it is $300. So, there has been a marked increase in the moneys associated with these budgets. Also, I think it is important to note today that we have the largest number of living veterans ever in the history of this country: 26 million. And when you associate with them the people in their families who are dependent upon them for support, and therefore potentially eligible for some VA benefit, you have over 94 million people, about 49 percent of the population.

For this reason, plus the fact that under the new GI bills, the benefits are open ended to anyone who serves from now on, unless there is further legislation, with a 3-million-man force we are receiving veterans at the rate of 600,000 a year. The death rate from prior wars is under 300,000. So that the number of veterans in the population will continue to increase steadily.

Mr. EVINS. We can say for the record, and with great pride, that we have the greatest veterans benefits program of any nation in the history of the world, so far as we know, and the greatest hospital care program, largest compensation and pension benefits, and the greatest number of veterans on the roll. It has been said that we can never fully compensate the serviceman for the things he has done, protecting our freedom and liberty; yet we try, in some way, to compensate them for their service. We can boast with pride that we have the greatest veterans program ever. Naturally, it includes a large amount of administration, however, you indicate that your administrative budget is going down. But it cannot continue to go down if your workload increases. You buy more computers. You are mechanized but you still require more personnel.

Mr. DRIVER. Yes, sir; although, if you look at the way we were doing business in 1946, 1947, and 1948 right after World War II, and the workload that we were able to handle with those people; and then just lay that side by side with the workloads we are handling today, where we now have about 150,000 full-time employees, we would need over half a million under the old methods. So, computers have paid off.

TOTAL STAFFING

Mr. EVINS. What is your total staffing today; that is, your personnel load?

Mr. DRIVER. Well, if you put in part-time people, principally in the medical field, consultants and the like, it is about 165,000.

Mr. EVINS. 165,000.

What was the peak personnel after World War II?

Mr. DRIVER. About 240,000.

Mr. EVINS. So, you have a tremendously decreased number of personnel. You have become more efficient with the years.

Mr. MONK. In "General operating expenses," for example, in 1955 we had 32,000 employees in this appropriation, for administrative expense; and in 1968 we are estimating 18,000. We have held fairly steady in total employment since right after the war but our medical employment has gone up and the other employment has gone down.

INCREASED MEDICAL STAFF

Mr. EVINS. Administrative personnel has gone down markedly, but your medical attendants, your medical care, your doctors, nurses, technicians, and aides; this is the area in which the personnel have greatly increased.

Mr. DRIVER. That is right, sir. Of course, we are treating now about 200,000 more patients each year than we were then. This will continue to increase with the increasing age.

Mr. EVINS. What is the average number of attendants per patient treated in veterans hospitals today as compared with, let us say, 5 years ago?

Mr. WISE. In general hospitals the staffing ratio is about 1.32 employees per patient. In psychiatric hospitals about 76 employees per hundred patients.

Mr. EVINS. About 76 per hundred in psychiatric?

Mr. WISE. Yes, sir. In general hospitals it is about 132 per 100 patients. This is for 7 days a week, around the clock.

Mr. EVINS. One should not complain then that you do not have adequate attendants, adequate care, and proper medical assistance with that ratio.

Mr. DRIVER. We think we could do a better job if we had more staff. With increases over the years which this committee has supported, we have been able to increase the turnover in our beds substantially.

INCREASE IN NUMBER OF VETERANS

Mr. EVINS. Mr. Administrator, spell out for the record the number of new veterans that were brought on the rolls as a result of the GI bill of rights passed in the 89th Congress. I have the impression it is something like 4 million.

Mr. DRIVER. Yes, sir. On the 3d of March last year when the President signed the bill which Congress passed, the new GI bill, he created wartime eligibility among 4 million new veterans.

Mr. EVINS. With the signing of the new law, 4 million new veterans were added to the rolls?

Mr. DRIVER. In the interval since that signing we have received about 600,000 more as a result of separation from the service.

Mr. EVINS. These were men already discharged, already veterans?

Mr. DRIVER. They had served after February 1955, when Korean war entitlement expired for veterans' benefits.

Mr. EVINS. And since the signing of the law, with honorable discharges how many more?

Mr. DRIVER. About 600,000. We are told that they expect to separate 600,000 in the coming year.

Mr. EIVNS. 600,000 in the coming year?

Mr. DRIVER. Yes, sir.

Mr. EVINS. And what are your projections with the present law, not considering the law that is being proposed but hasn't been passed by the Congress? How many ultimately, not talking about the families, talking only about veterans, do you anticipate will be added to the veterans rolls?

Mr. DRIVER. Well, let's go just out to the year 1975. We expect we will have between 28 and 30 million veterans, up from today's total of 26 million. That would be netting out the losses, the deaths from prior wars.

Mr. EVINS. Netting out the losses it will be 28 million?

Mr. DRIVER. Just based on 3-million-man force, with some years being higher than others because of reenlistments and this sort of thing, we estimate we will receive between 500,000 and 600,000 veterans each year.

Mr. EVINS. 500,000 to 600,000 will be added each year so far as you have been able to calculate for an indefinite period of time?

Mr. DRIVER. Yes, sir.

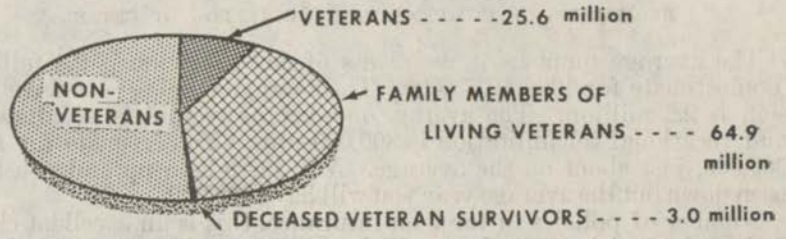
Mr. EVINS. Let's take a look at the chart in this summary table here. We shall insert this table in the record.

(The table follows:)

VETERANS BENEFITS AND SERVICES

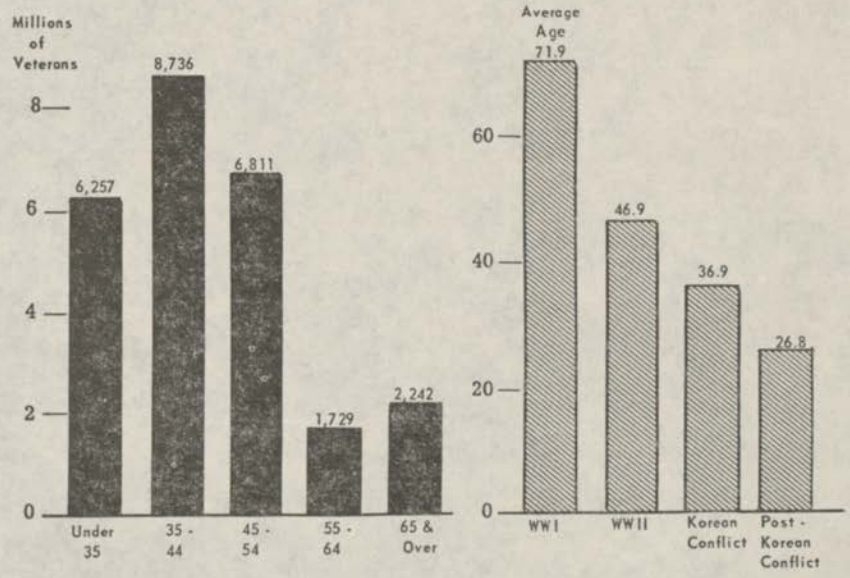
Veteran Population

On June 30, 1966 there were approximately 25.6 million veterans, 64.9 million family members of living veterans and 3 million survivors of deceased veterans. Thus 93.5 million or 48% of the total population of the United States were potentially recipients of veterans benefits provided by the Federal Government.



ESTIMATED AGE OF VETERANS IN CIVIL LIFE

June 30, 1966



Mr. EVINS. It shows there are approximately 25.6 million veterans as of June 30. Also, there are 64.9 million family members of living veterans and a lot of those are eligible, and 3 million survivors of deceased veterans. Thus, 93.5 million or 48 percent of the total population of the United States were potential recipients of veterans benefits. Almost half of the population are potential recipients.

You can look at the round disk there and see veterans and nonveterans. It is a very graphic chart. Deceased veteran survivors, 3 million. The next item considers the age of veterans. Under 35, 6¼ million; between 35 and 40, 8.7 million; and between 45 and 54 still a big column, 6,811,000. We old fellows are getting in this next, the lowest one, 55 to 64, just 1,729,000. Then when you get over 65 you live longer. Sixty-five and over there are 2.2 million.

The next table is interesting, showing the average age of the World War I veterans is 71, nearly 72; World War II average age is 46; Korean is 36; and the post-Korean, which includes Vietnam, is 26. These are the young veterans. These next charts are all interesting.

RECIPIENTS OF COMPENSATION, BENEFITS, ET CETERA

The average number of recipients of compensation is 2.4 million. You estimate for 1968, 2,371,000. The average number to receive pension is 2.2 million. The average number of recipients of education and vocational rehabilitation is 300,000-plus. You estimate for 1968, 309,000, just about on the average. You have been up and you have been down but the average year you will have 309,000.

Number of policies in force on insurance, this is an excellent chart. It is estimated in 1968 there will be 5,804,000. Mr. Reporter, insert these charts in the record.

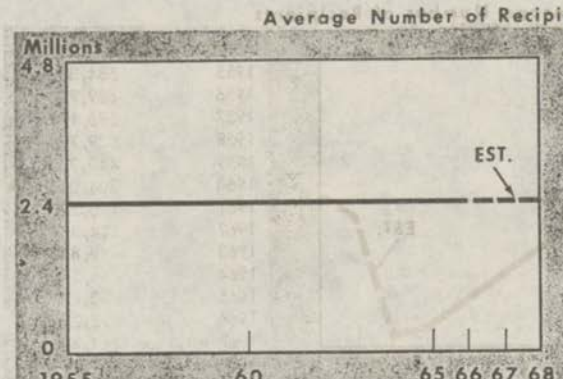
(The information follows:)

VETERANS BENEFITS AND SERVICES

Compensation

This program provides monthly cash payments to veterans with service-connected disabilities to compensate them for impairment of earning power resulting from such disabilities. Payments are also made to the survivors of those veterans whose death was due to disease or injury incurred in the line of duty or as a result of conditions associated with military service.

Average Number of Recipients

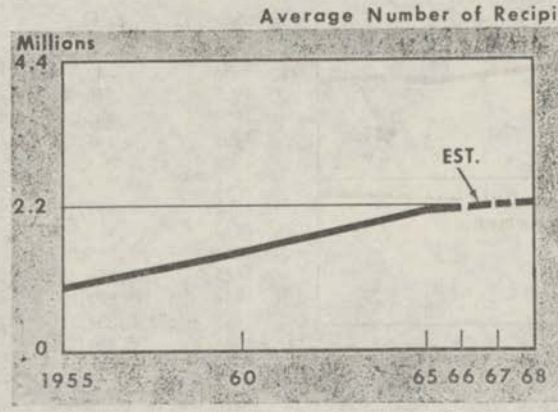


Year	Number
1955	2,446,985
1956	2,464,933
1957	2,462,869
1958	2,453,806
1959	2,446,521
1960	2,427,882
1961	2,397,673
1962	2,372,683
1963	2,361,596
1964	2,360,233
1965	2,360,177
1966	2,356,525
1967	2,364,012
1968	2,371,557

Pensions

This program provides financial assistance within a framework of need criteria to war veterans who are permanently and totally disabled, house bound, or in need of regular aid and attendance by virtue of disease or injuries without regard to service origin. Financial assistance is also provided to widows and children of deceased veterans who are without adequate means of support.

Average Number of Recipients



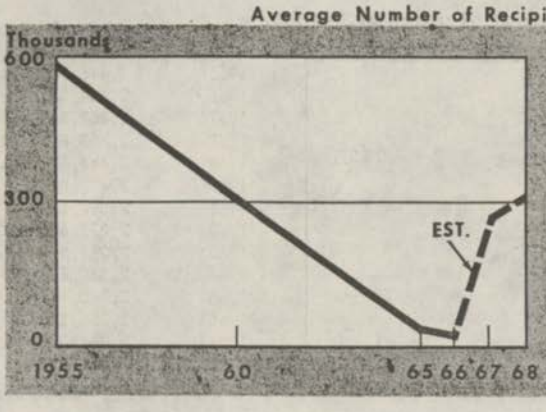
Year	Number
1955	977,144
1956	1,060,895
1957	1,151,544
1958	1,241,698
1959	1,347,196
1960	1,473,203
1961	1,690,959
1962	1,854,881
1963	1,961,703
1964	2,039,092
1965	2,111,702
1966	2,170,125
1967	2,202,240
1968	2,217,089

VETERANS BENEFITS AND SERVICES

Education and Vocational Rehabilitation

This program provides educational assistance to veterans and children of deceased and disabled veterans, and rehabilitative training assistance to disabled veterans. The chart reflects the impact of the new GI Bill enacted March 3, 1966.

Average Number of Recipients

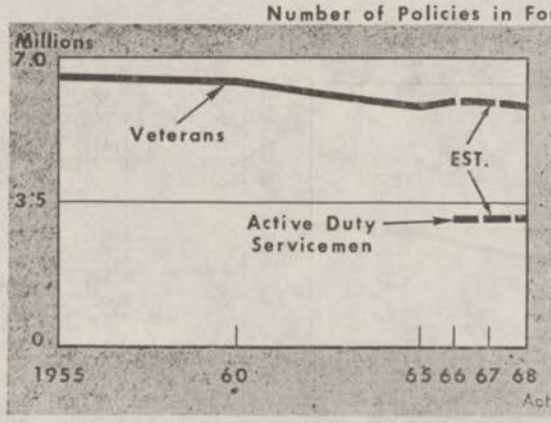


Year	Number
1955	584,333
1956	629,700
1957	596,179
1958	539,798
1959	440,920
1960	304,020
1961	190,227
1962	114,277
1963	69,883
1964	46,510
1965	30,027
1966	22,255
1967 est.	264,400
1968 est.	309,100

Insurance

Programs of Government life and disability insurance are provided for the benefit of servicemen, veterans, and their beneficiaries. These programs serve to restore to servicemen their normal status of insurability which, for all practical purposes, was lost by serving in the Armed Forces in wartime. PL. 89-214 enacted September 29, 1965, provides insurance protection for all servicemen now on active duty.

Number of Policies in Force



Year	Number
1955	6,449,437
1956	6,442,956
1957	6,565,985
1958	6,485,256
1959	6,401,240
1960	6,319,847
1961	6,214,879
1962	5,999,125
1963	5,935,798
1964	5,885,857
1965	5,836,685
1966	5,879,886
1967 est.	5,882,200
1968 est.	5,804,070

Active Duty Servicemen, 3,100,000

HOUSING CREDIT ASSISTANCE

Mr. EVINS. This is a chart on housing for a quick capsule, and other credit assistance. Direct loans closed last year were how many?

Mr. MONK. In 1966 there were 6,041; in 1967, 12,300, and we are estimating 12,300 for 1968.

Mr. EVINS. You have a peak and a valley there.

Mr. DRIVER. The new GI bill extended these benefits to this 4-million group.

Mr. EVINS. I had the impression that you were about to stop direct loans.

Mr. DRIVER. Well, it had got pretty good. Money was pretty generally available for awhile, but then that kind of fell through as you know and we went back in the business.

Mr. EVINS. What do you mean it "got good"?

Mr. DRIVER. It was generally easier to get mortgage money around the country a couple of years ago than it had been for a long time.

Mr. EVINS. Well, the direct loan program is being continued not by appropriation but by the sale of securities, so that under the participation sales program and the sale of loans, more money is brought into the pool and you can make more loans.

Mr. DRIVER. Right. We are getting a bigger demand now.

Mr. EVINS. You do not want to discriminate against the rural veterans now. You have plenty of credit in the cities. We want to see these farm boys get loans too.

Guaranteed or insured loans, the average number of guaranteed loans is about 200,000 a year. You estimate in 1968 it will be 195,000.

Mr. DRIVER. Right.

INCREASED MEDICAL WORKLOADS

Mr. EVINS. We will insert the next charts in the record. The number of veteran patients treated is going up and up, you estimate 790,600 in 1968. Your outpatient medical visits are also increasing. Nearly six and a half million; estimated for 1968, 6,435,100. These charts provide a good capsule review of these operations.

(The information follows:)

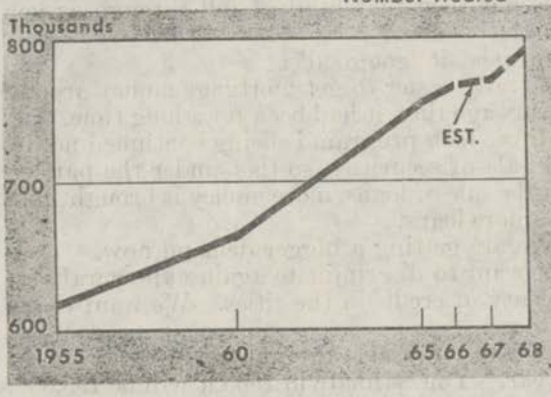
VETERANS BENEFITS AND SERVICES

Inpatient Hospital Care

NUMBER OF VETERAN PATIENTS TREATED

Inpatient hospital services are provided to veterans in VA hospitals and in federal and community facilities on a contract basis. In F.Y. 1966 more than 740,000 veterans were treated in VA hospitals and over 25,000 were treated in contract hospitals.

Number Treated

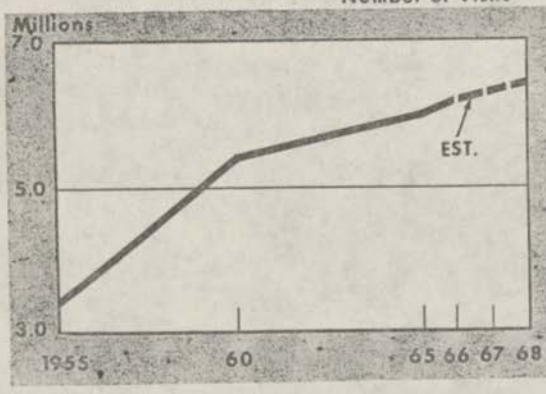


Year	Number
1955	615,815
1956	638,072
1957	634,793
1958	637,275
1959	646,457
1960	664,714
1961	692,013
1962	715,756
1963	737,910
1964	763,035
1965	754,876
1966	766,946
1967 est.	769,900
1968 est.	790,600

Outpatient Medical Visits

Out patient treatment is provided for service-connected disabilities in VA clinics and through the hometown program. Pre and post hospital care is provided non-service-connected patients.

Number of Visits



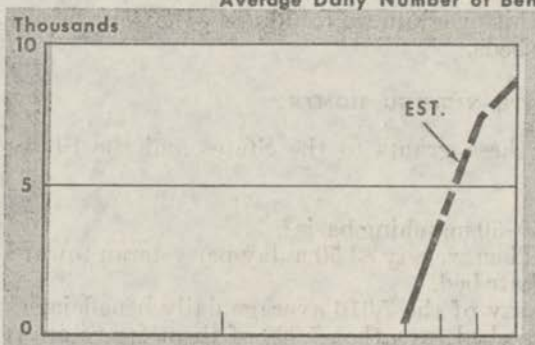
Year	Number
1955	3,450,000
1956	3,367,000
1957	3,263,000
1958	3,334,000
1959	5,499,000
1960	5,618,000
1961	5,707,508
1962	5,849,617
1963	5,900,554
1964	6,178,633
1965	5,987,225
1966	6,181,678
1967 est.	6,293,000
1968 est.	6,435,100

VETERANS BENEFITS AND SERVICES

Nursing Home Care

Inpatient nursing home care is provided for veterans in VA, community and State nursing home care units as authorized by P.L. 88-450 approved August 19, 1964. By the end of 1967, there will be 4,000 VA nursing home care beds in operation.

Average Daily Number of Beneficiaries

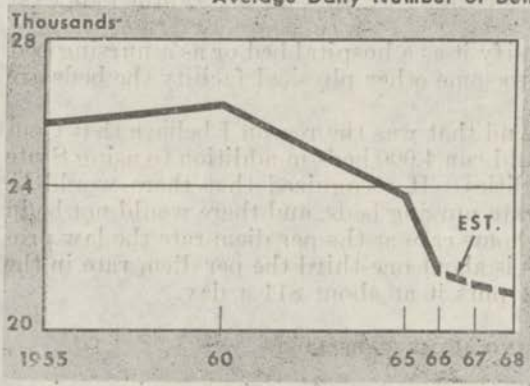


Year	Number
1965	324
1966	3,854
1967 est.	7,316
1968 est.	8,646

Domiciliary and Restoration Care

Treatment and care is provided for eligible veterans in 18 VA Domiciliary and Restoration Centers and in 33 state soldiers' homes located in 28 states. The decline in the number of domiciliary beneficiaries is due in part to the availability of the Nursing Home Care program.

Average Daily Number of Beneficiaries



Year	Number
1955	25,774
1956	25,786
1957	25,846
1958	25,991
1959	26,518
1960	26,274
1961	26,197
1962	25,472
1963	24,851
1964	24,676
1965	23,721
1966	21,594
1967 est.	21,310
1968 est.	21,054

Mr. EVINS. The nursing home care just started in 1965 by new legislation is going up significantly. In 1965 you just had 324 nursing home care. In 1968 you estimate there will be 8,646. Does this program reduce the numbers of veterans in regular medical hospital beds?

Mr. DRIVER. Yes, it does, sir. This has contributed significantly to the dramatic increase in total patients treated estimated at 790,600 in 1968, with about the same number of operating beds, because many of these nursing patients which are now in nursing beds were, of course, long-term patients and they were occupying beds needed for acute care. This has also been reflected remarkably in the fact that our waiting lists are at an all-time low. We would hope with the continued effective use of this program we could make the most profitable use of the medical care beds.

STATE NURSING HOMES

Mr. EVINS. You make these grants to the States and the States build the nursing homes?

Mr. DRIVER. Yes, sir.

Mr. EVINS. Is this on a 50–50 matching basis?

Mr. DRIVER. Yes, sir. Then we pay $3.50 a day per veteran toward his care while he is in the State bed.

Mr. EVINS. Would you say of the 7,316 average daily beneficiaries in 1967 in the nursing home bed care, that 7,000 of them are veterans taken off of the veterans hospital rolls?

Mr. DRIVER. Well, sir, many of these would still be in VA nursing beds. They would be in the system somewhere, but out of acute medical care beds.

Mr. EVINS. It is a bookkeeping transaction, you are characterizing it as nursing home care but they are not actually moved out of the VA hospital?

Mr. DRIVER. Some of them are and some are not. We have contracts and we have moved hundreds of nursing care veterans out into private and community nursing homes. There are some others whom we continue to hospitalize in the sense that we operate a bad as a nursing bed.

Mr. EVINS. You can classify it as a hospital bed or as a nursing bed but if they are not moved to some other physical facility the beds are still occupied?

Mr. DRIVER. Yes, sir. And that was the reason I believe that Congress provided that we would run 4,000 beds in addition to using State facilities and private facilities. It recognized that there would be States that would not operate nursing beds, and there would not be in the private sector nursing home care at the per diem rate the law provides we would pay. This is about one-third the per diem rate in the G.M. & S. hospital. That puts it at about $11 a day.

NURSING HOME CARE COSTS

Mr. BOLAND. What is the average cost of nursing care in a private nursing home?

Mr. DRIVER. Dr. Haber, will you answer.

Dr. HABER. The average has increased considerably over the last couple of years. We find it is around $12 to $14 a day now. The advent

of medicare, causing a shortage of beds, will drive it even higher. If I may, I would like to dispel the idea that this is a mere bookkeeping transaction in nursing care beds; far from it. We have altered the space in accordance with criteria for nursing home care as differentiated from hospital care.

We have changed the entire treatment plant and we feel we are doing a much better job for these patients who are now residing in VA nursing home beds.

Mr. EVINS. In any event it has relieved the pressure on the regular medical hospital bed and your ceiling and your limitation, and this is reflected by your waiting list?

Dr. HABER. Precisely.

Mr. EVINS. There are less on the waiting list today than in some months?

Dr. HABER. Yes.

Mr. EVINS. Mr. Shipley.

Mr. SHIPLEY. What is the difference in the cost of keeping a patient in a private nursing home and in the regular VA institution; that is, the difference in cost in the same type of case.

Mr. DRIVER. Well, the results of the total program, Mr. Shipley, are these: The patients that require the most sophisticated nursing care, those that require something approaching medical care, we generally wouldn't put out in a private home.

Mr. SHIPLEY. I realize this.

Mr. DRIVER. So the nursing patient we would give to the private home is running about $11 a day.

Mr. SHIPLEY. That is what I want to know. What does it cost to keep them in a hospital bed?

Mr. DRIVER. In a hospital bed it would cost about $33, $34, $35. So there is a very marked advantage in having nursing facilities available.

Mr. SHIPLEY. In the future what do you expect to do with the bed patient that actually does not require much service?

Mr. DRIVER. We will attempt to place him in a private nursing home, a State home, or a VA nursing bed as distinguished from a hospital bed.

STATE NURSING HOMES

Mr. EVINS. Are you pushing this State program and what response have you had?

Dr. HABER. We have had approximately 1,500 patients we are supporting in State nursing homes as of this moment. We are encouraging the States to make use of the grants-in-aid construction program to which Mr. Evins referred before. Eights projects in seven States have received tentative approval for a total of 824 beds to be constructed. We are currently considering three additional projects from States and we have had evidence of interest from between 12 and 15 other States who wish to participate in this program in the future.

Mr. SHIPLEY. Are the States listed in the justifications?

Dr. HABER. Yes.

Mr. BOLAND. You are not going to have enough money to satisfy the desires of the States. You say you are pushing this within the States. You have eight in seven States for fiscal 1968?

Dr. HABER. Yes.

Mr. BOLAND. All you are asking for is $4 million for fiscal 1968 for the construction program, and this is a 50–50 matching proposition as I understand it.

Dr. HABER. That is right.

Mr. BOLAND. Somewhere in the justifications you say you think there is some interest being shown by some 17 States.

Is $4 million going to be enough for you?

Dr. HABER. Yes, sir.

Mr. BOLAND. The authorization is $5 million. Why didn't you ask for five?

Dr. HABER. This was originally authorized by Public Law 88–450, section 4. At that time the program was envisioned to last 5 years and I believe at the current time legislation is being considered for an extension of this program.

Mr. BOLAND. Would you recommend extension of the program?

Mr. DRIVER. At the rate they are coming in with the State legislatures acting so the moneys are available—in other words, meeting the procedural status where we can make money available, the $4 million will be enough for this year.

Mr. BOLAND. The authorization is $5 million, however. About $10 million has already lapsed; $9.5 million has lapsed that you can't use, so actually all you will be using is about $15 million in this whole program.

Mr. DRIVER. In another year we will have to assess the unmet demand with States still coming in and we will have to consider coming forward and giving you another recommendation.

Mr. BOLAND. And we would have to amend the law.

Mr. DRIVER. This is an excellent program. We would hope there would be more participation.

Mr. BOLAND. It sounds good but it doesn't seem we are getting much participation.

Mr. DRIVER. We have met all that we have been offered by the States.

Dr. HABER. Of these 824 beds in projects which we have at the present time tentatively authorized, the cost of construction is estimated to be $10.9 million, of which the Veterans' Administration is contributing to the extent of $4.9. Almost exactly half.

Mr. BOLAND. If you wanted the kind of a program that you desire—if you got the kind of program you desire in this particular area, you must have some projections on how much money it would save the VA to get people out of G.M. & S. and NP hospitals and into the nursing homes.

Mr. DRIVER. We have this in the hearings on Public Law 88–450.

Take a State home, for example. If we could get over the grant part, the matching fund, leaving that out, to pay $3.50 per diem for his support in a State home is a real bargain compared to what it costs in any other home, a VA hospital or anything else. This, of course, is a program that if you were just to look at it from the standpoint of dollars and cents, and not the business of the State operating the facility and entering into veterans' care and all that entails, this is a very good investment.

Mr. BOLAND. It is a very good investment to put them into private nursing homes if you can get them out of the $30 a day cost. You wouldn't take them out of NP?

Mr. DRIVER. Yes, but that is less expensive.

Mr. SHIPLEY. Illinois has been experiencing this with our own State institutions. We have taken thousands of people out of the institutions and put them in private nursing homes because they didn't require bed facilities, but they were taking bed space. Like Mr. Boland just said, I am a little surprised that you didn't ask for the $5 million.

Mr. DRIVER. Because the States have not reached the point, the local legislatures have not appropriated the matching money and until they do, we are not able to spend it.

Mr. EVINS. Mr. Administrator, are you acquainting the Governors of the States fully with the advantages of this program and giving them a little stimulation where the States should move in taking care of some of their responsibilities?

Mr. DRIVER. Yes, we have. They have done a remarkable job in pushing it. They really have.

NURSING HOME BEDS FOR VETERANS

Mr. GIAIMO. Do you have any idea how many nursing home beds you could use in addition to the 824?

Mr. DRIVER. The 824 represent only State-operated nursing homes. We have, in addition to that, about 125,000 private beds under contract available to us under that $11 per day per diem and in that we have put out as many as we have cared for in VA facilities.

I would say that perhaps with some perfection, where we show 8,000 nursing patients here—8,646—that we will get up in the range of 10,000 to 12,000 as time passes and we treat more patients. But, at the moment, I think we are making nearly a maximum use of nursing beds for our purposes.

STATE PARTICIPATION IN NURSING CARE

Mr. GIAIMO. If you had the ideal situation where you had enough participation by the States over and above the 824, how many could you use? This is all I am trying to get across.

Mr. DRIVER. If every State in the Union operated nursing beds and made them available for this purpose, we could have all of our 8,600 in these beds.

Mr. BOLAND. One of the problems you have here, of course, is that some of the States may not be too interested because if the Veterans' Administration picks the whole tab up—why do it?

Mr. DRIVER. Why do it?

Mr. BOLAND. Why do it? Exactly. The VA pays the entire cost of putting them in a private nursing home—$11 a day. So many States would probably say, "Why should we get into this program because they are going to put them in private nursing homes anyway at $11 a day and we won't pay anything."

If we go ahead into this building program, we have to pay 50 percent of the cost of the construction of the building.

Mr. DRIVER. Plus the remaining per diem.

Mr. BOLAND. There is one of the problems.

Mr. TALCOTT. It is also considered to be a Federal problem more than a State problem.

Mr. DRIVER. That is an argument that is used, yes, sir. Though many States, about 25, have over the years shown a remarkable interest in taking some part in their own veteran citizens' affairs.

AUTHORIZED NUMBER OF VA BEDS

Mr. EVINS. Mr. Administrator, what is the maximum authorized hospital bed limit set by Congress?

Mr. DRIVER. 125,000 hospital beds. Four thousand nursing beds.

Mr. EVINS. 125,000 hospital and 4,000 nursing. When was this last amended or revised upward?

Mr. DRIVER. The last change was when Congress authorized under Public Law 88-450 the nursing home beds at 4,000. There had been no change in the 125,000 beds for many years.

Mr. BOLAND. Should there be?

Mr. DRIVER. No, sir. We aren't using them all today. In turnover, the nursing program, all the rest, we have a situation where the waiting lists are practically disappearing. We have several thousand beds not activated. So the 125,000 certainly is meeting the demands today.

INPATIENT BENEFICIARY LOADS

Mr. EVINS. Your 125,000 is your maximum and you have the nursing homes, which is 129,000. You say your medical care program envisioned for 1968 would provide for 138,427 average daily patient beneficiaries.

Mr. MONK. That includes the domiciliaries, plus the contract beds.

Mr. EVINS. I think the chart on page 4—III, part 4, shows your average daily care beneficiary load and it is very interesting. All beneficiaries total 138,427; in contract hospitals, 1.7 percent. Number in State homes, 7,610, or 5.5 percent. Nursing home patients in VA hospitals—this is in your own hospitals?

Mr. DRIVER. Yes, sir.

Mr. EVINS. 3,720 which is only 2.7 percent of your total load. Nursing care, patients in State homes, that is the lowest, 1.4 percent.

Mr. DRIVER. Yes, sir.

Mr. EVINS. What are your lead progressive States having an interest in their own veterans, like Illinois?

Mr. DRIVER. Massachusetts. We have a listing of them.

Mr. EVINS. Supply for the record the list of the States that have State homes and State veterans's facilities.

(The information follows:)

STATE HOMES

Comparison of total and unit costs and average daily member load

	1966 actual	1967 estimate	1968 estimate	Increase (+) or Decrease (−)
Total costs	$7,437,976	$7,070,000	$6,907,000	−$163,000
Average daily member load	8,228	7,810	7,610	−200
Cost per member day	$2.48	$2.48	$2.48	

Comparative actual daily member loads since FY 1957 are as follows:

Fiscal year:	ADML	Fiscal year—continued	ADML
1957	8,938	1962	9,062
1958	9,318	1963	9,161
1959	9,678	1964	9,346
1960	9,418	1965	9,146
1961	9,385	1966	8,228

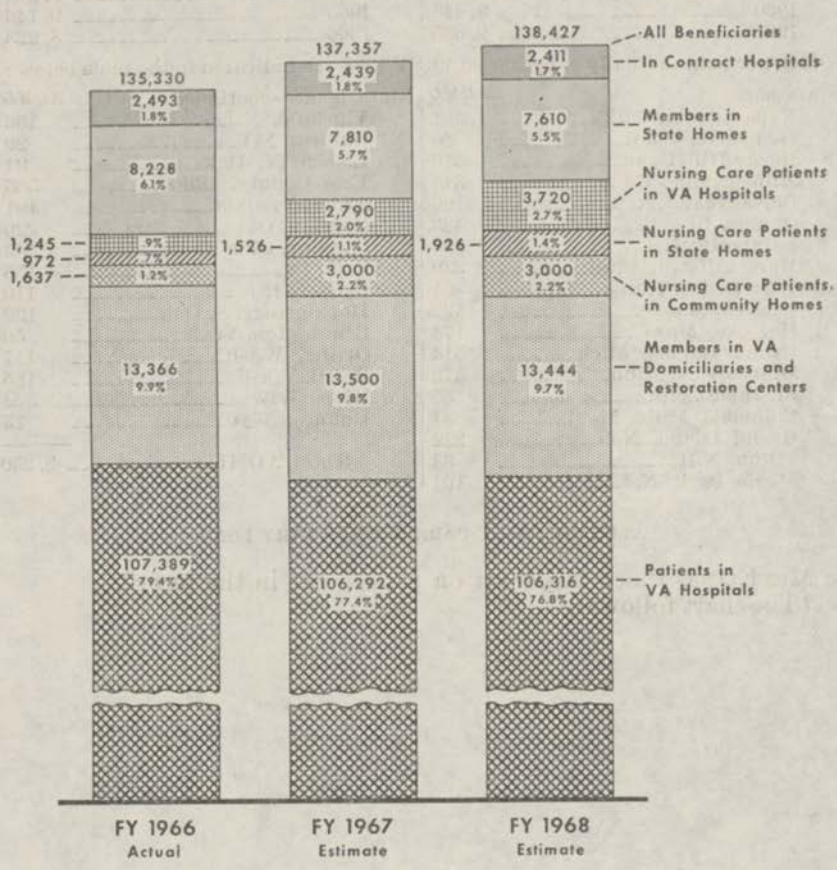
Member loads actually experienced in FY 1966 are indicated in the table below:

State home	ADML	State home—continued	ADML
Napa County, Calif	1,551	Vineland, N.J	150
Homelake, Colo	80	Oxford, N.Y	20
Rocky Hill, Conn	676	Lisbon, N. Dak	94
Milledgeville, Ga	313	Erie County, Ohio	555
Boise, Idaho	106	Ardmore, Okla	191
Quincy, Ill	423	Norman, Okla	220
Lafayette, Ind	150	Sulphur, Okla	143
Marshalltown, Iowa	339	Erie, Pa	155
Fort Dodge, Kans	91	Bristol, R.I	119
Chelsea, Mass	522	Hot Springs, S. Dak	122
Holyoke, Mass	173	Bennington, Vt	56
Grand Rapids, Mich	513	Orting, Wash	117
Minneapolis, Minn	372	Retsil, Wash	185
St. James, Mo	55	King, Wisc	324
Columbia Falls, Mont	44	Buffalo, Wyo	15
Grand Island, Neb	222		
Tilton, N.H	33	Total ADML	8,230
Menlo Park, N.J	101		

AVERAGE DAILY CARE BENEFICIARY LOAD

Mr. EVINS. Place this chart on page 4–111 in the record.
(The chart follows:)

Change In Composition Of Average Daily Care Beneficiary Load



DOMICILIARY AND RESTORATION CARE

Mr. EVINS. Continuing on with this chart on 4–111, members in VA domiciliaries and restoration centers, is this outside of your limit, your ceiling?

Mr. DRIVER. Yes, sir; there is no limit in the domiciliary area.

Mr. EVINS. This is a big group; 13,444, nearly 10 percent—9.7 percent of your veterans are in these domiciliaries.

What constitutes a restoration center?

Dr. HABER. This is a program devoted to the purpose of trying to rehabilitate and restore disabled veterans to productive capacity in the community. We currently have five of these. Two operating in conjunction with our hospitals at Hines, Ill., and East Orange, N.J., and three of them located in our domiciliaries.

Mr. EVINS. Are all of these owned, maintained, and operated by the Veterans' Administration?

Dr. HABER. Yes, sir.

Mr. EVINS. Is this an act of Congress or is this an administrative creation of the Veterans' Administration?

Dr. HABER. This is within the scope of the program authorized by Congress.

Mr. BOLAND. How many have you restored? What is the difference between a domiciliary and a restoration center?

Dr. HABER. In the domiciliary the program is designed to maintain the individual at a maximum status within a sheltered environment.

Mr. BOLAND. He is practically retired.

Dr. HABER. Yes, generally speaking, he is an older veteran. Someone who may not have a family to support him and who is unable to earn his living in the community.

The restoration center man is a veteran usually under 50 or 55 years of age in whom we believe there is capacity for working with him to restore him to productive life in the community. We feel that the concentrated effort on these people will prevent them from becoming institutionalized. After World War I, when we had no such program, many veterans who came to our domiciliaries, were, so to speak, left to their own devices, and were given merely custodial care. These veterans then became permanent inhabitants of the domiciliary. We are trying to prevent that with a more aggressive rehabilitation approach in our younger veterans.

We find we have about 50 percent success in our attempts which is almost inordinately high.

Mr. BOLAND. Fifty percent of what total number?

Dr. HABER. The total number is under 3,000 at this point. Three of the programs have just been formally authorized out at the domiciliaries in the past year though they have been operating in similar fashion. The whole program is new, having begun in 1961. We have expectations we may be able to utilize it more effectively in other areas as well.

VA HOSPITAL PATIENTS

Mr. EVINS. You have 106,316 patients projected for VA hospitals, in your regular hospital beds in fiscal year 1968.

Mr. DRIVER. For an average day.

Mr. EVINS. Which is 76.8 percent of your entire load?

Mr. DRIVER. Yes, sir, of the entire beneficiary load. Covering State, private, VA, and other Federal hospitals.

Mr. EVINS. Of the 138,427 average daily beneficiaries, all is being carried by the Veterans' Administration except 1.4 percent, which is in the State homes.

Mr. DRIVER. The private nursing homes too have to be considered.

Mr. EVINS. The VA is paying the bill for that?

Mr. DRIVER. Oh, yes. Of course, we are also paying in the State nursing homes at a $3.50 per diem rate, plus the matching funds for the construction.

Mr. EVINS. You are paying for it all except the small part that the States contribute in the 1.4 percent of the load.

Mr. DRIVER. That is right, sir.

HOSPITAL STAFFING RATIOS

Mr. JONAS. You gave the staffing ratio for G.M. & S. hospitals at 132.

Mr. DRIVER. Per hundred patients.

Mr. JONAS. And NP's, 76?

Mr. DRIVER. Per hundred.

Mr. JONAS. How does that compare with civilian hospitals?

Mr. MONK. It is probably higher in the NP's, Mr. Jonas, and considerably lower in the G.M. & S.

Mr. JONAS. Give use the comparative figures for G.M. & S. hospitals.

Mr. WISE. Civilian G.M. & S. hospitals average about 246 employees per hundred patients, but there is a difference. For example, pediatrics and OB, which you don't find in our hospitals.

Mr. JONAS. I thought Mr. Monk said our ratio was higher in G.M.& S.

Mr. MONK. No, higher in the NP but lower in the G.M. & S.

Mr. JONAS. You have no way of comparing G.M. & S. staffing with civilians because you don't render the same kind of service, is that right?

Mr. MONK. That is right. It is very difficult to make a direct comparison.

Mr. DRIVER. And it is difficult, too, because of the fact that we are dealing principally with an aging adult male population.

HOSPITAL WAITING LIST

Mr. JONAS. You said your waiting list is disappearing?

Mr. DRIVER. Yes, sir.

Mr. JONAS. That you now have bed vacancies?

Mr. DRIVER. Yes, sir, in many parts of the country. We have others where we continue to have applicants waiting.

Mr. JONAS. Where are your vacancies? Do you have a table showing——

Mr. DRIVER. We can provide the waiting list in every hospital.

Mr. JONAS. Generally where—I think we ought to have that in the record showing vacancies and where they exist.

Mr. DRIVER. We can provide that for the record.

Mr. JONAS. You mean where you have bed vacancies?

Mr. DRIVER. I mean, Mr. Jonas, if every veteran who desires VA hospital care today were willing to go where a bed is available, there would be no meaningful waiting list.

Mr. JONAS. Even for non-service-connected cases?

Mr. DRIVER. That is right, sir.

Mr. JONAS. You have never had in recent years any waiting list for service-connected veterans?

Mr. DRIVER. No; we have never put them on the waiting list.

Mr. JONAS. But you do have some waiting list in some areas of the country of non-service-connected veterans, but if the total number on those lists—if all of the people on those lists were willing to go where beds are available, you would eliminate the waiting list altogether?

Mr. DRIVER. Yes. I would have to qualify that to this extent: About two-thirds of the psychiatric waiting list is made up of patients presently hospitalized though not in VA hospitals. If we take those

out and just use those who are not hospitalized and require care, I believe if they would go, we would have no waiting list anywhere in the country.

Mr. JONAS. I think you have a large waiting list at the NP hospital in Salisbury.

Mr. DRIVER. That can well be.

Mr. JONAS. It is over 150 at the moment.

Mr. DRIVER. Most of those would probably already be hospitalized probably in a State hospital. This is generally true of the entire NP waiting list.

Mr. EVINS. Many veterans want to get into the veterans hospital and the families of veterans prefer them in these institutions; they want them transferred from a State institution to another institution.

Mr. DRIVER. And we try to accommodate this continually.

Mr. JONAS. Is there any difficulty getting a non-service-connected veteran who is qualified for admittance to an NP hospital—having him transferred from a State institution to the VA hospital?

Mr. DRIVER. If there is a bed available, there is no difficulty.

Mr. JONAS. No difficulty?

Mr. DRIVER. No, sir, generally speaking. I mean if everyone cooperates, the family and so on.

PENSIONERS

Mr. JONAS. You have 2.2 million pensioners?

Mr. DRIVER. Yes, sir.

Mr. JONAS. That means non-service-connected veterans who are getting pensions?

Mr. DRIVER. Right.

Mr. JONAS. If they were service connected, they would get compensation?

Mr. DRIVER. Right.

Mr. JONAS. Can you tell what the eligibility requirements are for the non-service-connected pensioner?

Mr. DRIVER. Yes, sir. He should be a war veteran, permanently and totally disabled, and unable to work because of the disability; and he must meet, in addition to that, minimum income limitation.

In the case of a veteran without dependents, he would receive pension if he met all of these other qualifications, providing his income was $1,800 or less. If he had dependents, the maximum would be $3,000.

Mr. JONAS. The maximum pension is $104 right now?

Mr. DRIVER. No. He gets more with two or three dependents. But if you take the case of a single veteran who is in need of aid and attendance, the maximum pension would be $200.

Mr. BOLAND. You talk about income now. Now, what about assets——

Mr. JONAS. What about his capital assets?

Mr. DRIVER. We consider this in the adjudication in deciding whether he is a qualified pensioner and if, in our judgment, his estate is such that he should use it for his support; then we do not authorize him to have a pension. This, of course, varies from case to case. It would depend on the age of the veteran, his life expectancy, his needs for

other people, like spouse or something of that sort and, of course, the size of his estate.

Mr. JONAS. That is what we are getting to. Do you have a rule of thumb or is there anything in the law that——

Mr. DRIVER. No, sir; it says "In the judgment of the Administrator."

Mr. JONAS. In the judgment of the Administrator, if he needs a pension.

You have a sort of a rule of thumb around $10,000?

Mr. DRIVER. No. First of all, we exclude his domicile. If he has his house paid for, we wouldn't count this. We are really looking at a situation where a man might have a 5- or 6-year life expectancy and have $25,000 in cash in the bank and no other responsibilities. We would expect that part of that estate would be used before we would admit him to the pension rolls. After he has used some of it, we would be happy to review the situation again. If he got down to the point where he had perhaps only enough money left for minimal expenses we, of course, would consider him qualified for a pension.

Mr. JONAS. You don't have a break point——

Mr. DRIVER. We haven't a table or anything like that.

Mr. JONAS. I don't mean a table.

Mr. STRATTON. I think the impression that we had a break point was accepted by some when the law was first passed, and I asked that all the cases where the corpus of estate exceeded $10,000 whether granted or not granted, would come to us in the central office to see what kind of a deal we had hold of.

At that point some people got to think the $10,000 was a rule of thumb, but this is not correct. I would say the average corpus of an estate in cases where we disallow less than 1 percent of them would be $25,000. Some would be 75 or a hundred.

Mr. JONAS. You require him to file a statement every year listing income and assets?

Mr. STRATTON. That is true.

Mr. JONAS. Do you examine those every year in your regional office?

Mr. STRATTON. Yes, sir.

Mr. JONAS. I am trying to find out if this isn't an area in which we are a little too liberal. I am not talking about service-connected cases or disabilities aggravated by service, but I am talking exclusively about the case of a veteran who suffered no injury or disability as a result of his service and 2.2 million of them are drawing pensions and it costs what, $2 billion a year?

Mr. STRATTON. It costs over $2 billion. The biggest share of those pensioners that we have have incomes less than $600 a year. The largest number of pensioners have incomes less than $600 a year.

Mr. JONAS. Will you break that down in percentages?

Mr. STRATTON. By $100 units.

Mr. JONAS. Supply that for the record.

Mr. STRATTON. I would suggest it might be well if we gave the committee a sampling of cases where we allow pensions where they have a corpus of estate of some size and some where we do not. We think it is being fairly administered.

Mr. JONAS. The Administrator and the law have the authority to make the judgment and the decision on pension cases. The law also says that the decision of the Administrator shall be final. He is the

last word. You can't go to the Supreme Court. Mr. Driver is the Supreme Court in this matter.

(The information requested above follows:)

All veterans on pension rolls

Annual income not over—	APR. 20, 1965					APR. 20, 1966				
	Total	Old law	New law	Percent of old law	Percent of new law	Total	Old law	New law	Percent of old law	Percent of new law
$100	160,363	39,003	121,360	24.3	75.7	161,234	32,137	129,097	19.9	80.1
$200	9,574	3,404	6,170	35.6	64.4	7,801	2,585	5,216	33.1	66.9
$300	8,869	2,966	5,903	33.4	66.6	7,774	2,424	5,350	31.2	68.8
$400	13,728	3,628	10,100	26.4	73.6	11,185	2,703	8,482	24.2	75.8
$500	69,583	17,133	52,450	24.6	75.4	60,970	12,420	48,550	20.4	79.6
$600	43,534	12,729	30,805	29.2	70.8	39,335	9,262	30,073	23.5	76.5
$700	40,534	17,856	22,678	44.1	55.9	40,067	14,568	25,499	36.4	63.6
$800	60,449	25,535	34,914	42.2	57.8	53,371	20,458	32,913	38.3	61.7
$900	68,672	28,351	40,321	41.3	58.7	63,642	23,082	40,560	36.3	63.7
$1,000	76,096	32,216	43,880	42.3	57.7	67,823	25,662	42,161	37.8	62.2
$1,100	63,817	33,582	30,235	52.6	47.4	66,114	27,671	38,443	41.9	58.1
$1,200	85,406	46,143	39,263	54.0	46.0	69,566	33,713	35,853	48.5	51.5
$1,300	84,383	44,660	39,723	52.9	47.1	85,099	42,659	42,440	50.1	49.9
$1,400	58,136	28,020	30,116	48.2	51.8	79,508	34,875	44,633	43.9	56.1
$1,500	38,092	15,943	22,149	41.9	58.1	45,656	14,311	31,345	31.3	68.7
$1,600	35,761	15,829	19,932	44.3	55.7	36,015	13,785	22,230	38.3	61.7
$1,700	34,524	15,681	18,843	45.4	54.6	35,916	14,041	21,875	39.1	60.9
$1,800	37,362	26,821	20,541	45.0	55.0	37,199	14,289	22,910	38.4	61.6
$1,900	29,589	15,766	13,823	53.3	46.7	30,916	14,097	16,819	45.6	54.4
$2,000	30,967	16,090	14,877	52.0	48.0	31,670	14,236	17,434	45.0	55.0
$2,100	23,635	15,055	8,580	63.7	36.3	25,195	13,710	11,485	54.4	45.6
$2,200	21,822	14,145	7,677	64.8	35.2	22,800	13,395	9,405	58.7	41.3
$2,300	21,880	14,247	7,633	65.1	34.9	22,661	13,887	8,774	61.3	38.7
$2,400	23,022	15,625	7,397	67.9	32.1	23,805	15,030	8,775	63.1	36.9
$2,500	20,157	12,871	7,286	63.9	36.1	23,300	14,799	8,501	63.5	36.5
$2,600	13,376	6,512	6,864	48.7	51.3	16,341	7,903	8,438	48.4	51.6
$2,700	13,094	6,197	6,897	47.3	52.7	14,697	6,170	8,527	42.0	58.0
$2,800	4,354	--------	4,354	--------	100.0	6,979	--------	6,979	--------	100.0
$2,900	3,528	--------	3,528	--------	100.0	5,310	--------	5,310	--------	100.0
$3,000	4,897	--------	4,897	--------	100.0	6,945	--------	6,945	--------	100.0
Not stated	374	255	119	68.2	31.8	344	243	101	70.6	29.4
Total	1,199,578	516,263	683,315	43.0	57.0	1,199,238	454,115	745,123	37.9	62.1

All widows on pension rolls

Annual income not over—	Apr. 20, 1965					Apr. 20, 1966				
	Total	Old law	New law	Percent of old law	Percent of new law	Total	Old law	New law	Percent of old law	Percent of new law
$100	109,685	13,938	95,747	12.7	87.3	106,218	11,280	94,938	10.6	89.4
$200	9,736	1,552	8,184	15.9	84.1	8,724	1,166	7,558	13.4	86.6
$300	12,623	1,919	10,704	15.2	84.8	11,747	1,346	10,401	11.5	88.5
$400	20,298	3,093	17,205	15.2	84.8	18,075	2,216	15,859	12.3	87.7
$500	49,691	7,743	41,948	15.6	84.4	50,396	6,697	43,699	13.3	86.7
$600	46,526	10,959	35,567	23.6	76.4	43,454	8,598	34,856	19.8	80.2
$700	39,466	19,080	20,386	48.3	51.7	41,297	16,598	24,699	40.2	59.8
$800	46,346	24,550	21,796	53.0	47.0	47,788	22,549	25,239	47.2	52.8
$900	48,130	23,088	25,042	48.0	52.0	51,227	22,823	28,404	44.6	55.4
$1,000	64,243	28,834	35,409	44.9	55.1	56,753	23,522	33,231	41.4	58.6
$1,100	57,193	25,388	31,805	44.4	55.6	67,717	25,958	41,759	38.3	61.7
$1,200	44,054	23,310	20,744	52.9	47.1	59,365	25,057	34,308	42.2	57.8
$1,300	35,067	23,543	11,524	67.1	32.9	41,756	25,895	15,861	62.0	38.0
$1,400	26,476	15,777	10,699	59.6	40.4	28,925	15,856	13,069	54.8	45.2
$1,500	10,705	458	10,247	4.3	95.7	12,726	355	12,371	2.8	97.2
$1,600	9,904	458	9,446	4.6	95.4	11,958	362	11,596	3.0	97.0
$1,700	8,575	438	8,137	5.1	94.9	10,690	348	10,342	3.3	96.7
$1,800	8,899	538	8,361	6.0	94.0	10,225	392	9,833	3.8	96.2
$1,900	3,709	537	3,172	14.5	85.5	3,767	367	3,400	9.7	90.3
$2,000	3,350	590	2,760	17.6	82.4	3,638	441	3,197	12.1	87.9
$2,100	2,396	554	1,842	23.1	76.9	2,603	447	2,156	17.2	82.8
$2,200	2,289	546	1,743	23.9	76.1	2,186	410	1,776	18.8	81.2
$2,300	1,885	455	1,430	24.1	75.9	2,176	404	1,772	18.6	81.4
$2,400	1,983	443	1,540	22.3	77.7	2,126	396	1,730	18.6	81.4
$2,500	1,762	446	1,316	25.3	74.7	2,118	459	1,659	21.7	78.3
$2,600	1,817	460	1,357	25.3	74.7	2,208	467	1,741	21.2	78.8
$2,700	1,769	525	1,244	29.7	70.3	1,858	444	1,414	23.9	76.1
$2,800	1,106	-------	1,106	-------	100.0	1,318	-------	1,318	-------	100.0
$2,900	1,004	-------	1,004	-------	100.0	1,272	-------	1,272	-------	100.0
$3,000	1,456	-------	1,456	-------	100.0	1,732	-------	1,732	-------	100.0
Not stated	174	122	52	70.1	29.9	195	127	68	65.1	34.9
Total	672,317	229,344	442,973	24.1	65.9	706,238	214,980	491,258	30.4	69.6

All children on pension rolls

Annual income not over—	Apr. 20, 1965					Apr. 20, 1966				
	Total	Old law	New law	Percent of old law	Percent of new law	Total	Old law	New law	Percent of old law	Percent of new law
$100	51,441	256	51,185	0.5	99.5	57,266	221	57,045	0.4	99.6
$200	5,887	24	5,863	.4	99.6	6,083	19	6,064	.3	99.7
$300	11,854	41	11,813	.3	99.7	12,416	23	12,393	.2	99.8
$400	15,568	67	15,501	.4	99.6	16,920	34	16,886	.2	99.8
$500	19,957	78	19,879	.4	99.6	21,397	43	21,354	.2	99.8
$600	34,943	166	34,777	.5	99.5	35,987	85	35,902	.2	99.8
$700	31,243	94	31,149	.3	99.7	32,963	70	32,893	.2	99.8
$800	37,878	129	37,749	.3	99.7	38,036	82	37,954	.2	99.8
$900	17,635	89	17,546	.5	99.5	19,913	54	19,859	.3	99.7
$1,000	37,773	177	37,596	.5	99.5	40,039	107	39,932	.3	99.7
$1,100	47,569	158	47,411	.3	99.7	46,571	115	46,456	.2	99.8
$1,200	13,069	71	12,998	.5	99.5	13,560	52	13,508	.4	99.6
$1,300	3,289	38	3,251	1.2	98.8	3,640	28	3,612	.8	99.2
$1,400	2,770	78	2,692	2.8	97.2	3,018	87	2,931	2.9	97.1
$1,500	1,734	-------	1,734	-------	100.0	1,870	-------	1,870	-------	100.0
$1,600	1,367	-------	1,367	-------	100.0	1,419	-------	1,419	-------	100.0
$1,700	1,090	-------	1,090	-------	100.0	1,208	-------	1,208	-------	100.0
$1,800	26,857	-------	26,857	-------	100.0	54,423	-------	54,423	-------	100.0
Not stated	1,214	42	1,172	3.5	96.5	1,987	8	1,979	.4	99.6
Total	363,138	1,508	361,630	.4	99.6	408,716	1,028	407,688	.3	99.7

REVIEW OF INCOMES AND ASSETS

Mr. JONAS. I am just trying to find out exactly what the rules are and how often you review these cases.

Mr. DRIVER. Every year, Mr. Jonas.

Mr. JONAS. It strikes me that a couple billion dollars a year, with two and a half million people drawing pensions, and the majority of them with incomes under $600; that is a sort of a shocking situation to me.

Mr. STRATTON. Overall, Mr. Jonas, I would say that the average estate reported by an applicant for pension in the initial application, after you have excluded his equity in his home, which is not counted, would be well under $1,000.

Mr. EVINS. Mr. Stratton, are you telling Mr. Jonas and the committee that 90 percent of the pension cases, where decisions are made for pensions, are for veterans with incomes under $600?

Mr. STRATTON. I am saying that the very large majority of the pension applicants——

Mr. EVINS. How much? Give us a percentage figure.

Mr. DRIVER. Can we supply a table for the record?

Mr. STRATTON. I would say on the average, not counting the income per year now, not counting social security and this type of thing, but actual negotiable income that the man has that he could utilize for his own benefit at the time he applies, after you exclude the equity in his home——

Mr. EVINS. Leaving out his dowry, leaving out his home, what is the average income of the veteran receiving a pension?

Mr. STRATTON. The average income I would say is between $1,000 and $2,000, but the average corpus of estate—I am speaking of another matter here—is under $1,000.

Mr. EVINS. You said something earlier about $600. Spell that out again.

Mr. STRATTON. I think this was Mr. Driver speaking to the fact that most of our pensioners are single, who apply and have income under $600, and therefore draw the maximum rate.

Mr. EVINS. Most of them are under $600 and a great number are under a thousand?

Mr. STRATTON. Yes, sir.

Mr. DRIVER. We have two categories. If he has dependents, the minimum income is $1,000. In the dependent category where you have more than one person in the family, the average of these cases would be under $1,000.

In the single case where the minimum income is $600, most of them would be under $600.

Mr. EVINS. If he has dependents, the Administrator can make a judgment by increasing the amount.

Mr. DRIVER. Only in terms of his estate. We cannot make any judgment on his other income. The law fixes the amount he may receive.

INCOME EXCLUSIONS

Mr. JONAS. Before we leave the income point, what types of income are excluded from consideration?

Mr. DRIVER. The biggest single exclusion is 10 percent of social security, for example.

Mr. JONAS. You exclude 10 percent of social security?
Mr. DRIVER. Yes, sir.
Mr. JONAS. And count 90 percent of it?
Mr. DRIVER. Yes, sir.
Mr. JONAS. What about retirement income?
Mr. DRIVER. We count that.
Mr. STRATTON. We count all retirement income and all retirement type of income, subject to a 10 percent writeoff.
Mr. JONAS. You count it all and then exclude 10 percent?
Mr. STRATTON. We count 90 percent of the total that he reports.
Mr. DRIVER. Mr. Jonas, I would like to refresh your memory on the pension program. As you will remember, it was amended in 1959 to introduce this sliding scale and that sort of thing. Prior to that time the corpus of the man's estate was not even considered.
Mr. JONAS. I wanted it in the record.
Mr. EVINS. I would like for General Counsel to read the provision with respect to social security. This is a constant area of complaint and misunderstanding.
Mr. DRIVER. As I indicated in my opening statement, the President recommended, when he sent up his message on veterans the 31st of January, that we preserve from loss of pension any veteran who got an increase in benefits.
Mr. EVINS. This is prospective. This is pending before the Congress. What is the situation today, Mr. Counsel?
Mr. FABLE. Section 503, title 38, provides that in determining annual income under the pension chapter:

All payments of any kind or from any source, including salary, retirement, or annuity payments, or similar income which have been waived, irrespective of whether the waiver was made pursuant to statute, contract, or otherwise, shall be included except * * *.

And No. 6, under the exceptions, reads:

Ten per centum of the amount of payments to an individual under public or private retirement, annuity, endowment, or similar plans or programs.

That would include social security.
Mr. EVINS. He can have his veteran's check and he can have his social security, but you don't count 10 percent of the social security with respect to income.
Mr. DRIVER. That is right; and he has to meet the income limit to get his pension.
Mr. EVINS. The President has recommended that this be lifted or clarified?
Mr. DRIVER. What he has recommended is that the veteran be permitted to waive as much social security as required to stay within the VA income limit. For example, if he receives with his social security and other income $1,805, in order to get a VA pension, he would have to waive $5.

ACTIVATION AND CONSTRUCTION OF HOSPITALS

Mr. JONAS. I see you are activating or will—do you mean you will have fully activated this year the Miami-Gainesville hospitals?
Mr. DRIVER. We will activate the new Miami hospital in the year 1968. We will have the new Gainesville hospital partially activated in 1967.

Mr. JONAS. But they will be completely activated in 1968?

Mr. DRIVER. That is right.

Mr. JONAS. And you will let a contract for the construction of the Tampa hospital in 1968?

Mr. DRIVER. That is right.

Mr. JONAS. Have they built that university at Tampa yet?

Mr. DRIVER. The university is pretty well along; yes, sir. They haven't built the medical school, which we are looking forward to.

Mr. JONAS. When are they going to build that?

Mr. DRIVER. I can't answer that. I saw a letter from Dr. Allen the other day, however, indicating their firm intention to move along with this.

Mr. JONAS. I thought you were not building any new hospitals unless they were adjacent to medical schools?

Mr. DRIVER. We are not building any new hospitals if we can find a location adjacent to medical schools, other than in that location, but this is not our hard policy. We are just completing a hospital in Oteen, N.C., which is not adjacent to a medical school.

Mr. JONAS. No, at Oteen you are replacing a dilapidated one that had been there how long?

Mr. DRIVER. I can't answer that.

Mr. JONAS. Longer than you can remember?

Mr. DRIVER. Right, but we would prefer even there to have put it next to a medical school, but with the number of medical schools in the country under a hundred, quite obviously we can't have all our hospitals there.

Mr. JONAS. I thought you told us in previous years—of course, that was your predecessor who said that.

Mr. DRIVER. What is that?

Mr. JONAS. That you were not going to build any new hospitals unless they were located adjacent to medical schools.

Mr. DRIVER. I think that this is our first aim, and has been for years, but we just plain can't meet it in every case and I don't believe any Administrator could ever have said that, in every case, without exception, we would do this.

Mr. JONAS. I think he said "in every case." I think he said that was the rule.

Is this the only case of new hospital construction that is not adjacent to a medical school this year?

Mr. MONK. In a new location, Mr. Jonas. Now, we are replacing as we did at Oteen and Temple, Tex., in existing locations, but this is the only one——

Mr. JONAS. That is a new hospital from the ground up?

Mr. MONK. That is correct, sir, and, of course, there was——

Mr. EVINS. It is good that the Administrator is flexible. Sometimes you can solve some of the problems by decentralizing a little bit. It might be more restful for the veterans and it might be better therapy out from the crowded, congested areas.

HOSPITAL CONSTRUCTION AT TAMPA BAY PINES, FLA.

Mr. JONAS. I am not arguing that. This statement was made as to the policy when your predecessor refused to spend the money that Congress appropriated to rehabilitate the hospital at Bay Pines. He

said he wasn't going to spend the money. He didn't care even if Congress had appropriated the money, because it wasn't adjacent to a medical school.

Mr. DRIVER. I think, Mr. Jonas, the intention all along has been, especially in Florida and California, which represent two big shortage areas, to increase the number of available hospital beds. At that time spending money at Bay Pines would not have increased the number of hospital beds in a fashion such as the introduction of a brand new hospital at Tampa.

He was, I know, influenced too by the fact, first of all, that a medical school is in prospect there; secondly, by the fact that even without a medical school, as such, all of the other academic subjects associated with the university furnish an attraction for a medical location. So there were several principles going.

Admittedly, and still today, if we could get a hospital located with a medical school, with a limited number of medical schools in the country and a maximum number of VA hospitals, I think it is our obligation.

But, in addition to that, as the Chairman points out, we intend to do everything we can to make a more remote location just as attractive in terms of providing the best medical care we can.

Mr. JONAS. What are your plans about Bay Pines?

Mr. DRIVER. We intend, after Tampa is constructed, to look at Bay Pines in terms of an extension program.

Mr. JONAS. What happened to the money we appropriated?

Mr. DRIVER. It is still available in the construction fund.

Mr. JONAS. How long has it been available?

Mr. DRIVER. Six or seven years.

Mr. JONAS. How much of it?

Mr. DRIVER. $1.722 million.

Mr. EVINS. They would rather have it in the bank than transferred to some other purpose so it is still in the bank.

Mr. JONAS. We have about $125 billion previously appropriated but unspent.

Mr. TALCOTT. Are over 15 percent of the veterans living in California?

Mr. DRIVER. I can't give you the precise figure, but it is a very high one, Mr. Talcott.

Mr. EVINS. Gentlemen, this has been very interesting. Mr. Driver has made an excellent statement and we will go to Mr. Boland for general questions.

Mr. BOLAND. I think the Administrator points out in his statement that the only areas where we really can be effective at all, if there are going to be reductions is in operations. We can't do it with compensations and benefits. You might do it in payments in some areas, but you have indicated this is difficult. You have indicated with the billion being spent and the 3.2 million veterans being awarded pensions, that the only area in which you could really save here would be with respect to their total assets. Perhaps in the medical field you may be able to do it, but all of us appreciate the fact that this is a very difficult budget to reduce substantially and I want to compliment you on the statement you gave the committee.

CLOSING OF HOSPITAL FACILITIES

Mr. GIAIMO. Mr. Driver, are you replacing any hospitals? Are you closing any down?

Mr. DRIVER. Well, in the sense that we are building a new facility to replace an old building, and closing it down.

Mr. GIAIMO. The same area, though.

Mr. DRIVER. That is right.

Mr. GIAIMO. We are not getting into a problem of closing down in one general area?

Mr. DRIVER. We went through that a couple of years ago. We haven't had anything like that recently.

CONSOLIDATING OUTPATIENT CLINICS WITH HOSPITALS

Mr. GIAIMO. I just wanted to prepare myself for anything like that.

One other question: I note in one general hospital you are building an outpatient clinic and you are closing an outpatient clinic in Bridgeport about 20 miles away, roughly.

Mr. DRIVER. Yes, sir.

Mr. GIAIMO. Is this a general pattern?

Mr. DRIVER. We have been doing this all over the country. We have 25 or 30 remaining to be done. It is our conviction after a long period of trial that we can provide a more complete service if it is with the hospital clinic too, and it has been done in almost every location.

Mr. GIAIMO. There is no hardship for the patient getting 15 to 20 miles——

Mr. DRIVER. No, sir. After he gets there, you don't have an exceptional case where you have to send him back someplace else to get something. This is where the real advantage comes in.

Prior to that, when he was treated at a point 15 to 20 miles from the hospital, you would reach a limit of the care the clinic could provide and then you had to move him. This got to be a burden to the veteran, especially a service-connected veteran which is our principal object of outpatient care.

Mr. GIAIMO. Did I understand from early questions before that you were in a position at this time to take care of non-service-connected veterans without too much difficulty?

Mr. DRIVER. Yes, sir. Most of our load is nonservice connected, about 70 percent.

Mr. GIAIMO. Did I understand there is no backlog?

Mr. DRIVER. There are waiting lists, but they are at an alltime low and they have reached a point that, generally speaking—especially in the general medical area—that a veteran, if he would go where there is a bed available, he wouldn't have to wait.

I am not saying that this is something that should be done. If we can't get him to go there, not to consider him on the waiting list. There are cases where they want to be near their families and the kind of treatment necessary and that sort of thing. There is no question about that.

Mr. GIAIMO. All I can say in general, Mr. Driver, is that I have heard very few complaints, if any, about the operations of the Veterans' Administration in my area and I expect that you are doing a good job.

Mr. DRIVER. Thank you.

Mr. JONAS. If this veteran will go to where a bed is available, he goes at your expense, doesn't he?

Mr. DRIVER. If he can't afford to pay for his travel.

Mr. PRYOR. Do you have any plans to close any facilities in the near future? You said you went through this 2 years ago.

Mr. DRIVER. No, sir. Only in connection with replacement hospitals which I think everyone will agree is desirable. Get rid of the old and put up a new one.

NURSING RECRUITMENT PROBLEMS

Mr. GIAIMO. Are you having any problem hiring nurses?

Mr. DRIVER. Yes, sir; we are.

Mr. GIAIMO. Could you tell us a little about that?

Mr. DRIVER. Yes, sir. The scale of pay for nurses around the country has been a cause of difficulty in several locations; in California, in Chicago, in New York, Detroit, places like this. Especially in the large urban areas.

We have found it necessary to exercise our option to increase salaries for nurses in order to maintain the level that we require. Despite this, we continue to have some difficulties in certain areas. We will have reached the point where we have no further administrative discretion and we will ask for some legislative relief if the situation continues.

Mr. GIAIMO. What kind of legislative relief?

Mr. DRIVER. In pay scales for nurses, because clearly the range in the big cities is going up. I read in the paper almost every day a report from one city or another where they have taken action to increase the pay scale for non-Federal nurses.

I am talking now about the professional nurse and where we have difficulty in some cases in getting nursing assistants. In Chicago we have had a flurry of complaints about the fact that there where we operate a large paraplegic section with nearly 200 beds, we are increasingly unable to hire male nursing assistants which is desirable, of course.

Do what we will, advertising, increasing pay rates and the like, we have not been able to recruit enough in this area.

VA TRAINING PROGRAMS

Mr. GIAIMO. Does the VA have training programs for nurses aids, practical nurses, and these other types of assistants?

Dr. SKOUGE. We have extensive training for nurses aids in particular. For all practical purposes they are as well trained as most of the licensed practical nurses I have seen.

We recruit our nursing assistants primarily from people who apply for jobs in our hospitals, and we have nursing education programs which train these people constantly, so they are well trained when we get through with them but it takes a long time to do this.

Mr. GIAIMO. Do you also have any cooperative working relationships with some of our other programs such as we have in the urban centers, job training, and work in the poverty programs, trying to

teach some of these skills to the unskilled and the untrained and unemployed who could fill some of these jobs?

Dr. SKOUGE. We have been working on this extensively this year. I don't have details on numbers.

Mr. GIAIMO. I would be interested in seeing some sort of report on that. I think a lot more could be done in this area where we have these poverty programs and are trying to train people for jobs. I have a feeling some of these jobs could be covered by these people and they could be trained to do some of these low-skilled jobs as assistants or assistants to assistants in hospitals.

I would like to know what push is being made in that direction.

Mr. DRIVER. There has been a complete survey of what we might be able to contribute in that area.

Mr. EVINS. Give Mr. Giaimo a report on that.

Mr. GIAIMO. I would like it as part of the record, Mr. Chairman.

(Information referred to follows:)

Summary of VA health service manpower training report—RCS 15–1–S

Program	Number enrollees	Percent
Neighborhood Youth Corps	2,964	72.0
Work experience	627	15.0
Manpower training and development	206	5.0
Job Corps	129	3.0
College work study	115	3.0
Work study	94	2.0
Vocational work study	9	
Total	4,144	100.0
Clerical (stenographer, ward clerk, etc.)	760	18.3
Engineering (maintenance, repair, elevator operator, laborer, groundworker, etc.)	534	12.9
Housekeeping (laundry, seamstress)	667	16.1
Food service worker (bus girl, canteen, dietetic clerk)	661	16.0
Nursing (aids, assistants, practical nurses)	891	21.5
Paramedical aids (dental, laboratory, EKG, X-ray, psychology, surgical, pharmacy, therapy)	502	12.1
Supply (warehousemen, stock clerks)	103	2.5
Visual aids (photographer, medical illustrator, reproduction, drafting)	26	.6
Total	4,144	100.0

NOTE.—59 stations reported negative; 3, no enrollees; 1 starts in January.

Training categories listed in health service manpower training report

Clerical, business	760
Accounting	6
Clerical	535
Clerk-typist	130
Dictating machine transcriber	12
File clerk	24
Management intern	1
Medical records	8
Personnel clerk	4
Receptionist/switchboard operator	13
Ward clerk	27

Training categories listed in health service manpower training report—Con.

Engineering	534
Building service aid	26
Carpenter/aid	14
Custodian aid	55
Electrician aid	10
Elevator operator	9
Engineering assistant/helper	186
Laborer	83
Landscape/groundworker	33
Maintenance aid	60
Mason helper	2
Machinist helper	1
Plumber helper	4
Painter/helper	17
Mechanical trade helper	17
Radio and TV repair	2
Trades helper	14
Medical technician equipment repair	1
Food service worker	661
Bus girl	4
Canteen	14
Dietetic aid/clerk	10
Food service worker	663
Housekeeping	667
Housekeeping aid	469
Laundry worker	190
Seamstress	8
Nursing	891
Nursing aids, assistants	806
Practical nurses	85
Paramedical aides	502
Dental assistant	26
EKG technician/assistant	20
Eletroencephalograph technician assistant	1
Laboratory aid	156
Laboratory animal aid	18
Library assistant	29
Medical technician	25
P.M. & R. therapy	86
Pharmacy assistant	43
Psychology aid	23
Radiosotope laboratory aid	4
Surgical aid	7
Social work	6
X-ray technician/aid	49
Recreation aid	9
Supply	103
Stock clerks, warehousemen	103

Training categories listed in health service manpower training report—Con.

Visual aids, reproduction	26
Darkroom technician	11
Drafting	2
Medical artist/illustrator	1
Mimeograph/photo aid	5
Photographer helper	3
Visual aids assistant	4
Total	4,144

Mr. JONAS. At what do you start a nurses aid? What grade?

Dr. WELLS. GS–2 is a trainee.

Mr. JONAS. What would that be in salary?

Mr. DRIVER. GS–2 starts at $3,925. They are not at that very long. Then they are GS–3 which is $4,269.

Mr. GIAIMO. How much is grade 4?

Mr. DRIVER. $4,776.

PENSIONS

Mr. JONAS. Another question on the pension business. I guess it is a coincidence that the number of recipients with pensions is just about equal to the total of the veterans population above 65. That doesn't mean they are all World War I veterans receiving pensions.

Mr. DRIVER. The 2 million figure would include dependents as well as veterans. For example, take the World War I. He is 90 percent of our pension load. There are 1,900,000 World War 1 veterans. Not quite a million are drawing pensions.

Mr. JONAS. That was the next question.

Mr. DRIVER. About half.

Mr. JONAS. About half of World War I veterans are drawing pensions themselves?

Mr. DRIVER. Yes, sir; and they are on the average 72 years old.

Mr. JONAS. And about half are not drawing any benefits?

Mr. DRIVER. That is right, sir.

Mr. EVINS. Mr. Talcott.

NURSING HOME CARE

Mr. TALCOTT. I agree with the gentlemen in commending the Veterans' Administration.

You suggested that the State nursing home care program is a good one and should be expanded?

Mr. DRIVER. Yes, sir.

Mr. TALCOTT. I think a lot of people in the individual States believe this is a Federal program and a Federal responsibility so they are not anxious to pitch in.

Would it be possible if you change the formula to 60–40 from 50–50, or perhaps raise the Federal contribution, that that would induce more States to get involved and save money in the long run?

Mr. DRIVER. I don't think it would, Mr. Talcott. I think really the principal difficulty—and I think it is expressed in terms of the principle you mentioned, the idea of a Federal responsibility—gets down to the fact that the hard economic blow is in the daily maintenance of the patients.

Mr. TALCOTT. You supply the same per diem rate in all regions regardless of the cost of the hospitalization in the area?

Mr. DRIVER. That is right. The law specifically states, $3.50 per day reimbursements for care of veterans in State nursing homes.

Mr. TALCOTT. Hospital care costs vary.

Mr. DRIVER. This is nursing care and not hospital care.

Mr. TALCOTT. Doesn't that also vary in many regions?

Mr. DRIVER. Yes; and the cost of construction varies from region to region, too.

RETENTION OF NURSING SERVICE PERSONNEL

Mr. TALCOTT. Are the nurses aids you mentioned paid the same in all regions?

Mr. DRIVER. All regions. However, we have authority, for example, in the case of nurses in California, to pay a different rate there and in eight or 10 other locations because we cannot hire without doing that.

Mr. TALCOTT. I would think so. Secretary Wirtz' criteria are different——

Mr. DRIVER. That is right. There is a limit, however, to the flexibility we have in granting higher rates. We have just about reached it in the nursing area.

Mr. BOLAND. On one of the questions Mr. Giaimo pursued here, the matter of training nurses aids, and the inquiry of Mr. Jonas, with respect to what you pay them, I would like to have supplied for the record, if you can, what your experience has been in keeping these people after they have been trained. For how long do you train them and after they have been trained do they stay with you, do they go with some other hospital, private or municipal, outside of the VA system and really get more pay there? Perhaps a comparison of the pay scales would be helpful in determining the best way to approach this problem.

(The information follows:)

Turnover rate, VA nursing personnel

The following tables show the turnover rate, for the time periods involved, of the various categories of VA nursing personnel. These percentages exclude promotion actions.

REGISTERED NURSES

Grade	Fiscal year 1966	1st half fiscal year 1966	1st half fiscal year 1967
Junior	60.9	30.1	39.1
Associate	27.0	13.6	16.0
Full	13.7	8.9	7.8
Intermediate	8.7	5.8	6.4
Senior	7.4	5.1	11.3
Chief	13.6	7.4	1.5
Assistant director			
Director (statutory)			100.0
Overall	25.5	13.5	15.2

LICENSED PRACTICAL NURSES

GS grade	Fiscal year 1966	1st half fiscal year 1966	1st half fiscal year 1967
03	48.6	22.0	25.4
04	25.0	12.8	11.5
05	16.0	9.2	7.7
Overall	32.1	15.4	15.4

NURSING ASSISTANTS

GS grade	Fiscal year 1966	1st half fiscal year 1966	1st half fiscal year 1967
02	70.6	36.1	37.7
03	21.9	11.1	10.4
04	9.7	5.7	5.0
05	9.6	5.8	4.1
Overall	24.0	11.9	12.7

ADMINISTRATIVE MANAGEMENT TRAINING

Mr. TALCOTT. Do you utilize the services of the Civil Service Commission for training management?

Mr. DRIVER. Most of the training is carried out by the agencies themselves. To the extent there is any training offered we would use it.

Mr. TALCOTT. You prefer to do that yourself?

Mr. DRIVER. In this particular case, for example, you have to get the person into the hospital setting. This is on-the-job training. Nothing else would substitute.

Mr. TALCOTT. I am talking about administrative management.

Mr. DRIVER. Administrative interns and that sort of thing we use the civil service program.

VA HOSPITAL WORKLOAD

Mr. EVINS. To round out the situation we were discussing earlier about the hospital patient load, we placed one chart in the record, 4–111.

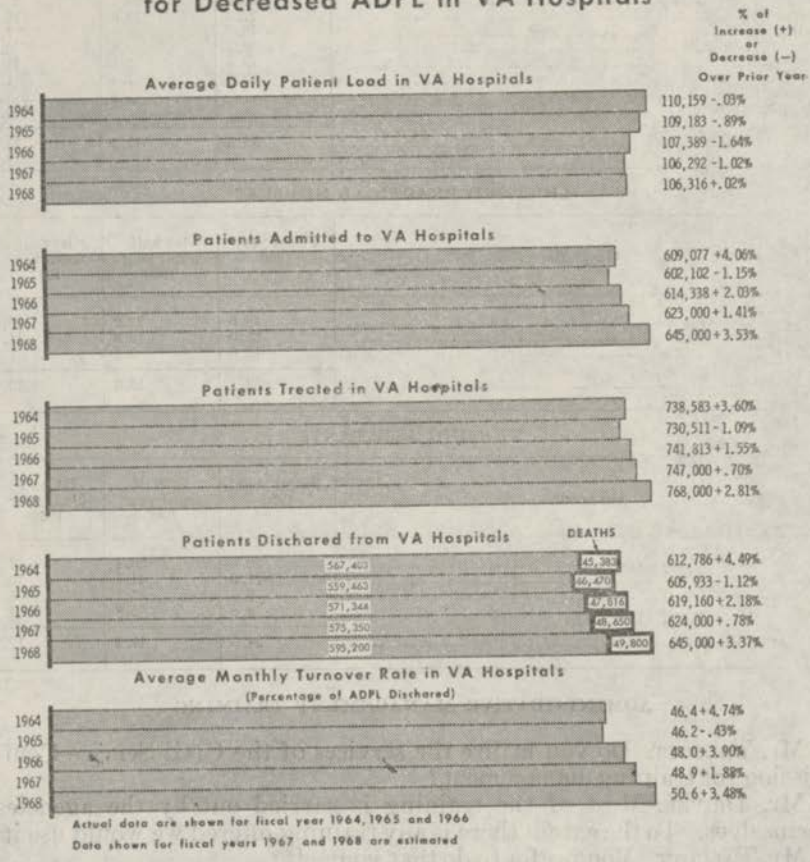
I think we should include 4–118, also, showing the larger workload than the other chart would indicate.

(The information follows:)

HOSPITAL CARE

All VA Hospitals

Increased Numbers of Veterans Admitted, Treated, and Discharged More Than Compensate for Decreased ADPL in VA Hospitals



PART 4. MEDICAL CARE

VA hospital statistical data

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Increase (+) or decrease (−)
Number of hospitals (end of year)	165	166	167	+1
Average operating beds	117,011	115,852	115,929	+77
Average daily patient load	107,389	106,292	106,316	+24
Patients treated	741,813	747,000	768,000	+21,000
Employment, average FTE	111,795	112,797	116,178	+3,381
Ratio of employees to operating beds	.955	.974	1.002	+.028
Ratio of employees to patients	1.041	1.061	1.093	+.032
Cost per patient-day	$24.90	$26.94	$28.14	+$1.20

VA BUDGET TRENDS

Mr. EVINS. In 1968 it is estimated that there will be 768,000 patients treated in VA hospitals. This is related to the 76-percent figure on 4–111, patients treated in VA hospitals. There is a 2.81-percent increase over last year.

You really have a great medical program, a tremendous number of veterans admitted, treated, and discharged. This chart indicates a much larger workload than would be your ceiling limitation.

Looking at the benefits program, chart 1–11. You show benefits totaling over $6 billion. The general operating expense is so small it is hard to see on the chart.

Are they a little distorted?

Mr. MONK. That is just a small percentage of the book.

Mr. EVINS. You have a good chart man down there obviously. Some of us have the impression that with salaries, employees, technicians, skilled men, assistants, and aids the big bulk of your expenses are in personnel costs.

Mr. DRIVER. No, sir.

PERSONNEL AND RELATED COSTS

Mr. EVINS. The average employment, general operating expense, Mr. Monk, comes to about what?

Mr. MONK. 18,500 for 1968.

Mr. EVINS. As compared with 150,000 in the medical program.

Mr. DRIVER. 138,000 average employment.

Mr. EVINS. Spell that chart out again for the record. What does it show?

Mr. MONK. This chart shows we have an average employment in 1968 of about 157,000. That is average and not individuals.

Mr. EVINS. These are employees in general operating?

Mr. MONK. Of that total a little over 18,000 is in general operating expense. The rest are in the medical program.

Mr. EVINS. How many does this medical program represent?

Mr. MONK. About 138,000.

Mr. EVINS. 138,000 in the medical program and——

Mr. DRIVER. 18,500 in general operating.

Mr. EVINS. 18,500 in general operating expense and 138,000 in the medical program. This is where the personnel are located?

Mr. MONK. That is correct, sir.

INCREASE IN APPROPRIATED FUNDS

Mr. EVINS. Here are the appropriated funds now, chart 1–12. It gives the overall picture. Looking at the last column of 1968, general operating expense goes up from $182 million to $184,342,000.

Compensation pension goes up from $4,514 million to $4,558 million.

Readjustment benefits, which has been going down, now jumps up substantially. In 1964 it was $67 million. Now it is $427 million. This is because more veterans are being discharged, more taking educational training, and being readjusted to civilian life.

Mr. MONK. That is the new GI bill.

Mr. EVINS. Here is another, "Veterans Insurance and Indemnities," This has declined over the years. There is a significant increase from $3,500,000 to $5,150,000.

Mr. MONK. Last year we had about $8 million available for transfer from the special term insurance fund. This year we have only about $2 million of transfer so our total costs have gone down slightly, but we have less——

Mr. EVINS. It used to be $39 million, $32 million, then $30 million.

Mr. MONK. The big cost was in the veterans free insurance from the Korean program. This was paid over a 10-year period in monthly installments, and all of those ran out in 1966. That is why the costs went down.

Mr. EVINS. Appropriated funds for the insurance program would be $5,150,000 estimated.

Mr. DRIVER. That is right.

Mr. GIAIMO. This chart indicates costs of administering the program?

Mr. MONK. No, sir. This is basically payment of extra hazard costs.

Mr. DRIVER. Moneys paid to the survivors.

Mr. GIAIMO. Under national service life?

Mr. DRIVER. No, sir.

Mr. MONK. Payment to the national service life for extra hazard costs.

Mr. EVINS. These are appropriated funds to the insurance program.

Mr. DRIVER. That is right.

Mr. EVINS. How much of the appropriated funds in the insurance program actually are expended to the veterans or benficiaries? Is it the full amount?

Mr. DRIVER. All of it.

Mr. EVINS. That is what we understood. The administrative expense is separate. This is all appropriated for the insurance program and ultimately winds up in the hands of the beneficiaries of the insurance program?

Mr. DRIVER. That is right. The overhead would be in general operating expenses.

Mr. GIAIMO. I see. This really applies generally to the extra hazard features.

Mr. DRIVER. Which the Government has to pay to make up the additional risk.

Mr. GIAIMO. To make up the additional risk which is not covered by the premiums and the revolving fund, the self-sustaining fund. Is that right?

Mr. DRIVER. That is right.

Mr. EVINS. Loan guarantee and revolving fund. You have a new item of $946,000 here.

Mr. DRIVER. That is right.

Mr. MONK. This is for insufficiencies.

Mr. EVINS. This is the interest payment.

Mr. MONK. Estimated, yes, sir.

Mr. EVINS. You couldn't have a loan guaranty program if you were not able to sell these loans?

Mr. DRIVER. We certainly wouldn't be able to get the mortgage money.

MEDICAL ADMINISTRATION EXPENSES

Mr. EVINS. This makes a total program of $4,991 million in benefits, not including the medical program. This is handled separately. Medical administration expenses are $14,300,000, which is $12,000 less than last year.

Mr. DRIVER. That is right.

Mr. EVINS. You transferred one job.

Mr. MONK. There are some ins and outs when we get to that.

Mr. DRIVER. Several changes which come out to that net.

Mr. EVINS. But you wind up with medical administration increasing in cost. Do you have that figure hidden somewhere, Mr. Monk?

Mr. MONK. No, sir.

Mr. EVINS. Where do you have the area officers?

Mr. MONK. In Washington.

Mr. DRIVER. There is very little left of them.

Mr. EVINS. Actual medical administration cost will be down $12,000?

Mr. MONK. Yes, sir.

Mr. EVINS. You are to be congratulated.

MEDICAL AND PROSTHETIC RESEARCH

Medical and prosthetic research started in about 1963 at $30 million and has increased steadily, $33 million, $37 million, $41 million, $44 million appropriated in 1967, with some supplementals to be included in this?

Mr. DRIVER. Yes, for pay costs $629,000.

Mr. EVINS. Already appropriated?

Mr. DRIVER. No, sir.

Mr. EVINS. You want to go up to $46,458,000 for 1968.

Mr. DRIVER. That is right, sir.

Mr. EVINS. What basically are the new research items for $2 million?

Dr. SKOUGE. A portion of the amount is for 94 additional employees, many of whom will be assigned to take care of our needs in new construction as well as some additional research projects.

Mr. EVINS. You have research and construction?

Dr. SKOUGE. We have constructed new facilities, and to staff these facilities will require a substantial number of these employees. The balance will be used to staff new projects being worked on.

Mr. DRIVER. We will come to a list and give you specific research programs, Mr. Chairman.

Mr. EVINS. We talked about this for several years in research. Can't you hold it to about $30 million?

Mr. DRIVER. Even to stand still you have to go up every year. There is built-in salary increase, for example.

Mr. EVINS. What happened before 1963? You had no funds appropriated at all for research.

Mr. MONK. It was in the medical administration and miscellaneous operating expenses appropriation.

Mr. EVINS. You separated it beginning in 1963?

Mr. MONK. Yes, sir.

Mr. EVINS. What was it running before you separated it?

Mr. DRIVER. I started out at $3 to $4 million and increased over the years.

Mr. EVINS. In other words, you say you need $2 million more to put personnel in the new facilities that you built.

Mr. DRIVER. Two research facilities; yes.

Dr. SKOUGE. Plus additional research projects being developed.

Mr. BOLAND. Do you have to develop these projects?

Dr. SKOUGE. They are screened by competent investigators. Recommendations are that they do warrant further investigation and further support.

Mr. BOLAND. What is the total amount you reserve in fiscal 1968 for all projects?

Dr. WELLS. We have $8 million of unfunded requests which already have been——

Mr. BOLAND. I am talking about the total amount of money you are spending in fiscal 1968 on projects.

Mr. DRIVER. Out of the $46 million.

Mr. BOLAND. How much of this money is allocated for projects, study of particular diseases which afflict mankind?

Dr. WELLS. All this except the relatively small amount of carryover for equipment is allocated for projects. In other words, it is about $43 million. In addition we have outside income from the National Institutes of Health, and so on, which supplement this, some $12 million in the last year.

MEDICAL CARE FUNDS

Mr. EVINS. We will look at the research. For medical care, this is the big item, $1,357,293,000 projected for fiscal 1968. How much of an increase is this?

Mr. MONK. $64 million.

Mr. EVINS. This is attributable to the increased number of veterans?

Mr. DRIVER. Patients treated, in-patient and out-patient.

Mr. EVINS. This is an actual cost.

Mr. DRIVER. Yes, sir.

GRANTS TO THE REPUBLIC OF THE PHILIPPINES

Mr. EVINS. Grants to the Republic of the Philippines. We built a fine hospital there which we are very proud of. It is brand new and I heard you say something in your testimony about modernizing it.

Mr. DRIVER. No. The law which was passed last year authorized a $500,000 one-time expenditure to improve it.

Mr. EVINS. How old is this hospital?

Mr. DRIVER. It is about 10 years old.

Mr. EVINS. It doesn't seem that long. Time does pass.

Mr. DRIVER. That is right.

Mr. EVINS. What will they do?

Mr. DRIVER. Replace some of the equipment which has deteriorated from weather. They will replace some of the wood which has fallen off in places. They will just generally overhaul it.

Mr. EVINS. We are proud of our Philippine veterans and proud of our Filipino colleagues. One of the greatest speeches I heard in the

Congress in my years here was that of President Marcos. He reached a peak and he would go down. He would reach another peak and you would think this is it. Then he would reach still another peak.

I heard Churchill and he was great but Marcos was also one of the greatest. It was very inspiring.

Mr. DRIVER. The law which Congress passed last year by and large gave the Filipino scouts the same status as American veterans.

Mr. EVINS. These men were great fighters, great patriots, great allies, and great friends.

CONSTRUCTION OF HOSPITALS

The next item is construction of hospitals. We have been having about a 12-year replacement and modernization program. We are now in our eighth year of this program. At one time it was $98 million. Now we are down to about $52 million.

Mr. DRIVER. That is right.

Mr. EVINS. About $52 million last year and $52 million projected for the next year.

You have to keep the shop maintained and in order.

How much do we have invested in veterans hospitals in round figures?

Mr. MONK. About $41/2 billion.

Mr. EVINS. We have a great investment there and you have to maintain it.

Mr. DRIVER. The one at Bay Pines is worth about $20 million. It is beautiful.

Mr. EVINS. The water and the pines are pretty but the report on the inside is not so good.

Mr. DRIVER. I have been there and it looks good to me.

Mr. MONK. We have an active oil well in Los Angeles.

Mr. EVINS. Tell us about this. It sounds encouraging.

Mr. DRIVER. Our Chief Medical Director takes credit for it. It came in while the hospital was under his direction.

Mr. EVINS. Who is this?

Mr. DRIVER. Dr. Engle. I have seen stories in the newspaper this is the largest oil producer in California.

Mr. EVINS. How much does that bring in every year?

Mr. MONK. $75,000 to the post fund and the royalties I don't know.

Mr. DRIVER. Twelve and a half percent of the income goes to the Treasury.

Mr. ASHBRIDGE. Over $400,000 a year.

Mr. EVINS. Going into the Treasury from royalties?

Mr. DRIVER. $75,000 to the post fund.

Mr. TALCOTT. Are there others which can be located as favorably?

Mr. DRIVER. I don't know. We would be happy to see it happen everywhere.

Mr. TALCOTT. How about the one in Montana?

Mr. DRIVER. We have not struck oil there.

Mr. EVINS. The total medical program is $1,475,376,000. The total, including benefits programs, is $6,651,664,000.

PROPOSED LEGISLATION

You have legislation proposed to reduce the total by $3 million. What is this, Mr. Administrator?

Mr. DRIVER. This is the net effect of proposed increasing legislation and proposed decreasing legislation. The increasing legislation would include, for example, expansion of full benefits to Vietnamese veterans and the like.

On the decrease side we have submitted to the Bureau of the Budget for legislative clearance three proposals. One would require that in the few cases now which do not have to count railroad retirement income for pension purposes that it be counted, that a duplicating burial benefit paid by social security not be permitted to stand longer, and certain awards in the tuberculosis field be eliminated.

We proposed two of these in the last Congress and there was no action on them. We are resubmitting them.

Mr. EVINS. We had one of the greatest veterans benefit programs passed in the last session of Congress since World War II, both far reaching and extensive.

Mr. DRIVER. Yes, sir. We feel certainly in terms of the Vietnamese veterans that the additions that were proposed in the President's message, putting them on a full par with wartime veterans, will do a great deal to round out these benefits.

EDUCATIONAL BENEFITS

Mr. EVINS. They never have been able to estimate or calculate the benefits derived from the GI education training program. It is virtually impossible to estimate the educational advantages and the productive capacity derived from expenditures for the GI's in the educational program.

Mr. DRIVER. We know the educational level in the Korean and World War II group is 2 years higher. We also know from the 1960 census that his earning power today is 30 percent higher. Just taking that 30 percent and projecting it over the lifetime they will pay for what we paid for the program three times over back in taxes, a $21 billion cost.

Mr. TALCOTT. Is that because of the veterans programs or selective service?

Mr. DRIVER. Something to do with both. A preponderance of it is due to the fact they had this educational program available to them. Under this program 11 million took training. As I indicated their level of education is 2 years higher than nonveterans in the population, so we think to a great extent because of that their earning power is higher, too.

No question but what the selectiveness of the service in terms of getting a better physical specimen enables them to earn higher wages, too.

Mr. EVINS. 11 million more citizens have educational training as a result of the GI bill, including postcollege level, trade schools, and all other areas.

Mr. DRIVER. Interesting, too, Mr. Chairman, is the fact that after World War II of all those who went into training, over 8 million, about 33 percent went to colleges.

After Korea the figure that went to colleges rose to 50 percent.

Today of those in training over 80 percent of them are going to college. This again, as Mr. Talcott indicated, would represent the selectiveness of the draft, I think, taking more with high school education in more recent years.

APPROPRIATIONS, 1958–68

Mr. EVINS. Let us place in the record this chart on page 1–12.

(Chart follows:)

Appropriated funds, 1955–68 [1]

[Dollars in thousands]

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965 [2]	1966 [3]	Estimate	
													1967 [4]	1968
General operating expenses	$167,672	$167,502	$163,027	$163,001	$164,680	$165,373	$164,350	$161,773	$161,280	$159,750	$162,870	$162,238	$182,437	$184,342
Benefit programs:														
Compensation and pensions	2,675,000	2,810,000	2,906,150	3,082,250	3,252,500	3,400,000	3,800,000	3,500,000	3,874,000	3,951,000	4,113,000	4,430,000	4,514,000	4,558,000
Readjustment benefits	567,000	812,097	840,850	814,047	700,000	585,000	344,000	135,000	95,800	67,000	45,900	41,500	369,400	427,200
Veterans insurance and indemnities	65,502	126,668	54,950	44,003	51,100	53,000	48,800	39,200	32,000	30,200	13,700	9,900	3,500	5,150
Loan guaranty revenue fund [5]														946
Soldiers' and sailors' civil relief					1,300							25		
Service-disabled veterans		750	1,000	1,500										
Total, benefit programs	3,307,502	3,749,515	3,802,950	3,941,800	4,004,900	4,038,000	4,192,800	3,674,200	4,001,800	4,048,200	4,172,600	4,481,425	4,886,900	4,991,296
Medical programs:														
Medical, administrative, and miscellaneous operating expenses	14,654	16,050	20,774	21,763	26,726	29,349	35,165	43,877	13,982	14,800	14,896	13,496	14,312	14,300
Medical and prosthetic research									30,500	33,742	37,783	41,258	44,258	46,458
Medical care	677,781	737,390	747,166	812,337	853,853	887,022	955,883	989,371	1,048,172	1,091,643	1,154,409	1,209,412	1,292,875	1,357,293
Grants to Republic of the Philippines	2,175	2,500	2,000	1,580	1,250	2,000	1,000	1,000	350	310	386	386	1,386	1,325
Construction of H. & D.F.	50,480	33,900	56,168	44,528	19,295	31,659	75,000	76,250	77,000	76,796	98,103	90,512	52,125	52,000
Grants for construction of State nursing homes												2,500	4,000	4,000
Total, medical programs	745,090	789,839	826,108	880,208	901,124	950,030	1,067,048	1,110,498	1,170,004	1,217,291	1,305,577	1,357,564	1,408,956	1,475,376
Total, Veterans' Administration	4,220,264	4,706,856	4,792,085	4,985,009	5,070,704	5,153,403	5,424,198	4,946,471	5,333,084	5,425,241	5,641,047	6,001,227	6,478,293	6,651,014
Veterans legislation proposed for separate transmittal														−3,000
Total														6,648,014

[1] Appropriation accounts adjusted to the current structure.

[2] Excludes construction, Corregidor-Bataan Memorial, 1965, $100,000; and 1966, $1,400,000.

[3] Excludes permanent indefinite authorization.

[4] Includes proposed for separate transmittal.

NOTE.—In some instances detail data does not add to total because of rounding.

AVERAGE EMPLOYMENT

Mr. EVINS. Let us look at 1–13, average employment figure. This is an overall look at the veterans operations. It is good for the VA and good for the country.

General administration is first. This is the headquarters and running of the program.

Mr. MONK. Administrator's office and his staff.

Mr. EVINS. 1,461, a slight increase.

Department of Veterans Benefits, 16,016, and last year it was 16,239. You are giving more benefits with less people working at it, a decline in the number of workers.

Has the operation become more efficient as you add computers?

The next area is the Department of Insurance. This has been merged with the Department of Veterans Benefits. Even with this there is a decline.

Next is the Department of Data Management. This Department has gone up from 818 employees in 1963 to 1,064 projected for next year.

Do you really need all these people to get the figures for the budget?

Mr. MONK. Most of these came out from other programs to go into this program.

Mr. EVINS. Could you run it with 800?

Mr. DRIVER. No, sir.

Mr. EVINS. You have to have 1,064?

Mr. MONK. That is right.

Mr. EVINS. Here is the general operating personnel, some 18,541. For a $6 billion program, 18,000 people is not bad. They are pretty dedicated.

MEDICAL PROGRAMS STAFFING

Medical administration is next. These are just the people who set policy and direct the affairs of the hospitals and medical programs, 707. In 1966 it was the lowest level, was it not?

Dr. SKOUGE. That was related to the area office reorganization. A number of vacancies were anticipated. That is really not a true reflection of the requirements at that particular time.

Mr. DRIVER. This program has steadily decreased over the years.

Mr. EVINS. What about the next two items, prosthetic testing and development and medical research? You have a lot of personnel there. Where are they carried?

Mr. MONK. They jump down to medical and prosthetic research when we combined them in 1963.

Mr. EVINS. That is right. This gives 3.459 estimated for 1968.

Mr. MONK. Up just slightly.

Mr. EVINS. Maintenance and operation of hospitals. This is where the big work force is, 115,438. It jumps up 3,000 over last year.

Why do you have to have 3,000 more?

Mr. MONK. These are new facilities and new medical services and additional staffing, particularly in the nursing area.

Mr. EVINS. These are to service new hospitals to be opened?

Mr. MONK. New hospitals to be opened, new medical services to be activated, and to beef up the staffing, particularly in the nursing area. There are about 1,500 for that.

Mr. EVINS. Who draws up the personnel requirement for that number of people?

Mr. MONK. Chief Medical Director, basically.

Mr. EVINS. And he is ill today?

Mr. DRIVER. Dr. Skouge is here. This is most of the personnel for operating the hospitals. Almost all of it is related to direct patient care.

Mr. EVINS. You said earlier we had about the highest attendant care per patient of any hospital operating in the country.

Dr. SKOUGE. Only for the psychiatric hospitals. When you compare the general medical and surgical hospitals with communities, our staffing ratio does not generally equal what the community staffing ratio is. Ours runs about 1.32 or 1.33 per patient whereas in the community it will run up to two and a half.

Granted we are dealing with a different type of patient but we also take into consideration the fact that we have a large percentage of aging patients who have illnesses which require much care and attention if we are going to do the kind of job we are supposed to do.

Actually, therefore, if we are going to provide the quality of care that the best in the community offers we need to improve the staffing, particularly in the general medical and surgical hospitals and also in the psychiatric hospitals.

Mr. EVINS. Dr. Skouge, how many requests for increased personnel did you cut down from the hospital director's requests?

Mr. WISE. Requests were about 7,000 more. The increase in the budget is about what we can hire.

Mr. EVINS. You are testifying for the record there were requests for 7,000 more that were not approved by the VA and the Budget?

Mr. WISE. For example, in many of the new medical services there are very expensive therapies. There is a shortage of talent to perform dialysis services. As part of the programing for national coverage we will not be able to treat every illness or disease in every hospital, so we had in many cases to work out a regional plan where veterans are treated in one super quality regional medical center.

Mr. EVINS. Say that again. You will have one super medical center?

Mr. WISE. Yes, which might provide service to veterans in two or three States.

Dr. SKOUGE. He is really saying that at many of our hospitals we cannot recruit the skills necessary to, for example, perform hemodialysis, cardiac surgery, and so on. We have to place those medical programs in places where we can recruit the skills. There is great competition for skills in the medical field today, and even though we would approve additional staffing for some of our hospitals they could not recruit the manpower.

Mr. EVINS. You looked over these personnel requests, and you and the Budget Bureau reduced by about 7,000 the requests that some of the doctors said they would like to have had. However, you still approved more than last year?

Mr. MONK. About 4,000 more. This is in the total medical program.

Mr. EVINS. An increase of 4,055 in the total medical program.

Mr. MONK. In the inpatient care program. This is from 117,193 to 121,248.

Mr. EVINS. Operation of the domiciliary care is down somewhat, from 3,000 to 2,900.

The next item is inpatient care, 121,248. This goes up.

Next is outpatient care from 11,603 to 11,959, and miscellaneous services which started in 1964 includes what? You have 799, nearly 1,000 people in miscellaneous services.

Mr. WISE. Personnel in hospitals to render certain services such as engineering to the veterans' benefits offices on a nonreimbursable basis.

Mr. EVINS. They are not custodial employees?

Mr. WISE. No, sir.

Mr. EVINS. What type of service do they render?

Mr. WISE. Supply, engineering, housekeeping where there are common facilities.

Mr. EVINS. They operate the boilers and heating establishments?

Mr. WISE. Yes, sir.

Mr. EVINS. They keep the patients comfortable and warm?

Mr. MONK. Where we had a regional office and a hospital in the same building certain employees render services to the regional office which have nothing to do with patient care—supply activities, personnel activities, and housekeeping activities which are not charged to the patient care appropriation but to the regional office activity, and the hospital is not reimbursed. There is only a small number of these, you see. There are about 800.

Mr. EVINS. Getting down to the total, 152,423 last year. Increase is to 156,714 projected for 1968.

Mr. MONK. Yes, sir.

Mr. EVINS. That is about the 4,000 increase.

Mr. MONK. Yes, sir.

Mr. EVINS. There were requests for 7,000. You approved about 4,000. You denied about 3,000.

Mr. DRIVER. I think we said there would be about 7,000 on top of these 4,000.

Mr. EVINS. Hospital personnel and medical care people asked for about 10,000 new jobs. The VA in its process and consideration approved about 4,000. You denied about 6,000 of the request?

Mr. MONK. That is about right.

Mr. EVINS. Beyond that you have consultants and construction people. This is about 1,500 more.

What is the nature of these construction and consultant people?

Mr. MONK. Construction people are the architects-engineers who handle the $52 million construction appropriation.

Mr. EVINS. Are they all with Mr. Ashbridge?

Mr. MONK. A number are in the field where we have a hospital and other construction projects going. We have about 300 of them here.

Mr. EVINS. Then you have 643 in the supply fund. You had 641 last year. You need two more people there?

Mr. MONK. Yes, sir.

Mr. EVINS. Canteen services, which are supposed to be self-operating, self-liquidating, and self-financing——

Mr. MONK. That is right.

Mr. EVINS. We don't have to appropriate for this?

Mr. MONK. No, sir. These people are paid out of the canteen fund.

Mr. EVINS. They are carried on the rolls, however?

Mr. MONK. As our employees, yes.

Mr. EVINS. 3,107, bringing grand total for all veterans employees to 161,947 for 1968.

Mr. MONK. That is correct.

Mr. EVINS. Gentlemen, we shall return at 1:15.

AFTERNOON SESSION

The committee will come to order. We will resume our hearings this afternoon with the officials of the Veterans' Administration.

Mr. Jonas, you have some further general questions?

Mr. JONAS. I will get through in a hurry.

NUMBER OF POSITIONS FILLED

We have been talking so far, Mr. Monk, about average employment, haven't we, instead of jobs?

Mr. MONK. Yes, sir, average employment.

Mr. JONAS. When you speak of average employment your figures don't jibe with the budget.

Mr. MONK. That is right.

Mr. JONAS. Because the budget deals with numbers of full-time people.

For the record, how many jobs were appropriated for you last year?

Mr. MONK. In terms of jobs?

Mr. EVINS. New jobs or overall in the VA?

Mr. JONAS. Overall in the VA. Positions. Your table shows average employment to have been 152,423, the big table.

Mr. SHYTLE. Permanent positions, 161,223. That is the total permanent positions.

Mr. JONAS. That is for when?

Mr. SHYTLE. 1968.

Mr. JONAS. What I was trying to get at is how many jobs or positions were appropriated for last year and how many you reduced following the Bureau of the Budget's directive of last Septtember.

Mr. MONK. We reduced about 3,000.

Mr. DRIVER. He doesn't have the figure for 1967.

Mr. JONAS. The figures for 1967 were revised too. Is that right?

Mr. SHYTLE. Yes; they always are.

Mr. JONAS. I am looking at the budget. Page 416 shows that the estimate a year ago for 1967 was 150,850, but that it was revised downward to 149,300, or by 1,550.

Mr. MONK. Which page is that?

Mr. JONAS. 416. I assume that downward revision of the current estimate in January, when the new budget document came up, showed a revision downward of 1,550.

Do you have any vacancies now? In positions appropriated for, unfilled jobs?

Mr. MONK. Yes; we do have some.

Mr. JONAS. As of January 1, 1967?

Mr. MONK. Yes.

Mr. JONAS. How many unfilled positions did you have?

Mr. MONK. We had about 3,000.

Mr. JONAS. About 3,000 unfilled?

Mr. MONK. Yes, sir.

I want to add to that, Mr. Jonas, that we had planned to fill those after January 1 because in our budget last year we had budgeted for new medical services and for activation of hospitals that would take place in the last half of the fiscal year.

Mr. JONAS. Do you mean the current fiscal year, 1967?

Mr. MONK. The current fiscal year, 1967; yes, sir.

Mr. JONAS. Will you activate those hospitals before June 30?

Mr. MONK. Yes.

Mr. JONAS. How many new positions will that take?

Mr. MONK. I have a breakdown on the new hospitals, plus the new medical services we are going to put in——

Mr. JONAS. I just want to relate it to the new hospitals.

Mr. MONK. There are about 900 additional positions planned for new hospitals.

Mr. JONAS. The new budget then for 1968 calls for an increase in permanent positions of 4,900 over 1967.

Mr. MONK. 4,300, I believe.

Mr. JONAS. It is 4,900 according to the budget.

Mr. MONK. Well, that is right. I am talking averages. There is a difference.

Mr. JONAS. I am talking about jobs. The job totals, the increase for 1968 over 1967 is 4,900. On many days through the year you wouldn't have that many aboard.

Mr. MONK. That is correct.

Mr. JONAS. That is why you say when you get through you have an average on board of less total appropriated jobs?

Mr. MONK. Yes. These figures are end-of-year figures in the budget. That is the June 30 figure. We shall supply a reconciliation table for the record.

(The information follows:)

Reconciliation of President's budget and VA EOY Employment (FT in permanent position)

	Original 1967 budget	1967 column, 1968 budget	1968 budget	1967 revised over 1967 original	1968 budget over 1967 revised
Veterans' Administration	153,000	150,250	155,200	−2,750	+4,950
Less Shortfall	−2,150	−950	−1,000	+1,200	−50
President's budget	150,850	149,300	154,200	−1,550	+4,900

1968 UNOBLIGATED FUNDS

Mr. JONAS. What amount of unobligated funds will you have on hand at the end of 1968, fiscal year 1968, if you get your full budget?

Mr. MONK. We are anticipating, according to this budget, about $20 million in the construction appropriation, and that is all, for the end of 1968.

Mr. JONAS. The budget shows that you have $1,640 million of balances, obligational authority, unobligated, at the end of 1968.

Mr. MONK. Those are not appropriated funds.

Mr. JONAS. Page 51 of the budget. The last column. Unobligated at the end of 1968. VA, $1,640 million. What does that mean?

Mr. DRIVER. That would have to include the revolving funds, I believe, Mr. Jonas.

Mr. JONAS. There is not enough in those.

Mr. DRIVER. There's $331 million in the loan guarantee revolving fund and $1 billion in the direct loan revolving fund.

Mr. JONAS. Those unobligated balances have gone up from $953 million at the end of 1966 to $1,476 million at the end of 1967 to $1,640 million at the end of 1968. Unobligated balances. I would like to know what that is made up of.

Mr. SHYTLE. At the end of 1968 in construction we will have right at $20 million unobligated. In direct loans we will have $1 billion. That is the direct loan revolving fund.

Mr. JONAS. That is for houses?

Mr. SHYTLE. Yes.

Mr. JONAS. That is unobligated?

Mr. SHYTLE. That is right.

Mr. JONAS. How much?

Mr. SHYTLE. $1 billion.

In your loan guarantee revolving fund we will have $331 million unobligated. That is basically, with some other minor items, what make up the total figure.

Mr. JONAS. Why do we need that much in unobligated balances and why has that item gone up so much in just two years? From the end of 1966, for example, you had $723 million.

Mr. SHYTLE. Over half of it is in the direct loan fund. At the start of 1966, for example, we had $549 million.

Mr. JONAS. How much do you anticipate you will obligate of that $1 billion in direct loans during the year?

Mr. MONK. About $200 million in direct loans for 1968 and about $400 million in the loan guarantee fund.

Mr. JONAS. You expect to lend that much money?

Mr. MONK. Yes, we expect to loan $156 million plus expenses, yes, sir, making a total of $203 million from the direct loan fund.

Mr. JONAS. You expect to have available, to go into 1969, $1 billion unobligated?

Mr. MONK. That is right.

That anticipates, of course, in 1968 some participation sales—$250 million for the direct loan fund and $600 million for the loan guarantee fund.

Mr. JONAS. That is where you get $250 million of the $1 billion, from the sale of participation certificates?

Mr. MONK. Yes, sir.

Mr. JONAS. According to the budget?

Mr. MONK. Yes, sir. But of appropriated funds—we are talking here about direct appropriations—about $20 million.

Mr. JONAS. Of construction?

Mr. MONK. Yes, sir.

Mr. JONAS. What will be your construction program, if you know, for 1969?

Mr. MONK. In 1969 we haven't come forward with that.

Mr. JONAS. Do you have any ideas?

Mr. MONK. I would say somewhere between $75 and $100 million in new money.

Mr. JONAS. You would expect to spend $90 or $100 million.

Mr. MONK. In 1968 we plan to obligate $147 million.

Mr. JONAS. Out of previously appropriated money?

Mr. MONK. That is correct, plus the 52 that we are asking for.

Mr. EVINS. Gentlemen, let's refer to "General operating expenses, Benefit" appropriations.

GENERAL OPERATING EXPENSES

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Program by activities:			
	Direct program costs:			
	1. General administration	16,258	18,120	18,366
	2. Data management	11,644	11,880	13,454
	3. Veterans benefits:			
	(a) Executive direction	4,482	4,679	4,600
	(b) Contact	7,161	8,636	8,397
	(c) Compensation, pension, and education	38,792	49,960	50,165
	(d) Loan guaranty	22,534	23,737	23,591
	(e) Guardianship	12,688	13,060	12,950
	(f) Insurance	8,475	8,365	8,154
	(g) Office services	39,890	45,097	44,665
	Total direct program costs, funded	161,924	183,534	184,342
	Reimbursable program:			
	1. General administration	60	14	14
	2. Data management	366	200	200
	3. Veterans benefits:			
	(a) Executive direction	48		
	(b) Contact	340	67	67
	(c) Loan guaranty	122	106	
	(d) Guardianship	42	13	13
	(e) Insurance	3,169	1,173	456
	(f) Office services	1,075	446	20
	Total reimbursable program costs	5,223	2,019	770
	Total program costs, funded [1]	167,147	185,553	185,112
	Change in selected resources [2]	304		
10	Total obligations	167,451	185,553	185,112
	Financing:			
	Receipts and reimbursements from:			
11	Administrative budget accounts	−5,223	−2,019	−770
16	Comparative transfer from other accounts	−1,223	−1,334	
25	Unobligated balance lapsing	1,222		
	New obligational authority	162,227	182,200	184,342
	New obligational authority:			
40	Appropriation	162,238	178,650	184,342
41	Transferred to "Operating expenses, Public Buildings Service," General Services Administration (77 Stat. 531 and 80 Stat. 674)	−11	−237	
43	Appropriation (adjusted)	162,227	178,413	184,342
44	Proposed supplemental for civilian pay act increase		3,787	
	Relation of obligations to expenditures:			
10	Total obligations	167,451	185,553	185,112
70	Receipts and other offsets (items 11-17)	−6,446	−3,353	−770
71	Obligations affecting expenditures	161,005	182,200	184,342
72	Obligated balance, start of year	6,436	9,114	15,614
74	Obligated balance, end of year	−9,114	−15,614	−22,114
77	Adjustments in expired accounts	−372		
81	Balance not available, start of year	5		
90	Expenditures, excluding pay increase supplemental	157,960	172,063	177,692
91	Expenditures from civilian pay act supplemental		3,637	150

[1] Includes capital outlay as follows: 1966, $1,350,000; 1967, $826,000; 1968, $2,636,000.

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

	1965	1966 adjustments	1966	1967	1968
Unpaid undelivered orders	847	−79	1,056	1,056	1,056
Advances	2		18	18	18
Total selected resources	849	−79	1,074	1,074	1,074

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	132,988	146,341	145,366
11.3	Positions other than permanent	1,195	2,555	1,962
11.5	Other personnel compensation	3,860	2,796	2,875
	Total personnel compensation	138,043	151,692	150,203
	Direct costs:			
	Personnel compensation	133,925	150,152	149,682
12.0	Personnel benefits	9,754	11,881	11,479
21.0	Travel and transportation of persons	3,072	3,284	3,180
22.0	Transportation of things	887	901	642
23.0	Rent, communications, and utilities	5,507	6,075	5,644
24.0	Printing and reproduction	2,100	1,961	1,845
25.1	Other services	3,230	5,233	5,050
25.2	Services of other agencies	358	306	1,306
26.0	Supplies and materials	1,416	1,350	1,313
31.0	Equipment	1,350	826	2,636
41.0	Grants, subsidies, and contributions	267	1,515	1,515
42.0	Insurance claims and indemnities	58	50	50
	Total direct costs	161,924	183,534	184,342
	Reimbursable costs:			
	Personnel compensation	4,118	1,540	521
12.0	Personnel benefits	315	102	41
21.0	Travel and transportation of persons	22		
23.0	Rent, communications, and utilities	125	51	25
24.0	Printing and reproduction	94	19	5
25.1	Other services	530	299	170
26.0	Supplies and materials	19	8	8
	Total reimbursable costs	5,223	2,019	770
	Total costs, funded	167,147	185,553	185,112
94.0	Change in selected resources	304		
99.0	Total obligations	167,451	185,553	185,112

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	19,537	19,505	19,339
Full-time equivalent of other positions	261	491	449
Average number of all employees	17,630	18,946	18,671
Average GS grade	6.7	6.8	6.8
Average GS salary	$7,552	$7,879	$7,950

Mr. EVINS. Mr. Reporter, place in the record, pages 1–1, 1–2, 1–3, and the chart 1–7.

(The pages follow:)

GENERAL OPERATING EXPENSES APPROPRIATION

This appropriation provides for all administrative expenses of the VA except for those applicable to the Department of Medicine and Surgery and the Office of the Assistant Administrator for Construction. Activities under this heading are organized into the following three categories: "General Administration", "Department of Data Management" and "Department of Veterans Benefits".

"General Administration" includes the Office of the Administrator and eight other agency-level supporting staff offices. These offices provide executive direction and control and overall guidance for the Agency's manifold missions. The "Department of Data Management" includes those field and central office elements concerned with the management and operation of the Agency's automatic data processing program. The "Department of Veterans Benefits" contains all those activities involved in the administration of non-medical benefits to veterans and their dependents.

A Central Office reorganization affecting this appropriation was accomplished at the beginning of the current fiscal year. This action realigned functional responsibilities in the areas of personnel and controllership activities, and added new emphasis to support services in the areas of investigation and management improvement.

As a result of this reorganization, the following changes were put into effect:

1. Transfer of personnel, financial management, and reports and statistics functions from the Department of Veterans Benefits and Medicine and Surgery to the appropriate staff offices.

2. Realignment of other staff office functions, eliminating the Office of the Assistant Administrator for Management and Evaluation and establishing the Office of the Assistant Administrator for Management Engineering and Evaluation.

3. Establishment of an Investigation and Security Service.

The past, current and budget year requirements show the actual and estimated costs adjusted to reflect the above organizational changes. Functions previously financed under other appropriations are shown by "comparative transfers".

Appropriation language: Proposed language for FY 1968 is shown below:

"For necessary operating expenses of the Veterans Administration, not otherwise provided for, including uniforms or allowances therefor, as authorized by law; not to exceed $1,000 for official reception and representation expenses; purchase of one passenger motor vehicle (medium sedan for replacement only) at not to exceed $3,000; hire of passenger motor vehicles; and reimbursement of the General Services Administration for security guard services; $184,342,000: *Provided*, That no part of this appropriation shall be used to pay in excess of twenty-two persons engaged in public relations work."

The above request includes $1,300 thousand for activities previously carried under "Medical Administration and Miscellaneous Operating Expenses".

The following table presents fiscal year comparisons of average employment and appropriation requirements for the "General operating expenses" appropriation.

Summary of requirements

	1966	1967	1968	Increase (+) or decrease (−)
General administration:				
Average employment	1,385	1,459	1,461	2
Total costs	$16,318,583	$18,134,000	$18,380,000	+$246,000
Department of Data Management:				
Average employment	1,044	1,069	1,064	−5
Total costs	$12,010,640	$12,080,000	$13,654,000	+$1,574,000
Department of Veterans' Benefits:				
Average employment	14,984	16,239	16,016	−223
Total costs	$138,818,228	$155,339,000	$153,078,000	−$2,261,000
Grand total:				
Average employment	17,413	18,767	18,541	−226
Total costs	$167,147,451	$185,553,000	$185,112,000	−$441,000
Change in selected resources	+303,944			
Total obligations	167,451,395	185,553,000	185,112,000	−441,000
Less:				
Reimbursements, Veterans' reopened insurance fund (Public Law 88-664)	−4,772,960	−1,736,000	−616,000	+1,120,000
All other	−449,662	−283,000	−154,000	+129,000
Total reimbursements	−5,222,622	−2,019,000	−770,000	+1,249,000
Add: Unobligated balance lapsing	+1,221,561			
Transfers: Comparative transfers from other accounts (net)	−1,223,000	−1,334,000		+1,334,000
Total new obligational authority	162,227,334	182,200,000	184,342,000	+2,142,000
Supplemental (pay increase legislation Public Law 89-504)		(3,787,000)		

General operating expenses, distribution of applied costs, cost by program and object

FISCAL YEAR 1966 ACTUAL

	Average employment	Personal services and benefits					Contractual services and supplies		
		Personnel compensation	Personnel benefits	Total	Travel and transportation of persons		Transportation of things	Rents, communications and utilities	Printing and reproduction
					Employee	All other			
General administration	1,385	$13,521,526	$1,045,786	$14,567,312	$415,961	$5,260	$51,821	$168,046	$402,353
Department of Data Management	1,404	10,773,491	775,324	11,548,815	310,845	6,448	210,078	2,181,448	574,290
Department of Veterans' Benefits	15,366	118,928,888	8,632,470	127,561,358	1,311,152	1,044,875	661,372	4,463,741	1,291,904
Subtotal	18,155	143,223,905	10,453,580	153,677,485	2,037,958	1,056,583	923,271	6,813,235	2,268,547
Common service adjustment (—):									
Department of Data Management	360	2,604,325	199,661	2,803,986			36,000	964,943	75,000
Department of Veterans' Benefits	382	2,576,643	185,032	2,761,675				215,870	
Total, fiscal year 1966	17,413	138,042,937	10,068,887	148,111,824	2,037,958	1,056,583	887,271	5,632,422	2,193,547

FISCAL YEAR 1967 ESTIMATE

General administration	1,459	$14,897,100	$1,167,600	$16,064,700	$412,000	$6,500	$64,000	$320,000	$402,000
Department of Data Management	1,431	11,617,000	883,000	12,500,000	293,000	6,000	205,000	1,692,000	574,000
Department of Veterans' Benefits	16,602	130,565,000	10,328,000	140,893,000	1,482,000	1,084,000	663,000	5,170,000	1,130,000
Subtotal	19,492	157,079,100	12,378,600	169,457,700	2,187,000	1,096,500	932,000	7,182,000	2,106,000
Common service adjustment (—):									
Department of Data Management	362	2,733,000	206,000	2,939,000			31,000	828,000	126,000
Department of Veterans' Benefits	363	2,654,000	190,000	2,844,000				228,000	
Total, fiscal year 1967	18,767	151,692,100	11,982,600	163,674,700	2,187,000	1,096,500	901,000	6,126,000	1,980,000

FISCAL YEAR 1968 ESTIMATE

General administration	1,461	$15,084,700	$1,227,800	$16,312,500	$415,000	$6,600	$64,000	$320,000	$402,000
Department of Data Management	1,480	12,136,000	916,000	13,052,000	293,000	6,000	189,000	1,618,000	574,000
Department of Veterans' Benefits	16,380	128,755,000	9,800,000	138,555,000	1,400,000	1,060,000	420,000	5,016,000	1,000,000
Subtotal	19,321	155,975,700	11,943,800	167,919,500	2,108,000	1,072,600	673,000	6,954,000	1,976,000
Common service adjustment (—):									
Department of Data Management	416	3,149,000	236,000	3,385,000			31,000	1,053,000	126,000
Department of Veterans' Benefits	364	2,624,000	188,000	2,812,000				232,000	
Total, fiscal year 1968	18,541	150,202,700	11,519,800	161,722,500	2,108,000	1,072,600	642,000	5,669,000	1,850,000

FISCAL YEAR 1966 ACTUAL

	Contractual services and supplies—Continued		Acquisition of capital assets	Grants to States	Insurance, claims, and indemnities	Budgeted costs jurisdiction	Common service adjustments	Budgeted costs, net	Average employment, net
	Other services	Supplies and materials							
General administration	$355,496	$188,650	$105,756		$57,928	$16,318,583		$16,318,583	1,385
Department of Data Management	411,741	423,455	382,449			16,049,569	$4,038,929	12,010,640	1,044
Department of Veterans' Benefits	3,450,446	951,153	861,592	$266,575		141,864,168	3,045,940	138,818,228	14,984
Subtotal	4,217,683	1,563,258	1,349,797	266,575	57,928	174,232,320	7,084,869	167,147,451	17,413
Common service adjustment (−):									
Department of Data Management	75,000	84,000				4,038,929			
Department of Veterans' Benefits	24,665	43,730				3,045,940			
Total, fiscal year 1966	4,118,018	1,435,528	1,349,797	266,575	57,928	167,147,451	7,084,869	167,147,451	17,413

FISCAL YEAR 1967 ESTIMATE

General administration	$537,200	$193,400	$84,200		$50,000	$18,134,000		$18,134,000	1,459
Department of Data Management	367,000	424,000	142,000			16,203,000	$4,123,000	12,080,000	1,069
Department of Veterans' Benefits	4,999,000	935,000	600,000	$1,515,000		158,471,000	3,132,000	155,339,000	16,239
Subtotal	5,903,200	1,552,400	826,200	1,515,000	50,000	192,808,000	7,255,000	185,553,000	18,767
Common service adjustment (−):									
Department of Data Management	53,000	146,000				4,123,000			
Department of Veterans' Benefits	12,000	48,000				3,132,000			
Total, fiscal year 1967	5,838,200	1,358,400	826,200	1,515,000	50,000	185,553,000	7,255,000	185,553,000	18,767

FISCAL YEAR 1968 ESTIMATE

General administration	$537,900	$191,400	$80,600		$50,000	$18,380,000		$18,380,000	1,461
Department of Data Management	338,000	424,000	1,955,000			18,449,000	$4,795,000	13,654,000	1,064
Department of Veterans' Benefits	5,720,000	900,000	600,000	$1,515,000		156,186,000	3,108,000	153,078,000	16,016
Subtotal	6,595,900	1,515,400	2,635,600	1,515,000	50,000	193,015,000	7,903,000	185,112,000	18,541
Common service adjustment (−):									
Department of Data Management	50,000	150,000				4,795,000			
Department of Veterans' Benefits	20,000	44,000				3,108,000			
Total, fiscal year 1968	6,525,900	1,321,400	2,635,600	1,515,000	50,000	185,112,000	7,903,000	185,112,000	18,541

General Administration

Mr. Evins. Page 1–9 shows summary of requirements for general administration. Most every item is increased in general administration.

Office of the Administrator goes up $1,333,000 to $1,359,500 or $26,500. Information service is increased by $7,000. The General Counsel's Office goes up to $17,100. Is there one more lawyer in there?

Mr. Monk. No, sir. Basically all of these are pay increases, with the exception of the Board of Veterans' Appeals where there are nine additional people; two additional in the Office of the Administrator. There is a net plus of two in this total.

Mr. Evins. In jobs?

Mr. Monk. In jobs.

Mr. Evins. But the increases represent pay act increases.

Mr. Monk. And within grades.

Mr. Shytle. Within grades run approximately 1 percent.

Board of Veterans' Appeals

Mr. Evins. The Board of Veterans' Appeals, $174,400.

Mr. Monk. Nine extra jobs in there.

Mr. Evins. Is it because of the caseload?

Mr. Monk. The caseload is going up a little bit.

Mr. Evins. What is your rate of production in the Board of Veterans' Appeals?

Mr. Stancil. We are receiving cases at the rate of 24,000 a year. This year we will dispose of around 22,000.

Mr. Evins. How many boards do you have, Mr. Stancil?

Mr. Stancil. We have 13 sections in operation now, sir.

Mr. Evins. You have a new law which requires you to write a statement of the case in all cases?

Mr. Stancil. The statement of the case is written in the field office when the appeal is initiated. This results in about 25 percent of the appeals being closed, for failure to answer the statement of the case. They are screened out at the lower level.

In the Board of Veterans' Appeals we write a decision which must by law, contain separately stated findings of fact and conclusions of law.

Mr. Evins. This is in every case in the Board of Veterans' Appeals?

Mr. Stancil. Yes, sir.

Mr. Evins. How many of those decisions does your staff write?

Mr. Stancil. We have to write 22,000 to 24,000 a year. And next year, 1968, will be 25,000.

Mr. Evins. 22,000, 24,000 or 25,000 opinions and decisions have to be written on the Board of Veterans Appeals. This is of the hard core, or disputed cases that reach your level?

Mr. Stancil. Yes, sir.

Mr. Evins. You have 13 boards?

Mr. Stancil. Yes, sir.

Mr. Evins. You have three men on each one of those boards?

Mr. Stancil. There are three members on each section of the Board and each section of the Board has a staff of six, sometimes seven, attorney-advisers. Then there is a medical advisory staff available for medical opinions when they are needed.

Mr. EVINS. Could you have one doctor serve on two boards?

Mr. STANCIL. Frequently we have to have a doctor double up and fill in for an absentee, but you can't very well have one doctor serving full time on two sections of the Board.

Mr. EVINS. Do they have stated meeting times, such as Monday through Thursday?

Mr. STANCIL. No, sir; it is a full-time, every day job. Each section of the Board works as a unit in an office. They work from 8 in the morning until 4:30 at night.

Mr. EVINS. And the 13 boards are meeting concurrently and simultaneously all the time?

Mr. STANCIL. Yes; in terms of consideration of cases. The decisions are made on review of the record so you don't schedule those for specific time intervals. You do have to maintain a formal docket for hearings when claimants and their representatives, and Members of Congress and their staffs, come over for formal appearances. Those are docketed on a schedule, but the case decisions are made on a record review back in the Board's office room.

Mr. EVINS. You propose to activate additional boards in the new year?

Mr. STANCIL. This budget calls for the 13th section but because the workload is mounting so, we initiated a 13th section a few weeks ago by stealing a man here and there, cutting the other sections a little bit short, so as to get started. This budget calls for 13 sections. In the years to come, this will have to go to 14, and when we project it out some 5 or 6 years it may require 17 sections.

Mr. EVINS. Mr. Stancil, from the time a case reaches the Washington level, how long does it take to get the decision by one of your boards, on an average?

Mr. STANCIL. At the present time, because of the excess docket, it takes around 70 working days, sir.

Mr. EVINS. That beats some courts, doesn't it?

Mr. STANCIL. Yes, sir; but it is not as good as it should be.

Mr. EVINS. It takes about 90 days. When a man writes in, you say, "Well, we will get you an answer in 90 days."

Mr. STANCIL. It takes a little longer than that.

Mr. EVINS. You said 70. I was giving you 90.

Mr. STANCIL. That is work days. It takes on an average about 4 months in calendar time.

Mr. EVINS. I believe you should try to do it in 3 months. Ninety days would be better.

Mr. STANCIL. I stand corrected.

EMPLOYMENT

Mr. EVINS. Assistant Administrator for Personnel. Miss Parsons, you are the Chief?

Miss PARSONS. Yes, sir.

Mr. EVINS. How many assistants do you have?

Miss PARSONS. In the Washington office we have 209 positions.

Mr. EVINS. And this $7,800 is for pay increases?

Miss PARSONS. Yes.

Mr. EVINS. You have 200 people working under your direction?

Miss PARSONS. 209.

Mr. EVINS. These are people coming in seeking jobs with the Veterans' Administration, or people wanting promotions or transfers. You have lots of headaches, don't you?

Miss PARSONS. Yes.

Mr. EVINS. You have to deal with veterans' organizations?

Miss PARSONS. Only for employment matters.

Mr. EVINS. You are not asking for any increased personnel, but this increase is for pay-raise increases?

Miss PARSONS. That is right.

Mr. EVINS. Assistant Administrator for Management, Engineering, and Evaluation. It goes up $27,000.

Mr. MONK. This is pay raise. There is no additional employment.

Mr. EVINS. Manager, Administrative Services. What is the difference between management engineering and Manager, Administrative Services?

Mr. MONK. The latter is the housekeeping. It takes care of supplies, index, locator files, mail, records. He is the general housekeeper for the central office.

Mr. EVINS. This is also for pay-raise increase?

Mr. MONK. Yes, sir. He has a slight decrease in personnel. He has a decrease of three.

Mr. EVINS. In personnel, but an increase in appropriations?

Mr. MONK. Yes, sir.

Mr. EVINS. The Controller is the man you discriminated against over there. He is the only one that goes down. Where is the Controller?

Mr. SHYTLE. Here.

Mr. EVINS. Why did you treat yourself that way?

Mr. SHYTLE. Well, starting July 1 we consolidated reports, statistics, and finance into one office in the central office and we had some duplication of functions.

Mr. EVINS. There is an honest man.

Mr. SHYTLE. We are taking those out.

Mr. EVINS. In 1966 your appropriation was $2,885,000 and in 1968 it is $3,154,000. It is still up from 2 years ago, but slightly less than last year.

Mr. SHYTLE. There is a pay raise differential in there.

Mr. EVINS. How many people did you have to transfer to reduce your budget by $30,000?

Mr. SHYTLE. We had to transfer in 147 to start with.

Mr. EVINS. 147 were brought into your shop?

Mr. SHYTLE. Yes. The combined shop on the initial transfer in was 247 to start with. We are estimating now an average employment of 236 and we are projecting in future years to bring that down some more.

Mr. EVINS. Can't you influence your colleagues to follow your good example?

Mr. SHYTLE. This function lends itself to automation and savings through the automated procedures much more than some of the rest of them. We are getting a lot of our data, as you know, from computer operations. All of our payroll is on computers and it helps us to also concentrate and bring our staffs down in the central office.

Mr. EVINS. One other summary in General Administration is Investigation and Security Service. This has increased. It has a plus figure of $8,200.

Mr. MONK. It is the same number of people.

Mr. EVINS. No change?

Mr. MONK. That is right.

SUMMARY OF REQUIREMENTS, GENERAL ADMINISTRATION

Mr. EVINS. We will put in the record page 1–9.

(The page follows:)

GENERAL OPERATING EXPENSES

GENERAL ADMINISTRATION

Introduction

"General Administration" is one of three VA activities funded from the "General Operating Expenses" appropriation—the others being "Department of Data Management" and "Department of Veterans Benefits." This activity consists of the Office of the Administrator and all agency-level staff offices except the Office of the Assistant Administrator for Construction (which is funded from the "Construction of Hospital and Domiciliary Facilities" VA appropriation).

Summary of requirements

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Office of the Administrator	$1,102,678	$1,333,000	$1,359,500	+$26,500
Information Service	557,092	607,000	614,000	+7,000
General Counsel	1,220,306	1,252,000	1,269,100	+17,100
Board of Veterans' Appeals	3,050,769	3,441,300	3,615,700	+174,400
Assistant Administrator for Personnel	2,475,223	2,702,700	2,710,500	+7,800
Assistant Administrator for Management, Engineering, and Evaluation	1,132,600	1,309,700	1,336,700	+27,000
Manager, Administrative Services	3,253,531	3,534,900	3,543,300	+8,400
Controller	2,885,458	3,185,100	3,154,700	−30,400
Investigation and Security Service	640,926	768,300	776,500	+8,200
Total costs	16,318,583	18,134,000	18,380,000	+246,000

Mr. EVINS. There is an increase of two employees in the "Administrative, budget planning, and programing."

The information service, an increase of $7,000 is required for within-grade promotions. General Counsel, an increase of $17,000 for within-grade salary advances.

Mr. Stancil has told us about the Board of Veterans Appeals. Nine man-years at $174,000.

Include pages 3–5, 3–6, and 3–7 of the summary in the record.

(The pages follow:)

General administration

	1966	1967	1968	Change
Costs (obligations)	$16,318,583	$18,134,000	$18,380,000	+246,000
Average employment	1,385	1,459	1,461	+2

1. *Purpose.*—"General administration" is one of three major budget activities of the "General Operating Expenses" appropriation. It consists of the Office of the Administrator and his agency-level staff offices (except the Office of the As-

sistant Admin. for Construction which is budgeted for under the "Construction of Hosp. & Domiciliary Facilities" VA appropriation).

2. *Costs and Employment by Office.*—Total "General administration" costs and employment, as shown above, are distributed by office as follows:

Office	1966	1967	1968	Change
Costs (obligations):				
Office of Administrator	$1,102,678	$1,333,000	$1,359,500	+$26,500
Information Service	557,092	607,000	614,000	+7,000
General Counsel	1,220,306	1,252,000	1,269,100	+17,100
Board of Veterans' Appeals	3,050,769	3,441,300	3,615,700	+174,400
Assistant Administrator for Personnel	2,475,223	2,702,700	2,710,500	+7,800
Assistant Administrator for Management Engineering and Evaluation	1,132,600	1,309,700	1,336,700	+27,000
Administrative Service	3,253,531	3,534,900	3,543,300	+8,400
Controller	2,885,458	3,185,100	3,154,700	−30,400
Investigation and Security Service	640,926	768,300	776,500	+8,200
Total costs	16,318,583	18,134,000	18,380,000	+246,000
Average employment:				
Office of Administrator	72	81	83	+2
Information Service	42	43	43	----------
General Counsel	91	88	88	----------
Board of Veterans' Appeals	261	282	291	+9
Assistant Administrator for Personnel	210	209	209	----------
Assistant Administrator for Management Engineering and Evaluation	79	90	90	----------
Administrative Service	336	373	370	−3
Controller	247	242	236	−6
Investigation and Security Service	47	51	51	----------
Total average employment	1,385	1,459	1,461	+2

3. The principal functions and the 1968 requirements of each of the above offices are outlined in the following paragraphs.

(*a*) *Office of the Administrator.*—Executive direction of the VA—including agency-level planning and advisory functions—Congressional liaison service, and the adjudication of appeals by contractors from decisions of VA contracting officers are the principal functions of this office. An increase of two employees and $26,500 is required in FY 1968 for newly assigned "Program, Planning and Budgeting" functions, for increased Congressional liaison workload, and normal within grade salary advancements.

(*b*) *Information Service.*—The three-fold mission of this Service is (1) to keep veterans and their dependents informed of their rights and benefits and the proper procedures for applying for such benefits; (2) to keep the general public informed regarding VA operations, activities and policies; (3) to counsel and advise the Administrator and VA officials concerning public interest and reactions as they concern the determination of VA policies. An increase of $7,000 is required in FY 1968 for normal with-in grade salary advancements ($6,000) and employee travel ($1,000).

(*c*) *General Counsel.*—The General Counsel is the chief officer of the VA in all matters of law and litigation. His office (1) renders advice and opinions directly and through Chief Attorneys; (2) reviews all regulations and directives for legal correctness; (3) collaborates with the Dept. of Justice on litigation; (4) supervises and coordinates matters pertaining to proposed legislation; and (5) maintains liaison with appropriate committees of Congress. An increase of $17,100 is required in FY 1968 for normal with-in grade salary advancements.

(*d*) *Board of Veterans Appeals.*—The Board, created by statute in 1933, is under the control and supervision of a chairman who is directly responsible to the Administrator for deciding appeals on all claims involving benefits under laws administered by the VA. Continuing increases in appeals cases will require an additional increase of 9 man-years and $174,400 in FY 1968.

(*e*) *Assistant Administrator for Personnel.*—The A.A. for Personnel is responsible to the Administrator for the agency personnel program. As a result of a reorganization effective July 1, 1966, the functions of the personnel organizations in the departments were consolidated in the Office of the A.A. for Personnel. An increase of $7,800 is required in FY 1968 for normal with-in grade salary advancements.

(*f*) *Assistant Administrator Management Engineering and Evaluation.*—The Office of the A.A. for M.E.&E. was established by the reorganization of Central

Office functions effective July 1, 1966. It makes studies of VA operations, programs and procedures to determine their effectiveness and to improve efficiency and economy; conducts research in new management techniques and assists in their implementation, conducts a continuing internal audit program; and provides staff assistance in records management, forms design and control, correspondence and similar actvities. An increase of $27,000 is required in FY 1968 for normal with-in grade salary advancements.

(*g*) *Investigation and Security Service.*—This Service was established by the reorganization of Central Office functions effective July 1, 1966. It formulates and recommends VA-wide application of general policies and plans pertaining to investigation, security, discrimination complants and contract compliance under Executive Order 11246. A net increase of $8,200 is required in FY 1968. chiefly because of normal with-in grade salary advancements.

(*h*) *Administrative Services.*—The Manager, Administrative Services is responsible for providing general administrative services for the VA Central Office. The net increase of $8,400 in FY 1968 is the result of normal with-in grade salary advancements which are partially offset by a decrease of 3 man-years.

(*i*) *Controller.*—The VA Controller is the top financial management officer of the agency. He is responsible to the Administrator for VA-wide budget, finance, reports and statistics functions. Decreases of 6 man-years and $30,400 are estimated for FY 1968.

Mr. EVINS. Board of Veterans' Appeals. We will place this material on page 1–35 in the record. Assistant Administrator for Personnel, 1–45; the General Counsel, 1–29; Assistant Administrator for Management Engineering and Evaluation, 1–55; Controller, 1–73. He sets a good example. He read the President's directive. And 1–81, Investigation and Security Service.

(The pages follow:)

BOARD OF VETERANS' APPEALS

The Board of Veterans Appeals is a statutory Board created in 1933. Its authority is now defined in 38 U.S.C., Chapter 71. The Board is under the control and supervision of a chairman, who is the top appeals officer of the VA. He is directly responsible to the Administrator for deciding appeals in all claims involving benefits under laws administered by the VA.

Summary of requirements

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average employment	261	282	291	+9
Costs:				
Personal services	$2,984,829	$3,368,200	$3,534,600	+ $166,400
Travel and transportation of persons	12,691	14,100	14,100	
Transportation of things	723	3,000	3,000	
Other services	24,326	37,300	38,000	+700
Supplies and materials	13,218	5,000	6,000	+1,000
Equipment	14,982	13,700	20,000	+6,300
Total costs	3,050,769	3,441,300	3,615,700	+174,400

ASSISTANT ADMINISTRATOR FOR PERSONNEL

The Assistant Administrator for Personnel is the Director of Personnel for the agency and is directly responsible to the Administrator of Veterans Affairs for the agency-wide personnel program. In addition, the Assistant Administrator for Personnel, as the VA Equal Employment Opportunity Officer, is responsible for developing policies and programs to further equal employment opportunity in all facets of personnel management.

The primary responsibilities of the Office of the Assistant Administrator for Personnel are (1) furnishing advice and assistance to top agency officials on all personnel matters, (2) establishing objectives and initiating programs to obtain,

develop and maintain an effective work force, (3) formulating plans, policies, systems, procedures and instructions for agency-wide personnel management, (4) and providing service to the operating Departments on all aspects of day to day field personnel operations.

Summary of requirements

	1966 [1] actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average employment	210	209	209	
Costs:				
Personal services	$2,376,858	$2,600,600	$2,608,400	+$7,800
Travel and transportation of persons	57,407	51,400	51,400	
Transportation of things	1,586	2,500	2,500	
Other services	26,269	29,800	29,800	
Supplies and materials	8,481	11,600	11,600	
Equipment	4,622	6,800	6,800	
Total costs	2,475,223	2,702,700	2,710,500	+7,800

[1] Prior to fiscal year 1967, separate personnel organizations served the 3 operating departments. As a result of a reorganization, effective July 1, 1966, the functions of the personnel organizations in the departments were consolidated in the Office of the Assistant Administrator for Personnel. Under the new organization, all staff type activities, formerly performed at both staff and department levels, are conducted at a single central office staff level. This eliminates functional overlap, reduces levels of review, curtails paperwork, and provides for better control of total manpower resources. The 1966 actual costs reflect both the actual costs of the Office of the Assistant Administrator for Personnel, as it existed in 1966, and the actual costs of the personnel functions which were in the Department of Medicine and Surgery and the Department of Veterans' Benefits during 1966.

GENERAL COUNSEL

The General Counsel is the chief officer of the Veterans Administration in all matters of law and legislation.

The primary responsibilities of the Office of the General Counsel are: (1) rendering advice and opinions directly and through Chief Attorneys; (2) reviewing for legal correctness all regulations and directives; (3) collaborating with the Department of Justice on litigation; (4) supervising and coordinating matters pertaining to proposed legislation, Executive orders and proclamations; (5) maintaining liaison with appropriate committees of both Houses of Congress. A summary of the major workloads of the Office is shown in a subsequent section.

Summary of requirements

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average employment	91	88	88	
Costs:				
Personal services	$1,144,413	$1,176,700	$1,193,800	+$17,100
Travel and transportation of persons	3,864	5,300	5,300	
Transportation of things	272			
Other services	564	900	900	
Supplies and materials	11,252	11,000	11,000	
Equipment	2,013	8,100	8,100	
Insurance claims and indemnities	57,928	50,000	50,000	
Total costs	1,220,306	1,252,000	1,269,100	+17,100

ASSISTANT ADMINISTRATOR FOR MANAGEMENT ENGINEERING AND EVALUATION

The Office of Management Engineering and Evaluation was established by a VA Central Office reorganization effective July 1, 1966, succeeding the former Office of Management and Evaluation which was abolished. The new office comprises the Internal Audit Service (same as in the former office), the Management Engineering Service (successor to the former Manpower Utilization Service but with much broader responsibilities) and Management Services Staff (same as former Paperwork Management Service). The new office is the top staff element for management auditing, systems and procedures studies (except ADP feasibili-

ty studies), management research, management and operating measurements and standards, manpower utilization and cost reduction programs, appraisal of the effectiveness and economy of VA programs and operations, liaison with GAO on management studies and appraisals, paperwork management (records, administrative issues, forms, correspondence, and mail) and implementation of laws and regulations covering employee and beneficiary travel.

Summary of requirements

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average employment	79	90	90	
Costs:				
Personal services	$1,048,000	$1,215,900	$1,242,900	(+)$27,000
Travel and transportation of persons	80,071	78,300	78,300	
Transportation of things	194	8,800	8,800	
Other services	2,177	3,600	3,600	
Supplies and materials	1,358	1,100	1,100	
Equipment	800	2,000	2,000	
Total costs	1,132,600	1,309,700	1,336,700	(+)27,000

OFFICE OF THE CONTROLLER

The VA Controller is the top financial management officer of the agency. On a VA-wide basis, the responsibilities of his office cover the areas of budget, financial management, and reports and statistics.

Summary of requirements

	1966 actual [1]	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average employment	247	242	236	−6
Costs:				
Personal services	$2,677,595	$2,809,800	$2,786,200	−$23,600
Travel and transportation of persons	154,961	150,300	150,300	
Transportation of things	3,215			
Other services	39,422	208,000	208,000	
Supplies and materials	2,084	5,000	5,000	
Equipment	8,181	12,000	5,200	−6,800
Total costs	2,885,458	3,185,100	3,154,700	−30,400

[1] All "1966 actual" amounts on this and subsequent pages are a consolidation of the actual cost of the Office of the Controller as it existed in 1966 and the actual cost of comparable functions which were in the Department of Veterans Benefits, the Department of Medicine and Surgery, and other staff offices during 1966, but reorganized to the Office of the Controller effective July 1, 1966. These consolidations were made for comparability with a corresponding decrease in the departments and staff offices affected.

INVESTIGATION AND SECURITY SERVICE

The Investigation and Security Service formulates and recommends for VA-wide application general policies and plans pertaining to investigation, security, discrimination complaint, and contract compliance under EO 11246.

Summary of requirements

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average employment	47	51	51	
Costs:				
Personal services	$570,844	$685,600	$697,800	+$12,200
Travel and transportation of persons	50,141	54,100	56,200	+2,100
Transportation of things		1,200	1,200	
Other services	19,358	19,600	19,600	
Supplies and materials	400	3,400	400	−3,000
Equipment	183	4,400	1,300	−3,100
Total costs	640,926	768,300	776,500	+8,200

INVESTIGATION AND SECURITY SERVICE

Mr. EVINS. Tell us about this work. Who is the chief?

Mr. DRIVER. Mr. Holland, but he is represented today by his deputy, Mr. Maiers.

Mr. EVINS. How many people do you have in the Investigation and Security Service?

Mr. MAIERS. We took over 47 at the time of the reorganization in July and we have 51 on duty.

Mr. EVINS. You had about 45 in your shop and you went up to about 50?

Mr. MAIERS. Yes.

Mr. EVINS. Do you need all of those people over there?

Mr. MAIERS. Yes. We find we have been a little lax in our contract compliance program. According to the Office of Federal Contract Compliance, we are required to survey the various facilities once a year. We have not been able to keep up with this program, so we are going to increase our staff to try to comply with this.

In addition, as you know, on the investigative staff, we have some down time, so we have now trained four investigators to fill in on the contract compliance program, which will give us more utilization on our complete staff.

Mr. EVINS. The Investigative and Security Service formulates and recommends for the VA general policies and plans pertaining to investigations, security, and discrimination complaints. Then you get down to what you are talking about. Contract compliance. Tell us what you do over there. How do you make an investigation? Who do you investigate? What reports do you make?

Mr. MAIERS. We investigate maladministration and various complaints that come into the agency.

Mr. EVINS. You don't check on the top administration. You mean out in the field?

Mr. MAIERS. In the field, that is right.

Mr. EVINS. Do you send your people out or do you do it by letter or telephone?

Mr. MAIERS. We do it by personal investigation.

Mr. EVINS. You have 54 people. Can they investigate all your facilities?

Mr. MAIERS. There are actually 16 investigators on duty and we find we have been able to handle the workload very nicely.

Mr. EVINS. What do they do? They go out to Oteen, N.C., where they are building a hospital, and they come back and say, "The hospital is coming along fine. It looks well. There is a nice view out there. It is going to be a fine facility."

Mr. MONK. Basically an investigation involves an allegation of a wrongdoing on the part of an employee.

Mr. EVINS. Not a contractor then?

Mr. MONK. Not a contractor. That is a different program, Mr. Chairman. But the investigation primarily has to do with an employee of the VA hospital alleged to be in trouble. We send an investigator out and he interviews the employer and other people who may be involved in the case.

Mr. EVINS. It is a security investigation of the VA?

Mr. MONK. We have some security investigations.

Mr. EVINS. But this is in the job?

Mr. MONK. Yes. In this shop, too.

If you will go to page 1–86 here, Mr. Chairman, it gives a breakdown of the workload in the service. The 150 investigations are the ones I am talking about. Usually it involves an allegation of wrongdoing of some kind.

Mr. EVINS. It just says "Investigations, 150."

Mr. MONK. That is right.

MISSING VETERANS

Mr. EVINS. Then you have "Veterans Reported Missing." These have left the reservation?

Mr. MONK. And we try to find them.

Mr. EVINS. FBI reports received and processed.

Mr. MONK. Three thousand a year. The FBI sends us over reports that have to do with our people or our activities.

Mr. EVINS. And laboratory opinions. You investigate those?

Mr. MONK. Handwriting specimens——

Mr. EVINS. Tell us what you do on these investigations.

Mr. MAIERS. There is a laboratory operated for examining spurious documents and rendering opinions as to the authenticity of documents.

For instance, we have cases involving X-ray film, to make a determination as to the date the X-ray film was exposed.

Mr. EVINS. Couldn't you call the hospital—a man reports that someone walks away from a reservation. How do you get them back? They call the police or do you have to send someone out from Washington to find him?

Mr. MAIERS. This is what is done at the local level. What we are talking about on reported veterans missing, we have a category now of the veteran who is missing for 7 years and who has filed for benefits—the family has filed under the insurance.

Mr. DRIVER. They will say they want us to presume the veteran is dead. We will then attempt to establish whether or not he is dead. Examine records, go to employers, go to social security. These are for running down cases where resulting death results in a payment to the beneficiary.

Mr. JONAS. Why couldn't you say, "We will get a court order"? Every State has a statutory provision that will make it possible to establish death.

Mr. DRIVER. They are coming in and asking us to act in advance of the times that a court would recognize for a missing person.

Mr. JONAS. What is the hurry?

Mr. DRIVER. They want the money.

Mr. JONAS. Can't they wait 3 months until they can get a proceeding through court?

Mr. DRIVER. They could, Mr. Jonas, I am sure.

Mr. JONAS. Isn't that an extra service we are rendering that they could forego?

Mr. DRIVER. I don't think so. I think it is a responsible service to make certain that if there is evidence that is known to us, that can be obtained by us, that we act promptly.

Mr. EVINS. It may not be upset but it won't be a legal determination.

Mr. DRIVER. It will be as far as our examination is concerned.

Mr. JONAS. It will keep you from being accused of misusing money, but it won't be legal for estate purposes.

Mr. DRIVER. Title 38 provides "No State law providing for presumption of death shall be applicable to claims of death under laws administered by the VA."

Mr. JONAS. I didn't say let them assume anything but get a proceeding through court.

Mr. DRIVER. Then what would we do with it?

Mr. JONAS. Then you would have a court determination.

Mr. DRIVER. This says "No State law providing for presuming—if evidence satisfactory to the Administrator——"

Mr. JONAS. That would be a court decision.

Mr. DRIVER. I know, but this particular portion of the statute, section 108, requires that we do what this is reported to do. It requires that we try to establish his existence or nonexistence.

Mr. EVINS. We realize you have to make a decision. Mr. Jonas' point is that you don't have to make it yesterday on the fellow who has been gone 7 years. A man might take off and say, "I have bad domestic relations at home and I am going to Florida, or California," and you don't find him. In the meantime, she wants a quick decision so she can get a check and you might make an error and say the man is dead and he might be living happily.

Mr. DRIVER. We have found a great many of them, I must say. In one case I recall after having many interviews with the man's widow, we found the veteran in jail in California. The 7 years had gone by and I think some benefits had been paid her under other programs. We then turned this information over to the family.

Mr. EVINS. If the court adjudicated and found that the man was dead, then you would have a legal decision.

Mr. DRIVER. If we had it in California, the statute would prohibit our paying the benefits.

Mr. BRICKFIELD. A lot of States have 7-year statutes and you have to be missing 7 years before being adjudicated as officially dead. But here a widow could come in in a year's time and say she is a widow seeking veterans' benefits. Under that circumstance, you need not wait the 7 years. We can make a finding that the veteran is missing.

Mr. EVINS. You can make a finding he is missing the day he leaves the hospital.

Mr. DRIVER. And is presumed dead.

I think in many of these cases we are rendering equity in a deserving case.

Mr. EVINS. I am sure a lot of them are deserving, but in case you make an error, then what? There is no way of recouping the loss.

Mr. DRIVER. If we have paid the beneficiary?

Mr. EVINS. Yes.

Mr. DRIVER. No, sir. Not if we have made the mistake.

Mr. JONAS. How many of these cases are there?

Mr. MONK. Seventy-five.

Mr. EVINS. Mr. Maiers, what else do you do besides investigate missing persons?

INVESTIGATION OF CHARGES

Mr. MAIERS. Our main workload from the investigative standpoint is where allegations of a serious nature have been made against the operation of the VA or employees of the VA. We then go out and conduct a complete investigation to determine the facts as to whether or not we are guilty of a wrongdoing or whether we are in good shape.

I might say I made a study recently of 70 major investigations of serious allegations against our employees. We were able to establish in 30 of these cases that our employees were blameless.

Mr. EVINS. In about 50 percent of the cases?

Mr. MAIERS. About 50 percent. I think the employees are entitled to this protection where serious allegations are made.

Mr. JONAS. Can you give us an example of these allegations?

Mr. MAIERS. For instance, we had a case recently involving a hospital where allegations were made in the X-ray department that the employees were working elsewhere when they were supposed to be on duty in the agency. There was some drinking going on during duty hours within the agency and one of the doctors was moonlighting on another job. This is the type of situation you get into in a hospital. We do have in our hospital a situation, the type of allegation of a patient being abused. Fortunately, this volume of business has been on the decline. I think probably because of the great advances in the medical sciences and psychiatry.

Mr. EVINS. In the cases where you find violation, what type of action do you take following your report?

Mr. MAIERS. Following our report we recommend action we feel is in keeping with the violation. Our report is then submitted to the interested department and they either accept our recommendations or disagree with us. If they disagree, the report is then submitted to the Administrator for final determination.

Mr. DRIVER. The penalties would run from dismissal to reprimand.

SECURITY REVIEWS

Mr. EVINS. In security cases, have you had any employee's loyalty questioned?

Mr. DRIVER. We have had none.

Mr. EVINS. You have a report of 710 cases. What is the nature of the security cases?

Mr. MAIERS. First, you have to realize we are a nonsensitive agency. These are clearances for new employees coming on duty in the agency.

Mr. EVINS. The Civil Service Commission testified to us yesterday that they do this work for all the agencies except the Cabinet level, which is done by the FBI. They say, "We make all these security investigations and if an employee wants to get a job with the Government, we have to check every one of them." The Civil Service Commission says they do this work.

Mr. MAIERS. They furnish the information to our agency.

Mr. EVINS. They don't investigate the prospective employee?

Mr. DRIVER. They don't decide based on the information what to do about it. They give us the information to look at.

Mr. EVINS. They submit a report based on their investigation and you evaluate it. Does your man make an investigation too?

Mr. DRIVER. He evaluates the evidence. He reviews it and decides what we should do about the employees.

Mr. EVINS. He really doesn't make the investigation then; he reviews an investigation?

Mr. DRIVER. That is right. "Security cases reviewed and adjudicated." We do not do the investigation.

Mr. MAIERS. There are cases where we will get into a security, or should I say suitability investigation. For instance, one type would be the homosexual. The Civil Service Commission will pass the information to us that they might have on the employee and we will then investigate.

DISCRIMINATION COMPLAINTS

Mr. EVINS. "Cases closed under equal opportunity program." What is the nature of those? It goes from 96 to 115.

Mr. MONK. These are complaints of discrimination.

Mr. EVINS. You find no discrimination in hiring on account of race, color, or creed and then you close the case?

Mr. MAIERS. That is right.

Mr. EVINS. There is not much work on that.

Mr. MONK. Some of those get pretty involved.

FIELD VISITS AND INQUIRIES

Mr. EVINS. "VA visits to field stations by field representatives—200 next year." What is the nature of those liaison visits?

Mr. MAIERS. There are five field representatives stationed out in the five locations. They handle the contract compliance program. They also visit the stations to determine whether or not they have any problems in the investigative field. However, the bulk of their work now is in contract compliance.

Mr. EVINS. Preliminary inquiries. What is the nature of those?

Mr. MAIERS. The field representatives also conduct what we call a preliminary inquiry. This is a situation where not too much information is supplied, so we have a quick check made by them because they are on the scene and it would save the cost of our employee going from the central office. They make a preliminary check to see whether or not a full investigation is indicated.

Mr. EVINS. Place table 1–86 in the record.

(The page follows:)

INVESTIGATION AND SECURITY SERVICE

The following tables show major workloads:

	Actual	Estimate	Estimate
Investigations	146	150	150
Veterans reported missing	59	75	75
FBI reports reviewed and processed	2,705	3,000	3,000
Laboratory opinions	141	150	150
Security cases reviewed and adjudicated	706	710	710
Cases closed under equal opportunity program	96	110	115
Liaison visits to field stations by field representatives	217	150	200
Preliminary inquiries	55	50	50
Contract compliance surveys:			
Contract specialists	76	120	130
Field representatives	146	175	175

Other costs

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Travel and transportation of persons:				
Employee travel	$50,041	$54,000	$56,000	+$2,000
Local travel	100	100	200	+100
Total	50,141	54,100	56,200	+2,100

Department of Data Management

Mr. Evins. Next will be "Department of Data Management." Place in the record pages 1–89 through 1–91.

(The pages follow:)

GENERAL OPERATING EXPENSES

DEPARTMENT OF DATA MANAGEMENT

INTRODUCTION

The Department of Data Management is one of three operating Departments of the Veterans Administration—the other two being the Department of Veterans Benefits and the Department of Medicine and Surgery. The Department was established in February 1963 and consolidated all automatic data processing activities of the Veterans Administration under one head.

The Department has two basic responsibilities; (1) the management and control of automatic data processing (ADP) activities and equipment for the agency and; (2) the technical management and control of agency communications function and facilities. The DDM mission is essentially one of service to provide effective support to all VA management on matters relating to ADP and communications.

This support service reaches to all fields of VA activity and includes studies of all programs from the viewpoint of short and long range data processing and communication requirements. Studies to determine the feasibility of changeover from manual-mechanical processes are accompanied by studies seeking more effective and economical data processing methods for those operations previously converted to computer systems.

The Chief Data Management Director, assisted by the Deputy Chief Data Management Director and Central Office staff elements, administers the operations of Data Processing Centers and Data Processing Branches located throughout the United States and the Philippine Islands.

MAJOR ACCOMPLISHMENTS IN THE USE OF COMPUTERS

Compensation, pension, and education programs

Under this program, compensation, pension, and education benefits are paid each month to over 4.5 million eligible veterans and dependents. The conversion

of the CP&E system from manual-mechanical methods to a centralized computer system was accomplished over a two year period and involved the gradual incorporation of accounts formerly handled at 66 geographically dispersed locations. The new ADP system provides faster and more accurate service at a substantially lesser cost. In addition computer programs can be modified automatically to accommodate legislative changes in rates and benefits.

Government life insurance programs

The conversion of Government life insurance accounts from a manual-mechanical system to an automated data processing system has resulted in over 5.9 million accounts being handled by the computer. The insurance ADP system provides faster and more accurate service for all Government life insurance policyholders, reduces clerical requirements to a minimum, and is far more economical. In addition Government life insurance dividends now paid annually to about 4.6 million policyholders are processed through the computer at a fraction of the cost under the manual-mechanical system. Also legislative changes to the insurance program are expedited through use of this ADP system.

Personnel and accounting integrated data pay system (PAID)

This is a centralized computer system used to process payroll and personnel data for all VA field stations (220) and Central Office. Every other week the system generates salary checks and earnings and leave statements for about 160,000 VA employees. The system also provides the output which enables the Treasury Department to produce the U.S. Savings Bonds regularly received by the majority of VA's personnel, also personnel actions, employment reports, other special reports and complete cost accounting information. This system not only results in speed and accuracy but in significant annual savings.

Automated management information system (AMIS)

This automated system was established initially for the agency's medical program. A "data bank" was established which consisted of a series of statistical records on magnetic tape containing all quantitative data (patient care, radiology, pharmacy, dietetics, etc.) on each VA hospital and outpatient clinic for each monthly or quarterly reporting period. Each month all stations report their workloads by a series of standardized teletype messages which are coverted to magnetic tape and the data bank is updated. Through a series of computer programs, output can be provided in any format required. The system has proven very valuable in providing various statistics for the use of Congressional Committees. In addition to the medical program, reports and related statistics of the Veterans Benefits program (compensation, pension and education, insurance & loan guaranty) have been included in the system. Field station reporting requirements have been reduced and more selective management data has been generated with greater flexibility and speed of compilation resulting in substantial annual savings.

ECONOMIES FROM AUTOMATIC DATA PROCESSING

ADP applications already installed and in operation, including those identified on the preceding pages, are saving the Veterans Administration more than $14 million annually. By integrating our ADP with the Post Office Department, Treasury Department, Department of Defense and General Services Administration, significant savings are realized by those Agencies. In addition to the recurring annual savings accruing to the VA, over $4.6 million one-time savings have resulted from such actions as acceleration of insurance dividends, automatic compensation and pension increase etc. We expect additional one-time savings from ADP and more important, a continued progressive growth in the amount of annual recurring savings, which we estimate will be in the magnitude of $75 million by 1975. The Research and Development section of this budget identifies additional projects scheduled for ADP along with a description of the project and the savings anticipated.

Mr. EVINS. We know this story. It always means more personnel. Your chart on page 1–92 shows the average employment.

The Office, Chief, Data Management, there are 12 in the Director's Office. Then the deputy has 1,009 in the field stations under the deputy. Then you have Development Service, 79. Development Service No. 2, 57. What is the difference between Service 1 and 2?

Mr. BUDD. They do the same type of work, Mr. Chairman. We have so many projects it would be impractical for one director to supervise properly the great number.

Mr. EVINS. Development Service?

Mr. BUDD. They make feasibility studies and then design systems and then program them.

Mr. EVINS. The hospitals have been going on for some time and they know what their services and needs are.

I don't get the nature of the difference between No. 1 and No. 2.

Mr. BUDD. There is no distinction between No. 1 and No. 2. It is merely a function of volume.

We have a large number of project teams that are studying the use of data processing in all of our operations. Each service director has anywhere from four to, say eight teams under his supervision, and each team is working on a separate area. They are examining the area for its potential for ADP. Where it is determined data processing can be of benefit and will help, they then design the system, program it and prepare it for installation. The two Services do identical work, but work on different areas.

Mr. EVINS. You turn all your facts over to the controller?

Mr. BUDD. Yes, sir. The reports activities that we had, the people we had in reports statistics were transferred to the controller's office July 1.

Mr. EVINS. You do a very good job of gathering statistics and getting all the information.

What are some of your activities? Give us an overall picture of your work.

Mr. BUDD. Right now we have a team that is designing and programing the total VA supply system. Logistics system, as we call it.

As you recognize, this is a comprehensive activity in the VA and there is a supply division at each field station. It is a matter of inventory recordkeeping, a matter of fiscal accounting and statistics. We have one team that is designing a system that we hope can be installed—the depot part—early in 1968.

Mr. EVINS. You want to know how much of a given quantity of a certain material is available?

Mr. BUDD. That is right.

Mr. EVINS. How much cotton, gauze, and bandages are available in hospitals?

Mr. BUDD. We will have inventory records maintained in a central location on a computer.

Mr. EVINS. What else?

Mr. BUDD. We are now programing the portfolio loan accounts. The VA has about a quarter of a million portfolio loans; loan guarantee accounts. We are programing this area. We are going to have a master record like we do for our insurance. We will have it on each loan guarantee account. We will do the fiscal accounting. It will keep the schedules, diaries, reminders, it will print the bills to the veteran to pay his mortgage payment. It will do the——

Mr. EVINS. You have all these figures in your budget. They are all available in the department and if you have more to add on, you just add them on to your figures here?

Mr. BUDD. We are putting our activities on a computer and we are doing it now in many ways. Some recordkeeping is done manually. Some is done with punchcards and we have some small part on computers and what we are doing is developing a central system which will keep the records in one place. We will have the information in one computer and available to everyone.

Mr. EVINS. Your data management division has all the information on all the overall operations of the veterans, the veterans programs, benefits, supplies, materials, everything they want they can come to your shop for the answer?

Mr. BUDD. Yes, sir.

SYSTEMS MAINTENANCE

Mr. EVINS. What is the difference between systems maintenance and systems management?

Mr. BUDD. Systems maintenance—once a program is installed—we have 11 locations—10 in the continental United States— that have computers, and electrical accounting machines. These people are responsible for the staff activity for overseeing the operations of these centers. Now, this is as opposed to the people who are working on new applications that we talked about, such as Development I and Development II services. These people are working on new applications to be installed. Once they are installed, they have to be operated and maintained and our people in systems maintenance keep liaison with the various program elements of the central office, the compensation and pension people, the loan guarantee people. They keep liaison with the——

Mr. EVINS. If you want information, you do it by phone?

Mr. BUDD. A lot of it is done by telephone, yes, sir. Depending on the urgency of the request.

Mr. EVINS. Maintenance seems like it would be maintaining current records or would it be maintaining equipment?

Mr. BUDD. The systems operation.

Mr. EVINS. What is the systems maintenance?

Mr. BUDD. We are redesignating it systems operation.

Mr. EVINS. You have two titles for development service and you have two titles for maintenance. Then you have a communication service and then a planning and research service.

MANAGEMENT EVALUATION SERVICE

Mr. BUDD. Management evaluation, sir, is another activity. We have an evaluation staff, a small group that visits our data processing centers and branches to review their activities, to look at them from the standpoint of an outsider, looking at the activities to assess them.

We have systems auditors, people divorced from the task of writing programs and developing systems to look over their shoulders to make sure that the proper work is done and to check out the programs and make sure they are going to do what the programer thinks they are going to do.

This also has our forms control and our publications activity in there.

Mr. EVINS. Can't you send a letter out to all your hospital managers and say, "Gentlemen, please give me the following information," outline what you want and in a week you will have the answer back?

For instance, you might want the following information on the personnel level or the amount of supplies. You have it all there.

Mr. BUDD. It would be a monstrous job.

Mr. EVINS. How many hospitals do you have?

Mr. BUDD. 164.

Mr. EVINS. You can run off 164 copies and get 164 replies within a week. It may not be quite that simple. You need to have a certain number of personnel to get all this data.

Mr. BUDD. It is a little more complex than that, sir.

Mr. EVINS. I know it is essential. I am just trying to help you be more efficient and have less personnel.

Mr. BUDD. We are trying hard, sir.

Mr. EVINS. Sometimes you do it by telephone?

Mr. BUDD. I am referring to asking the data processing center for what information the Administrator might need for a congressional committee, or for the Bureau of the Budget, or for some other purpose. We do use the telephone; yes, sir.

Mr. EVINS. You have most of it right there in your shop in headquarters.

Mr. BUDD. All of our recordkeeping is on magnetic tape, or some of the other type devices we have in the data processing centers. Most of it is in Philadelphia, St. Paul, or Hines, Ill.

NUMBER OF COMPUTERS

Mr. EVINS. How many computers do you have in your division?

Mr. BUDD. By fiscal year 1968, 23, sir. We want to buy three that we are now leasing and we think it is good business to buy them because we have a long-term need for them and the Federal Government will profit by buying them now instead of paying rent.

Mr. EVINS. How much money do you have in the budget for the purchase of the three computers?

Mr. BUDD. $1.8 million, sir.

Mr. EVINS. How much have you paid out in leasing on these three? I am talking about the three you propose to purchase.

Mr. BUDD. $423,000 paid as of January 1967. The general economics are that when you buy a computer, you get your money back in about 3 years. You break even in 3 years. All of the computers we have, we own, except these three.

Mr. EVINS. You own 17 and you want to purchase three more. Is that right?

Mr. BUDD. That is right, sir.

Mr. EVINS. Twenty computers and 1,480 employees are required to get this information?

WORKLOAD VOLUME

Mr. MONK. If you will look at 1–102, it will give you an idea of the workload breakdown. The volume of data that is handled.

Mr. EVINS. We will turn to page 1–102. Here is the application and type of unit: Insurance policies maintained, 5,871,000.

Now, you say total transactions, 51 million. What is the difference between your 5 million and your 51 million figure?

Mr. MONK. That means for every policy that you maintain you have about 10 transactions.

Mr. BUDD. Many veterans pay their insurance premiums monthly. That means you will get at least 12 transactions on that policy. You pay him a dividend and that makes it another transaction.

Mr. EVINS. The work is being put over on you, Mr. Budd?

Mr. BUDD. This is a net increase; yes, sir, after the savings are computed.

Mr. EVINS. Insurance awards maintained, 410,000. This is where the checks go out?

Mr. BUDD. We have 410,000 accounts for monthly checks.

Mr. EVINS. Monthly?

Mr. BUDD. Yes, sir; people drawing insurance and disability benefits from the insurance policy. They have a payment period of 10 years, 20 years, depending on the type of policy option.

Mr. EVINS. They are monthly payments rather than annual or semiannual?

Mr. BUDD. Yes, sir.

Mr. EVINS. Payments authorized shows some 5 million.

Mr. DRIVER. Regular monthly mailing.

Mr. EVINS. I was talking about insurance.

Mr. MONK. If you had one every month it would be that.

Mr. EVINS. Compensation and pension, 56,692,000 payments authorized.

Mr. Budd, these are all over on you. Loan guarantee is another big one.

Mr. BUDD. That should be 4,600,000. That is a typographical error.

Mr. EVINS. Personnel and accounting integrated data pay system.

Mr. MONK. The whole payroll is on the computer.

Mr. EVINS. Patient treatment records maintained and automated management information system. What is that?

Mr. BUDD. That is our reporting. Our field stations submit the data in raw form on a paper tape to our Hines computer. We then have a program which manipulates and calculates and prepares the reports in the format.

AUTOMATED MANAGEMENT REPORTS

Mr. EVINS. Tell us again so we can justify this for you, what is AMIS?

Mr. BUDD. Management reports. Information is submitted to the computer center. They submit it in raw form, just accounts, the number of patients of each type treated. It comes in on paper tape. We convert it to magnetic tape. We then give the computer the data, and based on prearrangement it is typed——

Mr. EVINS. Who are the users? Is this a consolidated report?

Mr. BUDD. Yes. It can be broken down any way the people in the VA want, by station, by area, by agency.

Mr. DRIVER. All the data in the annual report comes in this way, Mr. Chairman.

DATA MANAGEMENT EMPLOYMENT

Mr. EVINS. Mr. Budd, you still think you need 20 computers and 1,480 personnel to gather this information?

Mr. BUDD. Yes, sir.

Mr. EVINS. Have you been able to reduce your staff since you have been provided with computers?

Mr. BUDD. Yes, we have made some economies. As a matter of fact, this budget shows 30. Basically we have today in the Department of Data Management the people who were in the VA. As a matter of fact, it is coincidental that in 1963 when the Department of Data Management was organized we took over 3 years pulling these 1,480 people together. There were 1,480 people assigned to data-processing activities in the VA.

Mr. EVINS. You still have the same number?

Mr. BUDD. Our request came out coincidentally to 1,480, yes, sir.

Mr. EVINS. That proves you have not reduced your personnel.

Mr. BUDD. Thousands of jobs have disappeared in the agency because of the work done here.

Mr. EVINS. But not in your shop.

Mr. BUDD. No, sir, within the VA.

Mr. DRIVER. He assumed the new GI workload without new people.

Mr. EVINS. He started out with 1,480, he has that many now, and he has 20 computers. That shows the computers didn't reduce the personnel.

Mr. DRIVER. When he started out he had a fraction of the functions he has now.

Mr. EVINS. Workload increased?

Mr. DRIVER. Tremendously. He went into different areas, too. He didn't have loan guarantee accounting, the new GI bill. All this has been loaded on without additional people.

Mr. EVINS. If you didn't have computers, the personnel would have gone up?

Mr. BUDD. You would have a lot more employees in the VA.

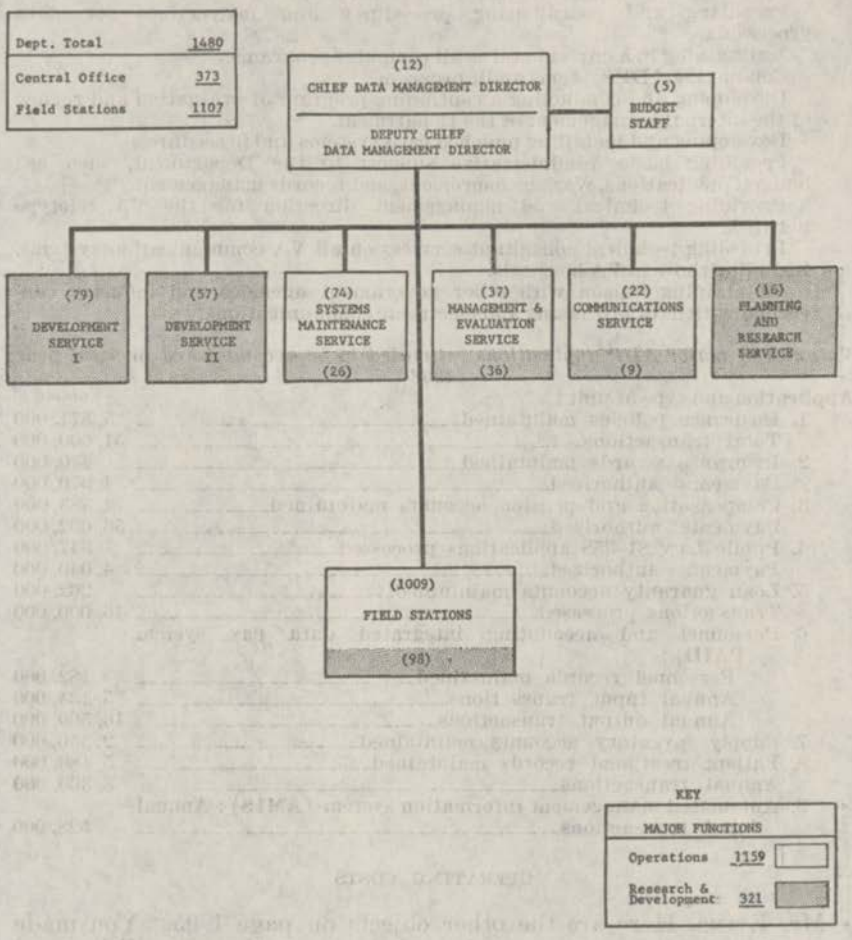
Mr. EVINS. Like Mr. McNamara saying he makes savings by not building bases. He projects savings on the bases he did not build. You are projecting your savings on personnel you did not employ.

Mr. BUDD. No, sir. Going back to last summer we were paying on the education bill a certain number of people. It would have taken a lot more people to pay them under a manual system.

Mr. EVINS. We will insert the chart on page 1–92 and pages 1–102 and 1–101.

(The chart and pages follow:)

ORGANIZATIONAL STRUCTURE
(FY 1968 Estimated Average Employment in Parentheses)



OPERATIONS

Introduction

The Operations functions encompasses Central Office direction and the performance of work at eleven Data Processing Centers and Data Processing Branches. By the end of FY 1968 it is planned that the field stations will have 23 computers and 450 electrical accounting machines to process the workload. The computers will be located at all field stations except Seattle and Manila and will range from small scale card oriented computers to large scale computers with random access capabilities.

The data processing activities are located at:

Atlanta, Ga.
Austin, Tex.
Boston, Mass.
Hines, Ill.
Los Angeles, Calif.
Manila, P.I.
Philadelphia, Pa.
Seattle, Wash.
St. Louis, Mo.
St. Paul, Minn.
Washington, D.C.

Major functions

The basic activities performed in the operations functions are:

Directing the overall activities of the Department of Data Management.

Operating the Data Processing Centers and Branches.

Preparing and coordinating procedures and instructions for data processing.

Maintaining in a current status all computer programs.

Conducting ADP systems audit program.

Developing and conducting a continuing program of evaluation and review of the internal management of the Department.

Developing and installing punched card systems and procedures.

Providing basic administrative support to the Department, such as: budget, publications, work measurement, and records management.

Providing technical and management direction for the VA teletype network.

Providing technical consultant services on all VA communication systems, including those in VA hospitals.

Maintaining liaison with other government agencies and industry concerned with data processing and electronic communications.

Volumes of major ADP applications estimated to be accomplished in fiscal year 1968

Application and type of unit:	*Volume*
1. Insurance policies maintained	5,871,000
Total transactions	51,000,000
2. Insurance awards maintained	410,000
Payments authorized	4,970,000
3. Compensation and pension accounts maintained	4,583,000
Payments authorized	56,692,000
4. Public Law 81-358 applications processed	547,000
Payments authorized	4,040,000
5. Loan guaranty accounts maintained	262,000
Transactions processed	46,000,000
6. Personnel and accounting integrated data pay system (PAID):	
Personnel records maintained	182,000
Annual input transactions	5,134,000
Annual output transactions	16,560,000
7. Supply inventory accounts maintained	2,350,000
8. Patient treatment records maintained	5,180,000
Annual transactions	3,300,000
9. Automated management information system (AMIS): Annual input transactions	528,000

OPERATING COSTS

Mr. EVINS. Here are the other objects on page 1-95. You made some reductions in transportation of things, rents and utilities, and other services. An increase of $1,813,000 is shown for equipment. Personal services increase by another half million. An increase is shown there for your division of over $2 million.

Mr. JONAS. Why do you have to spend $300,000 traveling around these various places?

Mr. BUDD. Big cost on travel is this: When it comes to installing new systems field stations have to be trained. Travel is with the people who are developing the systems. Programs have to be started.

Mr. JONAS. Will that be a continuing cost?

Mr. BUDD. Yes, sir. As we continue to develop new systems we will have this. We have 210 field stations in the Veterans' Administration which have to be trained and brought together to understand the new systems, to be oriented on changes which take place, and they have to be visited on post conversion to answer their questions, help solve their problems after we make the conversions.

DATA PROCESSING RESEARCH

Mr. EVINS. Tell us what you are doing in the Data Management Division on research. What kind of research?

Mr. BUDD. Research and development is the function of all the projects we have. I can give you a breakdown of the areas shown on page 112.

Mr. EVINS. Tell us what research you are doing.

Mr. BUDD. We are looking at the systems side of our activities. We are identifying the areas in the VA that have potential for automation, areas which appear to have a potential for use of a computer.

We study the existing system and then using our technical ability we design a system that can be operated by the computer. We cost out both systems. If it appears to be feasible, if it appears there is an advantage to automate, we then get the Administrator's approval to proceed with the development of the detailed programing and writing of automated procedures. It is research from the time we start looking at it to see whether it can be automated to the time it is installed. Our research costs cover that range.

Operations start at the time this is installed and then continuing to maintain it.

Mr. EVINS. You say this information processing system is an interrelated complex of men, data, communications, and machines which are interwoven in such a manner that all operations, all levels of management and all systems can interact efficiently and effectively?

Mr. BUDD. Yes, sir.

Mr. EVINS. That is a good phrase if it is so. I hope you can do that.

Place 1–109 in the record.

(Page 1–109 follows:)

RESEARCH AND DEVELOPMENT

Introduction

The Research and Development function consists of:

Identifying areas susceptible to automation that will yield monetary savings, improved manpower utilization, or improved service to VA beneficiaries.

Conducting research and experimentation in ADP systems, equipment and techniques.

Conducting long range planning with the objective of providing a total information processing system for VA.

Designing, developing and installing new ADP systems.

Maintaining liaison with data processing elements of government, industry and equipment manufacturers in order to keep pace with communications and computer technology.

Performing cost estimating in order to determine cost of present systems and economic advantages of proposed ADP systems.

Training and developing employees in the technical specialties of ADP systems analysis and programming.

Conducting research and experimentation in communications, including the rapid transmission of data, communications control computers, and input/output devices.

Workload assignments in accomplishing the above consist of a group of planned subsystems, each requiring a feasibility study phase, a development phase and an installation phase. These phases are planned on a time phase schedule. Workload priorities are based on the relationship of the subsystem to each other, the potential benefits to be achieved and the maximum resources available. Planned subsystems identified on pages 116–129 are intermediate goals in the development and installation of a Total Information Processing System (TIPS), designed to most effectively meet the needs of the Veterans Administration. This Total In-

formation Processing System is an interrelated complex of men, data, communications, and machines which are interwoven in such a manner that all operations, all levels of management and all systems can interact efficiently and effectively. Through the installation of the subsystems and in achieving the total system, conceptual dollar savings are projected to be in the magnitude of 75 million dollars annually.

Department of Veterans' Benefits

Mr. Evins. Let us look at the Department of Veterans' Benefits in the book, 1–131.

New obligational authority for compensation and pension appropriation goes up from $4.514 billion to $4.558 billion, an increase of $44 million. The summary does not always correlate with the book.

GI BILL WORKLOAD

Compensation, pensions, and education highlights, page 1–159. The enactment of the Veterans Readjustment Act for 1966 has generated a considerable increase in workload. Approximately 496,000 application for educational benefits had been received as of November, with a monthly average of 240,000 trainees for 1967 and 286,000 for 1968.

In fiscal 1966, 37,208 counseling cases were completed. Due to the initial impact of Public Law 89–358, which makes counseling available on a voluntary basis, the total number of cases will increase to 80,000 during fiscal 1967 and reduce to 70,000 in 1968. How can you tell they will reduce 10,000 and what is the nature of the counseling case?

Mr. Stratton. In the first full year we are picking up the 4 million potential which the Administrator spoke to. After that year we would expect to drop down and eventually represent primarily a large percentage of the recent dischargees, so I think it will go down.

Compensation, Pension, and Education

Mr. Evins. Next item is more than $4.3 billion in compensation pensions paid to veterans and their dependents. Almost 2 million veterans received compensation for service-connected disability, and 1.2 million veterans received non-service-connected disability pension.

Dependents of 1.3 million deceased veterans received death compensation. These are some of the highlights.

Place the chart on pages 1–159 and 1–160 in the record.

(Charts referred to follow:)

Compensation, pension, and education

This program administers all legislation enacted to provide benefits in the form of compensation, pension, educational assistance or vocational rehabilitation training to eligible veterans, their immediate families and to some service men and women in the armed forces.

Highlights

The enactment of the Veterans Readjustment Benefits Act of 1966 (PL 89–358) has generated a considerable increase in workload. Approximately 496,000 applications for educational benefits had been received as of November 28, 1966 with a monthly average of 240,000 trainees estimated for FY 1967. This monthly average is expected to increase to 286,000 in FY 1968.

37,208 counseling cases were completed in FY 1966. Due to the initial impact of PL 89–358, which makes counseling available on a voluntary basis, the total

number of cases will increase to 80,600 during FY 1967 and reduce to 70,900 in 1968.

More than $4.3 billion in compensation and pension benefits were paid to veterans and their dependents.

Almost 2 million veterans received compensation for service-connected disabilities.

1.2 million veterans received non-service-connected disability pension.

Dependents of 1.3 million deceased veterans recived death compensation, dependency and indemnity compensation or pension payments.

Summary of requirements

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average employment:				
Departmental	130	134	133	−1
Field	3,525	4,264	4,346	+82
Total	3,655	4,398	4,479	+81
Costs:				
Personnel compensation	$34,205,801	$41,437,000	$41,943,000	+$506,000
Personnel benefits	2,449,075	3,162,000	3,185,000	+23,000
Total personal services and benefits	36,654,876	44,599,000	45,128,000	+529,000
Travel and transportation of persons	484,957	573,000	529,000	−44,000
Other services	1,385,816	3,273,000	2,993,000	−280,000
Grants to States	266,575	1,515,000	1,515,000	
Total costs	38,792,224	49,960,000	50,165,000	+205,000
DISTRIBUTION OF EMPLOYMENT				
Departmental:				
Office of Director	5	5	9	+4
Administrative (clerical)	23	23	25	+2
Policy	37	39	36	−3
Program administration	59	61	58	−3
Program financial management and standards	6	6	5	−1
Total	130	134	133	−1
Field:				
Office of adjudication officer	417	410	417	+7
Rating board	575	566	578	+12
Authorization	1,760	2,467	2,516	+49
Vocational counseling, training, and adjustment	209	245	248	+3
Services	564	576	587	+11
Total	3,525	4,264	4,346	+82

COMPENSATION AND PENSIONS SUPPLEMENTAL

Mr. EVINS. In the summary sheet you say the proposed supplemental of $140 million coming up is for increases in caseloads above earlier estimates and for legislation enacted subsequent to the 1967 budget.

Didn't we give you a supplemental for all new legislation in the last Congress?

Mr. MONK. No, sir, You gave us a supplemental for the new GI bill.

Mr. EVINS. That is what this is, is it not?

Mr. MONK. These are increases in compensation and pension payments.

Mr. EVINS. We passed a separate bill for that in the closing days?

Mr. MONK. Yes, there were several bills.

Mr. EVINS. About six of them?

Mr. MONK. That is right. None were very expensive but the total cost of the new legislation in the $140 million is around $40 million.

Mr. EVINS. Were you precise in your estimates on the cost of the supplemental for the GI bill of rights?

Mr. MONK. So far it looks as though we were pretty close.

Mr. EVINS. The supplemental you propose for this year is for other legislation beyond the GI bill?

Mr. MONK. That is correct.

Mr. EVINS. Spell out what they are for the record.

DEATH GRATUITIES

Mr. STRATTON. The main one was the death gratuity bill which was amended. This was calculated to pay $5,000 for deaths occurring between 1957 and 1965. If they occurred under certain conditions this would be so. It was formulated at the time they wrote the group insurance plan of $10,000 for the man in service.

This applied only from the effective date of the legislation, however, which was September of 1965, and Congress decided to pay $5,000 to certain uninsured deaths called gratuitous payments.

Mr. EVINS. In other words, we have a $10,000 veterans insurance indemnity against every man in the service which the Government picks up the tab for, and then we passed a law for $5,000 for gratuities death benefits to survivors in the family beyond this $10,000?

Mr. STRATTON. That is correct. The law as originally written said the person could not receive this $5,000 if he had received that much already in some sort of death compensation or if the life insurance payment exceeded that amount. Further they had to waive all their future rights to DIC.

There was an amendment in the law after the appropriation which makes us come here for a supplemental which said hereafter you do not have to waive the DIC and it will not be offset by the amount of DIC received.

Mr. EVINS. If every member of the Armed Forces is insured up to $10,000 why would a special $5,000 act have to be required?

Mr. STRATTON. This was a group insurance plan and it went into effect in 1965.

Mr. EVINS. This was for protection prior to the enactment?

Mr. STRATTON. Yes, sir.

Mr. JONAS. It applied to accidental death? This is regardless of cause?

Mr. STRATTON. Almost. It applied to hostile deaths, airplane, deaths simulating war, and if a person was receiving incentive pay, and so on. That would meet the condition of death. Then there was another related to payment.

Mr. EVINS. This number of deaths was actuarially known at the time this legislation was passed?

Mr. STRATTON. When the original legislation was passed we were uncertain because we had to get DOD material.

However, in the supplemental that we are primarily talking about we know quite precisely where we are because we accumulated that number of people, some 10,000, made the offer to them, in effect, under the prior requirements.

Now when they amended it to make it more liberal we have those cards. We got these from Mr. Budd. This is typical of the type of thing I am always asking for. We can now go back to these people and again give them a new offer under the liberalization.

Mr. EVINS. Mr. Budd can give you the answer?

Mr. STRATTON. He can tell me where I go to find out that information.

Mr. EVINS. Beyond that statute for which you have figures what other special legislation was passed?

OTHER SUPPLEMENTAL REQUIREMENTS

Mr. STRATTON. DIC increase for parents and children which makes up the dominant part.

Mr. EVINS. There were about six laws passed.

Mr. MONK. There was another one which changed the rate of payment in the Philippines from 1 peso for 1 dollar to——

Mr. EVINS. In other words, the supplemental you now propose is for new legislation passed beyond the GI bill?

Mr. MONK. Plus an additional caseload over and above what we had estimated.

Mr. EVINS. You missed it, then?

Mr. MONK. We missed it in caseload and we missed it in average cost. Both went up. The caseload went up about $56 million and the average costs went up about $42 million.

Mr. EVINS. How much did you miss it by?

Mr. MONK. Roughly $90 million.

Mr. EVINS. Pretty big miss for you, Mr. Monk.

Mr. MONK. Pretty big.

Mr. EVINS. You should have referred that to Mr. Budd. He didn't run it through the machine.

Mr. MONK. You have to apply some human judgment.

COMPENSATION AND PENSIONS—CASELOADS AND COSTS

Mr. EVINS. We will place in the record pages 3–17, 3–18, and 3–19.

(Pages follow:)

New obligational authority:

1966	$4,429,000,000
1967	4,514,000,000
1968	4,558,000,000
Change	+44,000,000

1. *Purpose:* This appropriation provides for the payment of compensation, pensions and related benefits to veterans and their survivors.

Compensation. Monthly cash payments are made to veterans with service-connected disabilities to compensate them for loss or reduction of earning power as a result of injury or disease incurred during or aggravated by military service. Payments are also made to the survivors of those veterans whose death was in line of duty or as a result of conditions associated with military service.

Pension. Monthly cash payments are made to needy war veterans who are permanently and totally disabled even though the disability has no connection with the veteran's military service. Payments are also made to widows and children of deceased veterans who are without adequate means of support.

2. *Summary of Requirements:* Costs by major activity and new obligational authority for F.Y.'s 1966–1968 are as follows:

	1966	1967	1968	Change
Compensation	$2,313,496,703	$2,407,722,000	$2,434,699,000	+$26,977,000
Pensions	1,989,439,272	2,024,081,000	2,041,778,000	+17,697,000
Other related benefits	85,565,852	123,901,713	81,523,000	−42,378,713
Total costs	4,388,501,827	4,555,704,713	4,558,000,000	+2,295,287
Change in unobligated balances and miscellaneous adjustments	+40,498,173	−41,704,713		+41,704,713
New obligational authority	4,429,000,000	4,514,000,000	4,558,000,000	+44,000,000
Proposed supplemental		(140,000,000)		

The proposed supplemental of $140,000,000 in F.Y. 1967 is for increases in caseloads and average payments above earlier estimates and for legislation enacted subsequent to submission of the 1967 Budget.

3. *Compensation:* Compensation costs and average caseloads for fiscal years 1966–1968 are as follows:

	1966	1967	1968	Change
Costs:				
Veterans	$1,830,456,238	$1,910,100,000	$1,924,006,000	+$13,906,000
Survivors	483,040,465	497,622,000	510,693,000	+13,071,000
Total	2,313,496,703	2,407,722,000	2,434,699,000	+26,977,000
Caseloads:				
Veterans	1,991,752	1,996,075	2,000,565	+4,490
Survivors	364,773	367,937	370,992	+3,055
Total	2,356,525	2,364,012	2,371,557	+7,545

Net increased costs of $26,977,000 in F.Y. 1968 are attributable to the following:

Factor	1968 cost increase (+) or decrease (−)	
	Veterans	Survivors
Caseload changes:		
Peacetime service	+$18,248,000	+$15,197,000
Korean conflict	+3,215,000	
All other	−17,160,000	−11,063,000
Total caseload changes	+4,303,000	+4,134,000
Average payment (total)	+9,603,000	+8,937,000
Total change, fiscal year 1968	+13,906,000	+13,071,000

4. *Pensions:* Pension costs and average caseloads for fiscal years 1966–1968 are as follows:

	1966	1967	1968	Change
Costs:				
Veterans	$1,300,573,569	$1,296,294,000	$1,284,371,000	−$11,923,000
Survivors	688,865,703	727,787,000	757,407,000	+29,620,000
Total	1,989,439,272	2,024,081,000	2,041,778,000	+17,697,000
Caseloads:				
Veterans	1,218,654	1,201,045	1,179,639	−21,406
Survivors	951,471	1,001,195	1,037,450	+36,255
Total	2,170,125	2,202,240	2,217,089	+14,849

Net increased costs of $17,697,000 in F.Y. 1968 are attributable to the following:

Factor	1968 cost increase (+), or decrease (−)	
	Veterans	Survivors
Caseload changes:		
Korean conflict	+$3,257,000	+$5,056,000
World War II	+48,912,000	+24,169,000
World War I	−63,798,000	+3,198,000
All other	−11,465,000	−6,071,000
Total caseload changes	−23,094,000	+26,352,000
Average payment (total)	+11,171,000	+3,268,000
Total change, fiscal year 1968	−11,923,000	+29,620,000

5. *Other Related Benefits:* In addition to compensation and pension payments, a number of other veterans' benefits are paid from the "Compensation and Pensions" appropriation, as follows:

Item	1966	1967	1968	Change
Retired officers pay	$2,431,776	$2,270,000	$2,116,000	−$154,000
Adjusted service and dependents pay	70,101	61,000	56,000	−5,000
Subsistence allowances	12,055,219	16,310,000	15,100,000	−1,210,000
Burial benefits	59,547,313	60,440,713	63,421,000	+2,980,287
Special allowances, dependents	248,407	270,000	270,000	
Death gratuity	10,972,412	44,000,000		−44,000,000
Invalid lifts and other devices	157,874	250,000	260,000	+10,000
Tort claims	82,750	300,000	300,000	
Total "Other related benefits"	85,565,852	123,901,713	81,523,000	−42,378,713

Mr. EVINS. Here are the caseload changes. Korean conflict survivors cost $5,056,000 additional in 1968. Caseload is also increasing for the Korean veterans.

World War II veterans. You have a plus there but the figure looks smaller. This is on page 3–19.

Mr. DRIVER. This is broken down further into different categories.

Mr. MONK. Increased cost over 1967 of $48 million for World War II veterans and $24 million for survivors.

Mr. EVINS. Average payment for a veteran is——

Mr. DRIVER. Average payment increase over 1967 is over $14 million.

Mr. MONK. On this appropriation we need to go back to 2–3 in the big book, the benefits themselves.

SUMMARY OF OPERATIONS

Mr. EVINS. We shall insert this additional language on pages 2–3, 2–4, and 2–5.

(Pages follow:)

COMPENSATION AND PENSIONS

GENERAL SUMMARY AND HIGHLIGHT

The Veterans Administration is responsible for administering a program of compensation and pension which has its statutory basis in title 38, United States Code, "Veterans' Benefits". The basic objective of the program is to provide a measure of financial assistance to disabled or needy veterans and their dependents.

This objective is achieved through the payment of monthly benefits which are classified as either compensation or pension. "Compensation" is payment made because of a service-connected disability; i.e., the disease, injury or death for which payment is made either originated or was aggravated in active military service. "Pension", on the other hand, is paid, on a basis of need, for

disabilities or death not connected with the veteran's service in the armed forces.

This program affects a large segment of the public and expenditures exert a considerable impact on the national economy. In fiscal year 1966, more than $4.3 billion was paid to: (a) over 3,211,000 living veterans and, (b) the survivors of more than 1,316,000 deceased veterans at a rate of more than $365 million monthly. The chart on page 2–7, graphically illustrates the total program cost, by categories and by major war periods, for the past fiscal year. Payments of compensation and pension will continue to increase at a predictable rate in the years to come. The growth of the program is best illustrated by a comparison of the total caseload and overall costs for the last five years, including estimates for fiscal years 1967 and 1968, as shown on page 2–9.

From a veteran population of over 25 million as of June 1966, an average of nearly 1,992,000 veterans were receiving disability compensation at a cost of more than $1.8 billion. It is estimated that the number will increase to over 2,000,000 in 1968 at a cost of more than $1.9 billion.

The number of veterans receiving pension is estimated to decrease from nearly 1,219,000 in 1966 to about 1,180,000 in 1968. The costs will correspondingly decrease from slightly more than $1.3 billion in 1966 to over $1.2 billion in 1968.

The survivors of over 1.3 million deceased veterans were receiving compensation, dependency and indemnity compensation, or pension as of June 30, 1966. The total expenditure for those benefits exceeded $1.1 billion. It is estimated that the number of deceased veterans cases will increase to over 1.4 million in 1968 with costs mounting to $1.2 billion.

THE BUDGET ESTIMATE

The cost of the veterans compensation and pension program is governed by the basic laws authorizing these benefits. In any given year the size of the Veterans Administration's job is largely dictated by factors outside its control. These factors include birth, marriage, disability, retirement and death rates which relate to the total remaining veteran population and the surviving families of deceased veterans.

The total effect of these factors, during fiscal year 1966, on the size of the Veterans Administration's job was determined by the more than 156,000 original claims for disability compensation and pension that were adjudicated; decisions made on 298,000 reopened claims and claims for increased benefits; 817,000 claims based on changes in income and dependents; 133,000 claims for death compensation, dependency and indemnity compensation and death pension; and 244,000 burial claims. These basic workload factors ultimately resulted in changes to the composition of the benefit payment rolls and as a result serve as the basis for the budget estimates.

APPROPRIATION LANGUAGES

For the payment of compensation, pensions, gratuities, and allowances, including burial awards, burial flags, subsistence allowances for vocational rehabilitation, emergency and other officers' retirement pay, adjusted service credits and certificates, as authorized by law; and for payment of amounts of compromises or settlements under 28 U.S.C. 2677 of tort claims potentially subject to offset provisions of 38 U.S.C. 351, $4,558,000,000, to remain available until expended.

LEGISLATIVE CHANGES

Several laws enacted during the 2nd session of the 89th Congress have a cost effect on the compensation and pension program, as follows:

Public Law 89–466, Approved June 22, 1966

Provides that dependency and indemnity compensation payable to a widow who has children shall be payable in an amount equal to such amount of pension in any case where dependency and indemnity compensation payable is less than pension. Cost effect of this law is minor.

Public Law 89–467, Approved June 22, 1966

Provides that where a veteran receiving pension disappears, pension will otherwise be payable to his wife and children. Cost effect of this law is negligible.

Public Law 89–501, Effective July 1, 1966

Increased the rates of basic pay for members of the uniformed services and thereby indirectly increased the dependency and indemnity compensation rates payable to widows by approximately $2 million in 1967 and 1968, respectively.

Public Law 89–641, Effective December 1, 1966

Provides that certain peso payments made under title 38 U.S.C. shall be at a rate in Philippine pesos as is equivalent to $0.50 for each dollar authorized. Estimated cost for 1967 and 1968 is $7.0 million and $11.3 million, respectively.

Public Law 89–730, Effective January 1, 1967

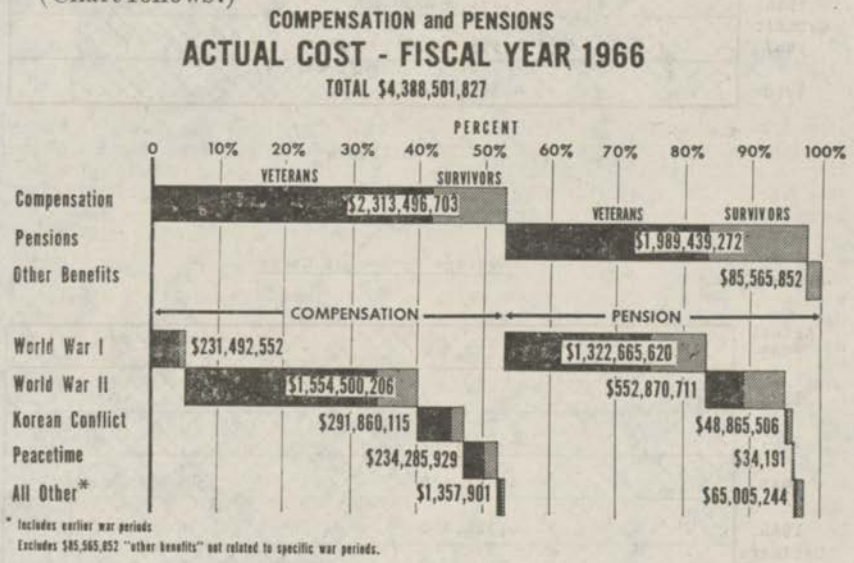
Liberalized the provisions for payment of dependency and indemnity compensation to parents and children and for other purposes such as death gratuities. Cost effect is estimated to be $33.0 million in 1967 and $9.0 million for 1968.

FISCAL YEAR 1966 COSTS

Mr. EVINS. This is an interesting chart on page 2–7. It shows the cost of compensation as $2.3 billion. Pensions for veterans and survivors almost $2 billion. You have other benefits, $85.5 million. Then it shows it for World War I, World War II, Korean, and others.

Place this chart in the record, 2–7.

(Chart follows:)



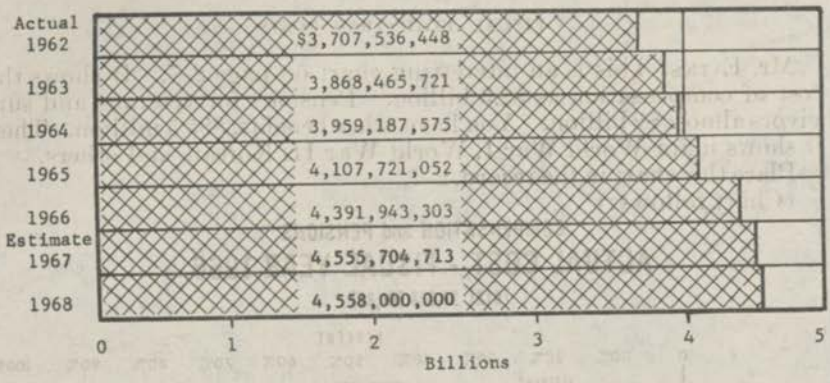
COMPENSATION AND PENSIONS OBLIGATIONS AND CASELOADS

Mr. EVINS. The next chart is a 7-year comparison of obligations and caseloads, page 2–9. The amounts and numbers of cases have increased in 7 years.

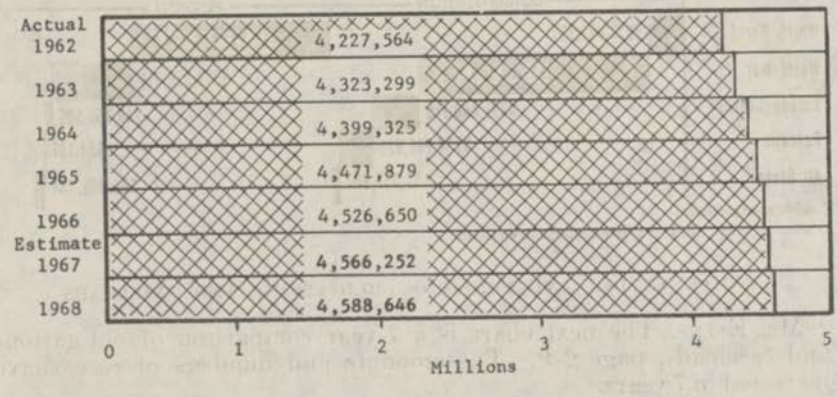
(Chart follows:)

7 YEAR COMPARISON OF OBLIGATIONS AND CASELOADS

Obligations



Average Number of Cases



PART 2. BENEFIT APPROPRIATIONS/FUNDS

Summary of requirements

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (-)
Benefit costs:				
Compensation	$2,313,496,703	$2,407,722,000	$2,434,699,000	+$26,977,000
Pensions	1,989,439,272	2,024,081,000	2,041,778,000	+17,697,000
Other related benefits	85,565,852	123,901,713	81,523,000	-42,378,713
Total cost	4,388,501,827	4,555,704,713	4,558,000,000	+2,295,287
Adjustment of cost to obligations (net)	[1] 3,441,476			
Total obligations	4,391,943,303	4,555,704,713	4,558,000,000	+2,295,287
Transfer in from adjusted service certificate fund	-2,646,468			
Unobligated balance available, start of year	-2,001,548	-41,704,713		+41,704,713
Unobligated balance available, end of year	41,704,713			
New obligational authority	4,429,000,000	[2] 4,514,000,000	4,558,000,000	+44,000,000
Transfer to readjustment benefits appropriation	1,000,000			
Appropriation	4,430,000,000	[2] 4,514,000,000	4,558,000,000	+44,000,000

[1] Change in selected resources.
[2] Includes supplemental of $140,000,000.

DEPARTMENT OF VETERANS BENEFITS' ORGANIZATION AND EMPLOYMENT

Mr. EVINS. Let us look at the chart on 1-133, Department of Veterans Benefits. Central office has 500.

This is the central office?

Mr. STRATTON. Yes.

Mr. EVINS. In the field you have 15,880.

Mr. STRATTON. Total is at the bottom, 16,380.

Mr. EVINS. The guardianship is important work. Contact service was cut down and now it is being built up again.

Mr. STRATTON. Total is 947, with the 22 shown at the top and the 925.

Mr. EVINS. This shows them where to go, gives them bulletins and forms to fill out?

Mr. STRATTON. We don't refer people anywhere else, Mr. Chairman. We take care of them on site.

Mr. EVINS. We took care of a lot of them, too.

Mr. STRATTON. You help us, yes, sir.

Mr. EVINS. One man came to see me during the Christmas holidays. He had a form, a little card, and it stated "Give all the income." He said "I gave them all the income and they sent it right back. I can't understand it. I filled this all in and signed it."

They say "If you have none, put in 'None,' " and he didn't do that. They sent it back because he didn't write in "None."

Mr. BOLAND. That may have been the most important blank.

Mr. DRIVER. It was. And if the card doesn't get back they take his pension away comes January or February.

Mr. EVINS. You are a little hard on these people. I thought you were kind to them.

Mr. TALCOTT. Only half of the people are veterans. But half are also taxpayers. Sometimes they are the same.

Mr. EVINS. This is the big Department of Veterans Benefits. Insurance is popular and the loan guarantee also is popular. Compensation and pension is something they all want.

What does the chief attorney do in the field? You have 1,212 people with him.

Mr. STRATTON. Primarily to oversee the fiduciary aspects of our business—and he also makes field examinations where we need information on a claim.

He is also the legal officer of the Administrator under the General Counsel in the field for our stations which lie within the jurisdiction of that office.

Mr. EVINS. Don't you have a General Counsel in Washington?

Mr. STRATTON. Yes, sir.

Mr. EVINS. And you have 1,212 in the field?

Mr. STRATTON. Only between 5 and 10 percent of the work done in the field is within oversight of the General Counsel—legal opinions and briefs that he has to look after.

Mr. EVINS. How often does the field attorney go into court?

Mr. STRATTON. I don't know the precise number. They don't appear too frequently.

Mr. EVINS. In the guardian estates they say the cost of living has gone up, her husband died, and she would like it increased. How is that done?

Mr. STRATTON. Depends on the arrangement we have as to the fiduciary. If it is a court appointed fiduciary that is one thing.

Mr. EVINS. Does the bank make the decision or does the lawyer have to do work?

Mr. STRATTON. It would depend on the State law primarily.

Mr. EVINS. We like lawyers but do you need them all?

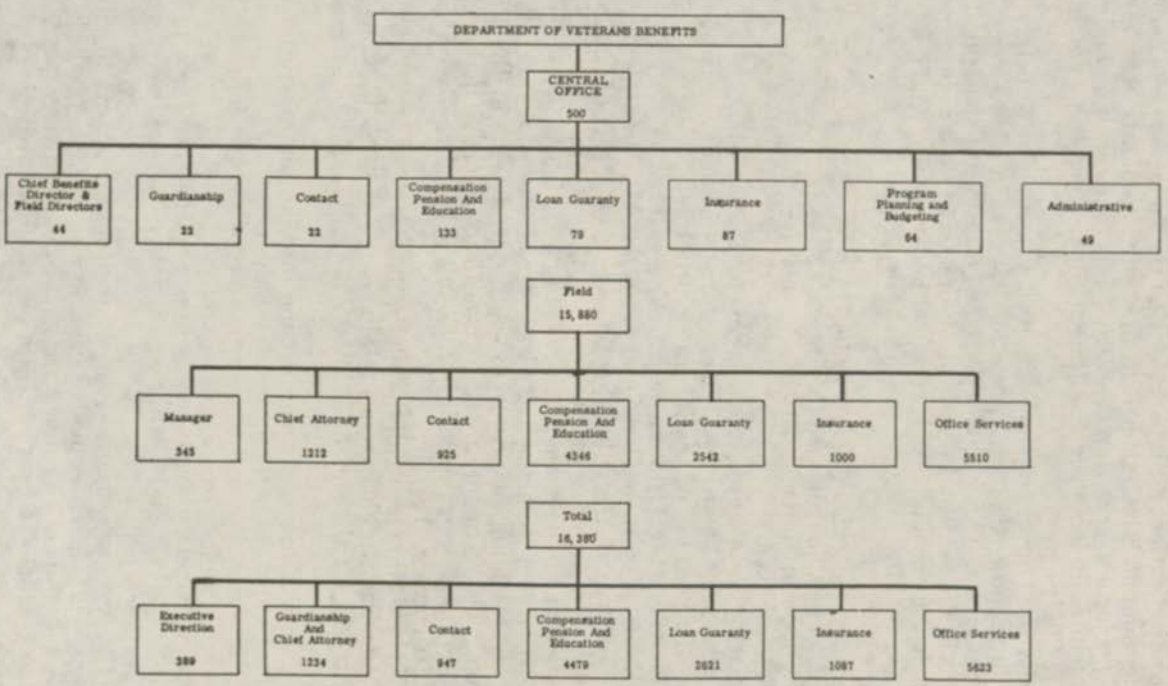
Mr. STRATTON. They are not all lawyers. There are about 500 attorneys in the group.

Mr. EVINS. A lot of these people are secretaries and assistants?

Mr. STRATTON. Fiduciary analysts and this type of thing.

Mr. EVINS. We shall place this chart in the record, 1–133.

ORGANIZATION OF THE DEPARTMENT OF VETERANS BENEFITS FY 1968



This chart portrays the organization of the Department of Veterans Benefits as well as the estimated average employment of each element for the budget year.

Central Office with an average employment of 500 and number for each Service; Field with an average employment of 15, 880 and number for each Service. Total average employment of 16, 380 with a combined employment (CO & Field) for each Service.

Mr. EVINS. The next item is the last tab on this chart we just put in, "Office services," 5623. What services are these?

Mr. STRATTON. People who get everything where it is supposed to be, get it to adjudication, get it back, see that the finance aspects and input into the computers is taken care of. Predominantly these are the people performing the administrative functions, such as budgeting, fiscal, maintaining records, handling mail, and personnel administration Mr. Chairman.

Mr. EVINS. Our chart shows in 1966 you had 5,105 in this work. Now you propose 5,623. This is a big increase in office services.

Mr. STRATTON. This includes personnel divisions in the field, finance divisions in the field, and people in administrative. The increase over 1966 is due to the additional workload generated by Public Law 358.

Mr. EVINS. How many people in your benefits division were you able to reduce?

Mr. STRATTON. 222 in 1968 over 1967.

Mr. EVINS. Who requested this increase?

Mr. STRATTON. I requested the increase for office services in 1967 and 1968 over 1966.

Mr. EVINS. In other words, you asked for 262 more?

Mr. STRATTON. I requested more for 1967 than we had in 1966 because of reopening of the insurance program.

Mr. DRIVER. He asked for a decrease this year.

Mr. EVINS. You surrendered and volunteered? Does this correlate?

Mr. SILBERMAN. We reduced to 16,380—a reduction of 222 in fiscal year 1968. In the office service function that you mentioned, there is a reduction of 128 positions from 1967 to 1968. There was an increase in 1967 from 1966 in that activity basically because of the GI bill. We added several hundred people to the input activity in the Finance Division. This is essentially the reason for the increase in these years.

Mr. EVINS. You increased it in 1967 and reduced it in 1968?

Mr. SILBERMAN. Yes, sir.

Mr. EVINS. Did you fill all the jobs in 1967?

Mr. SILBERMAN. There was a total average of 1,852 positions added in both years for the entire GI bill. An average of 66 of those positions were in 1966, and 1,786 in 1967.

Mr. EVINS. You are just now getting into the administration of the GI bill. You had more than you needed, then.

Mr. STRATTON. We had to gear up to this big new influx. We believe now we can improve this, as we are.

Primary reduction was because of the reopened insurance program.

Mr. EVINS. You said a while ago it was personnel. Now you say it is insurance.

Mr. STRATTON. Insurance reopening program is part of this Department. There was a number of people working not only in Office Services but also the Insurance Section of the Department on this law. That law is ended and we have just about eliminated all the cases we will have to adjudicate.

VALIDATION OF RATING SCHEDULE

Mr. GIAIMO. On page 1–186, that increase of $996,000 for other services, would you explain that?

Mr. STRATTON. This is the result of the $1 million we have now in this section for validation of the rating schedule during this past year.

Mr. GIAIMO. Is that a one-shot proposition?

Mr. STRATTON. I think once we have established the protocol and how we will do this and do it the first time, I am convinced that the results will be that we will continue to validate this at periodic intervals from this point on. It is difficult for me to say emphatically that this will be so today because we have not as yet made the first master run on this validation.

Mr. JONAS. What do you do to your rating sheet? How do you change it?

Mr. STRATTON. In connection with the validation?

Mr. JONAS. Yes.

Mr. STRATTON. The law says we are supposed to pay a service-connected compensation case the average loss of earning capacity based on his degree of disability. We write the percentages in a rating schedule and Congress puts a dollar amount on each percentage.

For example, 10 percent at one time was $10. Now it is $21.

We have never gone out and actually asked in detail through a census study a representative group of compensation cases in all the different disabilities and all the different degrees how much income they have in the way of earnings and then matched that against a group of healthy veterans without any disability to see the extent to which we should compensate him for loss of earning capacity. This is what we will try to do under this validation.

Mr. JONAS. How did you operate before? Have you just guessed at it?

Mr. STRATTON. A guess in some areas, perhaps, but actually from the standpoint of the people who look over this and use it in many countries around the world, the service department is required by law to use it in computing disability requirement, it has worked amazingly well.

Pilot studies we have made would indicate we are not too far off on most of the disabilities.

Mr. JONAS. What do you have budgeted for that?

Mr. STRATTON. $1 million. This will almost entirely go to the census.

Mr. JONAS. Isn't that something that you could defer another year?

Mr. STRATTON. We have been trying to get this off the ground for 6 or 7 years.

Mr. JONAS. I know, but we have not been in the war except for the last couple years, either, spending $2 billion a month.

Is it something we have to do if we have to go out and borrow this money? Do you think it is that important?

Mr. DRIVER. This is an area where we are spending over $1 billion a year and costs are going up.

Mr. JONAS. This will not reduce that but increase it.

Mr. DRIVER. Reduce some and increase some.

Mr. JONAS. Don't you guess there will be an increase?

Mr. STRATTON. I know of areas in my mind, and what I have seen on studies, that would be increased.

Mr. JONAS. I wonder if some of these things have to be done. We are in an emergency.

Mr. STRATTON. It is becoming of more importance right now. We thought we had a reasonably stable compensation roll. With the Vietnam problem, discharges, and those who get disabled, this makes us more anxious to get this validated and do it right.

CIVIL SERVICE EXAMINING BOARDS

Mr. EVINS. Do the Civil Service Commission examining boards serve you in any way? They used to have these boards in every department all over the country. Now they say they have consolidated them into about 61.

Mr. DRIVER. And they service us the same as any other agency.

Mr. EVINS. Do you reimburse them?

Mr. MONK. To the tune of about $1 million.

Mr. EVINS. Do they help you recruit people you need? It costs you $1 million?

Miss PARSONS. This program is not completed yet. They used to have a board in a hospital where a man applied for a job and would take the test there. Now he is supposed to go to the civil service board to take a test.

Mr. EVINS. They claim they have eliminated a lot of boards and consolidated the boards and they are servicing certain agencies. They are serving the Veterans' Administration.

Miss PARSONS. That is right.

Mr. EVINS. You have to reimburse them $1 million a year?

Mr. MONK. It was $794,500 in 1967. It goes to $1,207,800 in 1968.

Miss PARSONS. This has not been completed yet.

Mr. EVINS. They have been in operation several years. They may not have completed all their rolls.

Mr. JONAS. Is this just for the check or finding the recruiting?

Mr. DRIVER. Recruiting and staffing.

Mr. JONES. Not a security check?

Mr. DRIVER. Qualification check. About half of our boards have been eliminated as a result of what they have done so far.

Mr. EVINS. How much savings can you project through this method and where is it reflected?

Mr. DRIVER. How much savings?

Mr. EVINS. Yes. You used to have your own boards.

Mr. MONK. We had about 85 man-years in the medical budget. It is pretty hard to take 85 man-years out, Mr. Chairman, because these people were not devoting 100 percent of their time to this activity. They were personnel people who did this board work as part of their other duties.

We have been able to cut down some but not the full 85.

Mr. TALCOTT. In fact it costs more to use the interagency board.

Mr. DRIVER. That will be true until they are fully activated because we are supporting some ourselves and using theirs for some.

Mr. TALCOTT. You have not been able to eliminate very much.

Mr. DRIVER. We are using theirs to about half of the requirement. The other half is being met by our boards, and gradually they will have to be eliminated.

Mr. EVINS. In other words, you have not eliminated this. You are using them for other services?

Mr. DRIVER. We have eliminated some.

Mr. MONK. It is pretty difficult to put your finger on a full-time body savings because we didn't have people who were devoting their exclusive time to this work.

You take this work away from them. Well, we can use them on other things, but to actually pin down $1 savings in the payroll is difficult to do.

Mr. EVINS. You eliminated certain personnel. Certainly you can calculate salaries.

Mr. DRIVER. We can do that but we would have to associate the elimination with something else, too; they were doing something else.

MAJOR OBJECT COSTS

Mr. EVINS. Let us look at the chart on 1–135.

The first impression would be that the summary of costs of major objects is down.

Mr. STRATTON. We are down on every one except other services, and that is $721,000. This has to do with the economic validation schedule to which I spoke a moment ago.

Mr. EVINS. When we get to the totals they are usually up.

Mr. STRATTON. These are down, Mr. Chairman.

Mr. EVINS. Place this chart from 1–135 in the record.

(Chart follows:)

SUMMARY OF REQUIREMENTS

FY 1966–1968 "General operating expenses" cost requirements of the Department of Veterans Benefits are shown in the following table:

Summary of costs, by major object

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Personnel compensation	$118,928,888	$130,565,000	$128,755,000	−$1,810,000
Personnel benefits	8,632,470	10,328,000	9,800,000	−528,000
Total personal services and benefits	127,561,358	140,893,000	138,555,000	−2,338,000
Travel and transportation of persons	2,356,027	2,566,000	2,460,000	−106,000
Transportation of things	661,372	663,000	420,000	−243,000
Rents, communications, and utilities	4,463,741	5,170,000	5,016,000	−154,000
Printing and reproduction	1,291,904	1,130,000	1,000,000	−130,000
Other services	3,450,446	4,999,000	5,720,000	+721,000
Supplies	951,153	935,000	900,000	−35,000
Equipment	861,592	600,000	600,000	
Grants to States	266,575	1,515,000	1,515,000	
Total cost	141,864,168	158,471,000	156,186,000	−2,285,000
Common service adjustment [1]	−3,045,940	−3,132,000	−3,108,000	+24,000
Net Costs	138,818,228	155,339,000	153,078,000	−2,261,000
Change in selected resources	95,224			
Obligations	138,913,452	155,339,000	153,078,000	−2,261,000
Reimbursements	−4,796,245	−1,805,000	−556,000	+1,249,000
Appropriation estimate	134,117,207	153,534,000	152,522,000	−1,012,000

[1] Department of Veterans' Benefits provides management, finance, and administrative services to the Department of Medicine and Surgery at certain types of facilities—amounts shown as "Common services" reflect the costs of these services.

SCOPE OF DVB OPERATIONS

Mr. EVINS. Chief Benefits Director is responsible to the Administrator for the operation of the Department and is responsible for expenditures involving approximately $5 billion annually, the operation of 58 field offices, and staff elements in central office utilizing a total estimated employment of 16,380 in 1968.

Each director was assigned responsibility for a geographic area comprising one-fourth of the field stations.

You have an area director for benefits under the Chief Director.

Mr. STRATTON. Yes, sir.

Mr. EVINS. Chief Benefits Director directs all of the 16,380.

How many of those are in Washington and how many in the field?

Mr. STRATTON. All but 500 in the field.

Mr. EVINS. Place this chart 1–141 in the record.

(Chart follows:)

EXECUTIVE DIRECTION

Executive Direction provides the planning, direction, and supervision of the Department in an integrated program of veterans' benefits and is comprised of staffs assigned to the following major components: Chief Benefits Director, Field Directors, Managers.

The Chief Benefits Director is responsible to the Administrator for the operation of the Department and is responsible for expenditures involving approximately five billion dollars annually, the operation of 58 field offices, and staff elements in Central Office utilizing a total estimated employment of 16,380 in 1968.

Field Directors are directly responsible for the operation of assigned stations. Each Director has assigned responsibility for a geographic area comprising approximately one-fourth of the field stations under the jurisdiction of the Department of Veterans Benefits.

Managers provide direct overall management and administrative direction of the field office operations.

Summary of requirements

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average employment	388	391	389	−2
Costs:				
Personnel compensation	$4,652,932	$4,808,000	$4,767,000	−$41,000
Personnel benefits	337,825	372,000	367,000	−5,000
Total personal services and benefits	4,990,757	5,180,000	5,134,000	−46,000
Travel and transportation of persons	119,439	120,000	110,000	−10,000
Other services	3,850	3,000	3,000	
Total costs	5,114,046	5,303,000	5,247,000	−56,000
Common service adjustment	−584,123	−624,000	−647,000	−23,000
Net costs	4,529,923	4,679,000	4,600,000	−79,000

GUARDIANSHIP AND CHIEF ATTORNEY

Mr. EVINS. Let us look at guardianships and place in the record 1–147.

(Page 1–147 follows:)

GUARDIANSHIP AND CHIEF ATTORNEY

The Guardianship Program safeguards the funds, received from the Veterans Administration, of those beneficiaries who are under legal disability because of

mental illness or minority. It fulfills this function by a timely selection of the best suited fiduciary, establishment of current expenditure needs, conservation of funds not immediately required and supervision of the administration of estates to prevent losses.

As attorneys for the Administrator of Veterans Affairs in 56 regional offices, the program provides advisory and investigative service to other VA components and acts as the official representative in State and local courts on matters of interest to the agency.

HIGHLIGHTS

By the end of FY 1966, there was an increase of 34,763 wards over the previous year, exceeding expectations by about 17,000. Most of the intake consists of minor beneficiaries.

In the course of 83,657 interim contacts, 17,440 cases of unsatisfactory conditions affecting beneficiaries were found and corrected.

Functioning as supervisors of estate administration:

(1) $180,374 was recovered for the estate of VA beneficiaries previously lost through defalcations and embezzlements;

(2) $1,996,010 was saved for beneficiaries as a result of a variety of legal services; and

(3) Assets of $611,521,318 in beneficiary estates were accounted for.

In performing its functions of providing other legal services:

(1) $3,969,536 was recovered for the United States as a result of 8,863 recovery actions in connection with escheat hospitalization, tort, overpayments, etc.

(2) 71,153 actions relating to Loan Guaranty were completed by Chief Attorneys.

Mr. EVINS. We know generally what they do.

Give us a capsule explanation of the total amount of the guardianships which you are supervising.

Mr. DRIVER. $611 million in the beneficiary estates accounted for under guardian.

Mr. EVINS. How did these estates accumulate?

Mr. DRIVER. Moneys paid under the compensation and pension programs to minors or incompetent beneficiaries, veterans, widows, parents. They are paid under the compensation and pension program.

Mr. EVINS. Wards on the rolls estimated in 1968 as 620,000.

Mr. STRATTON. The majority of these are minors, Mr. Chairman.

CONTACT PROGRAM

Mr. EVINS. Insert 1–153.

(Page 1–153 follows:)

CONTACT

The Contact Program provides personalized service to veterans, their dependents, beneficiaries, representatives and others by furnishing advice, information and assistance relating to benefits administered by the Veterans Administration and other agencies. This personalized service permits veterans and others to get assistance on a variety of benefits on a "one-stop" basis. It also assures completeness in preparation of applications and presentation of claims which facilitates subsequent actions of operating elements of the Agency in processing and adjudicating claims.

HIGHLIGHTS

An aggregate of nearly 6 million personal and telephone interviews conducted during FY 1966.

Passage of the Veterans Readjustment Benefits Act of 1966 granted education assistance, home loan opportunities and other benefits to approximately 4 million former servicemen heretofore ineligible.

Full-time Contact service being rendered at 229 installations.

The Contact Program, in fulfilling the Veterans Administration's mission, is assuring that veterans of the Vietnam conflict have the opportunity to be informed of their rights and entitlement to VA benefits by extending its itinerant service coverage to new points.

Regular service at permanent locations and fixed itinerant points has been augmented by representatives making scheduled and "on call" appearances at larger population centers (usually 50,000 or more) various military hospitals and separation centers.

Special procedures have been introduced to insure that servicemen awaiting separation due to disability are counseled on all VA benefit matters with special attention being focused on those individuals for whom vocational rehabilitation is evident.

Established a new kind of service to returning Vietnam servicemen. Experienced Contact Representatives have been stationed at major embarkation points in Vietnam to provide on-the-spot service to the hundreds of men being returned daily for separation.

LOAN GUARANTEE

Mr. EVINS. Let us look at "Loan guarantee." The Veterans Benefits Act of 1966 extended eligibility for these loan benefits to veterans of post-Korean service. Over 498,400 eligibility determinations were processed. Almost 135,000 of these were for post-Korean service veterans and servicemen; approximately 184,000 loan applications were received.

How many loans were guaranteed? You received applications and processed them.

Mr. MONK. 152,000.

Mr. EVINS. These loans amounted to approximately two and a half billion dollars. Original principal value was that amount.

Properties acquired were 28,329; 29,946 properties were sold. You are getting a little ahead of your backlog.

Properties previously sold were redeemed in 164 instances. You decided to take them back?

Mr. STRATTON. Yes, sir.

Mr. EVINS. As a result of these transactions the inventory of properties on hand was reduced from 17,460 to 15,679.

You had that many on hand June 30, 1966.

Over 22,500 claims from lenders under the terms of the guarantee were processed for payment.

A total of 6,041 direct loans were made; 152,000 were the guaranteed loans?

Mr. STRATTON. Yes.

Mr. EVINS. What is experience in the direct loans as opposed to the guaranteed loans?

Mr. DERVAN. Experience on guaranteed home loans is 2.9 percent. On direct loans it is about 2.5 percent.

Mr. EVINS. Direct loans you have less loss and better payment and a more successful record. Hasn't that been your experience?

Mr. DERVAN. That is what the percentages indicate.

Mr. EVINS. How many of the direct loans have you had to repossess compared to guaranteed loans?

Mr. DERVAN. Out of the 262,000 direct loans, we have had to repossess 6,468.

Mr. EVINS. You are talking about the entire record?

Mr. DERVAN. Yes, sir.

Mr. EVINS. This other figure spoke only of 1 year. What was your experience last year? Tell us again the number of direct loans you have had to repossess.

Mr. DERVAN. Since 1950 there were 262,000 direct loans made. We have had to foreclose, because of default, on 6,400. That is the cumulative experience which produces a 2.5 foreclosure experience.

Mr. EVINS. Very low.

Now give us the picture again on guarantee loans.

Mr. DERVAN. Since the beginning of the program and speaking of homes, from June 1944 6,523,000 home loans have been guaranteed by the Administration. We have had to pay claims on——

Mr. EVINS. There is a difference between paying claims and foreclosing?

Mr. DERVAN. Same thing.

Mr. EVINS. Call it foreclosure, then.

Mr. DERVAN. 187,000 foreclosures.

Mr. EVINS. What is the percentage?

Mr. DERVAN. 2.9 percent.

Mr. EVINS. You made many more guaranteed loans but the loss ratio is higher.

What observations do you have to the committee after all this experience in this home loan financing?

IMPACT OF LOAN GUARANTEE PROGRAM

Mr. DERVAN. It seems to me this program has been of tremendous benefit not only to veterans generally but to the economy. From some six and a half million guaranteed loans private lenders have made available total funds in the amount of $63.3 billion in home loans. This has been a tremendous injection into the economy. It has resulted in jobs for people because of the appliance purchases and many other things. It has had a tremendous effect on the economy.

Since the end of World War II approximately one out of every five new houses constructed in this country has been constructed under the auspices of the GI loan program.

Mr. EVINS. One out of every five new homes has been guaranteed under the veterans home loan program.

Mr. DERVAN. That is right.

Mr. TALCOTT. There has been some suggestion that perhaps there was too much money forced into the economy through low rate GI loans and that therefore we inflated the economy, increased wages to an excessive amount, carpenters, for instance, from $2 an hour to $6 an hour which had an accordion effect on many other industries.

Have you an argument against this comment?

Mr. DERVAN. I would not attempt to disagree, sir, that since the end of World War II there has been, generally speaking, a substantial rise in real estate value.

I do think, though, we must look back to the end of World War II when millions of veterans were separated from the service and were desperately in need of housing. These veterans had not had the opportunity, because of their service, to accumulate substantial downpayments which were essential if they were to obtain conventional financing and thereby compete with the people who had been war-workers during World War II.

It was essential that they be provided with low or no downpayment loans in order to attempt to secure for themselves a limited supply

of housing. It was this area which has made it possible for the many veterans in this country to become homeowners.

We are today a nation of roughly 60 percent homeowners.

Mr. EVINS. Henry Clay said when a man owns a home he buys a piece of land and a good citizen is born. He is rooted down and established rather than being a floater and drifter.

Mr. DERVAN. It is difficult to put a value on this sociological aspect. Certainly it exists.

Mr. EVINS. Looking to the future, what does the VA propose—to continue financing the guaranteed loans and not the direct loans?

Mr. DERVAN. We will continue to rely as we have in the past, sir, on primarily meeting the housing needs through the private sector under the auspices of the VA guarantee.

In those rural areas, small cities and towns where private financing is not generally available, we will continue to supplement private financing by providing direct loan financing and confining it to the areas of vacuum where private financing does not exist.

Mr. EVINS. You look at the need. That is the criteria.

PROPERTIES ON HAND

Mr. JONAS. You have about 15,000 houses on hand in inventory?

Mr. DERVAN. Yes, sir.

Mr. JONAS. Where are they located?

Mr. DERVAN. They are concentrated in six States, roughly—Texas is No. 1; California, No. 2; Florida, No. 3; Illinois, No. 4: Michigan, No. 5; Kansas, No. 6. These six States have about 56 percent of the total properties on the rolls.

Mr. JONAS. What are you doing with them? Is there a good market for them? Will you have difficulty disposing of them?

Mr. DERVAN. There is a chart in part 5, page 47, which shows the areas of concentration.

When we acquire these properties from private lenders we place them in the hands of private local real estate brokers, and through them we offer them for sale.

Mr. JONAS. What are your losses running on them?

Mr. DERVAN. In fiscal 1966 the loss was slightly higher than last year. This year it has been $1,895 per property compared to a figure which was $34 less in fiscal 1965.

This is shown on page 5–45.

Mr. JONAS. That is in the big book.

CONCENTRATION OF ACQUIRED PROPERTIES

Mr. EVINS. This is the big book, "Special Analysis."

Place in the record at this point page 5–47.

(Page 5–47 follows:)

PROGRAM ACTIVITIES

The following tables reflect: (1) concentrations of acquired properties as of the end of fiscal years 1964, 1965, and 1966, (2) inventory of properties on hand as of June 30, 1966, at selected locations, and (3) aging analysis of properties on hand in absolute title as of June 30, 1966:

Concentration of acquired properties

Station	June 30, 1966	June 30, 1965	June 30, 1964
Waco	1,967	1,816	1,568
St. Petersburg	1,361	1,281	1,217
Chicago	1,336	1,850	1,964
Detroit	1,328	2,512	4,737
Los Angeles	1,061	715	479
Wichita	785	1,253	1,669
Houston	585	670	896
Denver	572	460	194
New Orleans	548	763	807
Albuquerque	531	304	161
Seattle	513	527	494
Montgomery	502	506	608
Cleveland	452	780	1,183
San Francisco	420	299	353
Phoenix	374	302	370
New York	345	280	296
Group total	12,680	14,318	16,996
Group total as a percent of U.S. total	(80.9)	(82)	(83.9)
All other RO's	2,999	3,142	3,270
All other RO's as a percent of U.S. total	(19.1)	(18)	(16.1)
U.S. total	15,679	17,460	20,266

HOME LOAN FORECLOSURES

Mr. EVINS. This shows places where the homes are concentrated.

I was also interested in this other table shown next to it. Home loan foreclosures are shown here. Pass-A-Grille is one. That is out on the beach. You haven't 169,000.

Mr. DERVAN. This should not be interpreted to mean we have 169,000 loans which were closed in the immediate vicinity of Pass-A-Grille. This is for the entire State of Florida. Throughout the entire State of Florida a total of 169,000 loans were guaranteed out of the program since inception.

Mr. EVINS. Out of the Florida office?

Mr. DERVAN. That is right.

Mr. EVINS. 13,737 were foreclosed in Florida?

Mr. DERVAN. That is right.

Mr. EVINS. Percentage of foreclosure was 8.1, pretty high.

Mr. DERVAN. That is right. It has been a difficult situation in Florida.

Mr. EVINS. Direct loans, you foreclosed 5,751. Out of the Pass-A-Grille office, you foreclosed 202, which is a rate of 3.5 percent foreclosures. This gives the total in the next column.

Mr. DERVAN. That is right.

Mr. EVINS. 7.9 percent foreclosures in Florida. That is one of the highest?

Mr. DERVAN. That is right.

Mr. GIAIMO. Is that number of loans since the inception of the program?

Mr. DRIVER. Yes, since 1944.

Mr. MONK. That ties in with the 6½ million he gave earlier.

Mr. JONAS. The figures for New York City are rather amazing to me. I would have thought you would have had a higher incidence of foreclosure there.

Mr. GIAIMO. Direct loans or all types?

Mr. DRIVER. Both types.

Mr. EVINS. Florida has the highest rate. How are you working it out there? Are you disposing of some there?

Mr. DERVAN. We were going well. In the past year there has been a slight increase in the number of properties on hand.

Mr. EVINS. Place this chart in the record, page 5–46.

(Chart 5–46 follows:)

Home loan foreclosure rates, cumulative through June 30, 1966

Station	GI loans			Direct loans			Total		
	Number of loans		Foreclosure rate	Number of loans		Foreclosure rate	Number of loans		Foreclosure rate
	Closed	Foreclosed [1]		Closed	Foreclosed [2]		Closed	Foreclosed	
Total	6,523,022	187,491	2.9	262,408	6,468	2.5	6,785,430	193,959	2.9
Montgomery	89,329	4,435	5.0	7,002	120	1.7	96,331	4,555	4.7
Juneau	292	3	1.0	976	50	5.1	1,268	53	4.2
Phoenix	43,333	2,889	6.7	1,776	31	1.7	45,109	2,920	6.5
Little Rock	31,499	789	2.5	7,055	55	.8	38,554	844	2.2
Los Angeles	564,024	17,654	3.1	1,989	92	4.6	566,013	17,746	3.1
San Francisco	352,844	8,421	2.4	2,805	67	2.4	355,649	8,488	2.4
Denver	99,897	3,392	3.4	3,444	101	2.9	103,341	3,493	3.4
Hartford	95,130	796	.8				95,130	796	.8
Wilmington	24,659	796	3.2	295	6	2.0	24,954	802	3.2
Washington	121,322	584	.5				121,322	584	.5
Pass-a-Grille	169,852	13,737	8.1	5,751	202	3.5	175,603	13,939	7.9
Atlanta	123,848	3,786	3.1	9,592	223	2.3	133,440	4,009	3.0
Honolulu	10,548	7	.1				10,548	7	.1
Boise	17,176	206	1.2	5,282	135	2.6	22,458	341	1.5
Chicago	247,746	7,298	2.9	9,931	430	4.3	257,677	7,728	3.0
Indianapolis	122,165	2,249	1.8	9,120	273	3.0	131,285	2,522	1.9
Des Moines	76,948	694	.9	6,035	46	.8	82,983	740	.9
Wichita	83,059	5,804	7.0	3,615	64	1.8	86,674	5,868	6.8
Louisville	51,487	1,235	2.4	11,114	197	1.8	62,601	1,432	2.3
New Orleans	88,682	3,555	4.0	6,516	187	2.9	95,198	3,742	3.9
Togus	30,613	1,085	3.5	3,731	121	3.2	34,344	1,206	3.5
Baltimore	103,996	3,734	3.6	2,347	81	3.5	106,343	3,815	3.6
Boston	317,581	6,257	2.0				317,581	6,257	2.0
Detroit	242,182	14,332	5.9	7,528	419	5.6	249,710	14,751	5.9
St. Paul	125,706	1,979	1.6	9,060	223	2.5	134,766	2,202	1.6
Jackson	41,550	1,470	3.5	7,492	189	2.5	49,042	1,659	3.4
St. Louis	127,582	3,253	2.5	11,870	249	2.1	139,452	3,502	2.5
Fort Harrison	13,693	108	.8	4,534	96	2.1	18,227	204	1.1
Lincoln	31,106	237	.8	4,280	27	.6	35,386	264	.7
Reno	5,725	42	.7	1,060	7	.7	6,785	49	.7
Manchester	40,185	1,092	2.7				40,185	1,092	2.7
Newark	307,759	6,757	2.2				307,759	6,757	2.2
Albuquerque	41,266	1,610	3.9	2,093	34	1.6	43,359	1,644	3.8
Buffalo	129,033	743	.6	1,007	25	2.5	130,040	768	.6
New York	515,259	5,227	1.0	1,011	27	2.7	516,270	5,254	1.0
Winston-Salem	88,714	1,916	2.2	13,859	378	2.7	102,573	2,294	2.2
Fargo	11,996	80	.7	4,519	76	1.7	16,515	156	.9
Cleveland	320,447	7,107	2.2	13,111	471	3.6	333,558	7,578	2.3
Muskogee	110,514	2,991	2.7	5,685	88	1.5	116,199	3,079	2.6
Portland	35,646	473	1.3	3,264	48	1.5	38,910	521	1.3
Philadelphia	294,786	10,447	3.5	2,948	33	1.1	297,734	10,480	3.5
Pittsburgh	144,849	2,104	1.5	4,035	206	5.1	148,884	2,310	1.6
San Juan	8,551	8	.1	3,335	5	.1	11,886	13	.1
Providence	43,249	542	1.3				43,249	542	1.3
Columbia	46,091	1,841	4.0	6,063	169	2.8	52,154	2,010	3.9
Sioux Falls	11,050	102	.9	4,384	68	1.6	15,434	170	1.1
Nashville	111,295	2,222	2.0	7,445	140	1.9	118,740	2,362	2.0
Houston	188,755	11,721	6.2	2,765	63	2.3	191,520	11,784	6.2
Waco	202,898	10,872	5.4	7,552	111	1.5	210,450	10,983	5.2
Salt Lake City	32,924	590	1.8	4,516	108	2.4	37,440	698	1.9
White River Junction	17,316	424	2.4	709	5	.7	18,025	429	2.4
Roanoke	110,273	1,391	1.3	10,875	172	1.6	121,148	1,563	1.3
Seattle	126,070	3,737	3.0	3,868	153	4.0	129,938	3,890	3.0
Huntington	23,153	395	1.7	8,836	292	3.3	31,989	687	2.1
Milwaukee	95,920	2,052	2.1	4,972	84	1.7	100,892	2,136	2.1
Cheyenne	11,449	220	1.9	1,356	21	1.5	12,805	241	1.9

[1] Claims paid.
[2] Includes voluntary conveyances.

RENTALS TO MILITARY PERSONNEL

Mr. JONAS. Do you have any houses near military installations? Are you renting any to the military? Are you leasing them or selling them?

Mr. DERVAN. We do have houses in the vicinity of military installations which have been sharply curtailed or closed during the past year or two. We experience initially in a number of these areas a very slow market because of the exodus of personnel.

During this time, whenever we can, we will rent these properties to either military or civilian personnel until the market comes back to the extent we can dispose of them by sale.

Mr. JONAS. Do you have any arrangement with the military for leasing of any of these houses?

Mr. DERVAN. Not directly to the military but to individuals in the military.

Mr. JONAS. They have authority to do that?

Mr. DERVAN. Yes, sir. We have explored this with them. We have worked on interview arrangements with them.

Mr. JONAS. Why haven't you gotten together with them?

Mr. DERVAN. They have indicated that the type housing was not suitable or one thing or another.

Mr. JONAS. You have explored that possibility and negotiated?

Mr. DERVAN. Our people will go to the local military installations and supply them with a list of the housing that we have and will agree to rent it to individuals.

Mr. JONAS. Are any of your houses now under inventory under lease to military people?

Mr. DERVAN. To individuals. We have 1,150 or 1,200 houses in a rental status at present.

Mr. JONAS. Do you have others that could be rented if you could get together with the military people on terms?

Mr. DERVAN. Let me put it this way, Mr. Jonas: Primarily we feel that we are in the business not of holding properties for rental generally, but getting rid of the houses, getting them off our books, getting them into private hands so they are paying the taxes, and paying a loan income. We prefer not to rent if we have an active real estate market. We prefer to sell. If we have a market which isn't active as far as sales go, then we certainly will consider renting.

SALE OF PROPERTIES TO HOUSING AUTHORITIES

Mr. BOLAND. Do you deal with local public housing authorities with respect to the disposal of these properties?

Mr. DERVAN. We have contacted them with respect to this a couple of years ago and, if I am not mistaken, I think we did dispose of a small number to housing authorities in either Pennsylvania or Delaware.

Mr. BOLAND. Why wouldn't this be a succesful program in relation to a place like Detroit? I notice you have 4,737 acquired properties on hand June 30, 1964; you have 1,328 acquired properties in fiscal 1966, June 30, 1966. Why wouldn't this be a pretty good program to get the local housing authority to acquire some of these properties to relieve some of the problems they have?

Mr. DERVAN. In Michigan we did have a large supply. For example, at the end of June 30, 1964, we had almost 5,000. There has

been a very active sales market out there in the past couple of years and we have reduced that to 1,328 as of June 30, 1966, and presently, as of December 31, less than 1,000—932. We are pushing the sales all the time.

Mr. JONAS. They have 722 houses in Detroit; is that right?

Mr. DRIVER. Over 900 in the entire State as of December 31.

Mr. JONAS. I mean Detroit. Pages 5–49. "Total in absolute title."

Mr. DERVAN. Those are in absolute title. Michigan has a redemption statute.

Mr. JONAS. You have acquired absolute title?

Mr. DERVAN. Yes.

Mr. JONAS. You own them outright?

Mr. DERVAN. That is right.

Mr. DRIVER. They may not all be in Detroit. That is the regional office.

Mr. BOLAND. They may be all over Michigan.

Mr. DERVAN. This is the entire State of Michigan and not just Detroit.

Mr. JONAS. Would most of them be in Detroit?

Mr. DERVAN. Most of them are outside.

Mr. MONK. They are in the Detroit area.

Mr. DERVAN. We have some pockets in Kalamazoo, Lansing, and a number in Wayne County.

Mr. BOLAND. You work with some of the local housing authorities in an effort to relieve this?

Mr. DERVAN. Yes.

Mr. BOLAND. You have the problems of segregation and income—low-income groups?

Mr. DERVAN. Yes, sir.

Frankly, Mr. Boland, they have not been actively interested in acquiring these in the areas in which we have them.

Mr. JONAS. Perhaps you have too much money in these houses, on an average. What would you say your investment would be in these houses, on an average?

Mr. DERVAN. I would point to the record, Mr. Jonas. Roughly since the beginning of the program I think we have acquired a total of 201,000 properties. We have roughly 15,000 on hand so we have been successful in disposing of the difference.

Mr. JONAS. What is the average investment?

Mr. DERVAN. Today it costs us around $12,000 to acquire one of these properties. A thousand dollar claim——

Mr. MONK. That is your average investment.

Mr. JONAS. That is the answer, $12,000, roughly.

Mr. DERVAN. That is right, $12,700 or $12,800 has been our experience.

Mr. MONK. We have been able to sell most of them, Mr. Jonas.

Mr. JONAS. You have a lot of them here that you have had over 6 months.

Mr. MONK. These are the tough ones.

Mr. TALCOTT. Would it be possible for you to work in cooperation with HUD and rent them out under the rent supplement or rent certificate programs?

Mr. DERVAN. We would be happy to sell them.

Mr. DRIVER. If we have them on hand for a long time, we do rent them and we work with anybody who has a program to try to do it.

Mr. EVINS. You have been bringing the backlog down substantially?

Mr. DRIVER. Yes.

Mr. DERVAN. FHA has a larger supply than we have that they are endeavoring to dispose of

INSURANCE PROGRAMS

Mr. EVINS. Let's look at the "Department of veterans benefits, part I." You have five insurance programs. It is also always good to review these. You have U.S. Government life insurance, national service life insurance and veterans special term insurance, service-disabled veterans insurance, and veterans reopened insurance. In addition to the five insurance programs, the Veterans' Administration is also responsible for article IV of the Soldiers and Sailors Civil Relief Act. Under its provisions the Government guarantees premium payments to commercial insurance companies on life insurance policies carried by servicemen during active military service.

The table at the top of page 1–178 shows you the policies in force by the various groups, a total of 5,880,000 policies with a value of $39,575 million. You have assets of almost $8 billion. What is the difference in value and assets?

Mr. MONK. The value is the face value of the policies and the assets are what we have in the fund.

Mr. EVINS. You have payments into the fund.

Mr. MONK. That is where the premium payments go. The reserves against the policies to pay off the claim.

Mr. EVINS. $7,962 million have been paid.

Mr. MONK. That is what is in the fund now.

Mr. EVINS. That is in the insurance fund?

Mr. MONK. Yes, sir, available to pay claims.

Mr. EVINS. Total face value of all of them is $39.5 billion.

Mr. MONK. That is right.

Mr. JONAS. Are all those reserves in Government securities?

Mr. MONK. Yes, sir.

Mr. JONAS. You can't divert that and you are required to keep them in Government securities.

Mr. MONK. The Treasury is responsible under the law to invest, but the law does require them to be kept in Government securities.

Mr. STRATTON. Or must be guaranteed by the Government.

Mr. EVINS. The net effect of the Government being in the insurance business for the benefit of the veterans is that the commercial insurance companies have also grown and tremendously enhanced their numbers of policies and amounts in force. They have sold more insurance.

Mr. DRIVER. I think most of them will readily agree to that too.

Mr. GIAIMO. Going back to that question of assets where you have $7.962 billion, this comes about from premiums paid in?

Mr. MONK. Yes, sir, and earnings in the fund.

Mr. GIAIMO. Earnings from where?

Mr. DRIVER. Interest on the investment.

Mr. GIAIMO. Interest on your securities?

Mr. DRIVER. That is right. The Treasury has to guarantee a minimum.

Mr. GIAIMO. In other words, you turn this money over to the Treasury and they give you U.S. securities?

Mr. MONK. They hold the securities.

Mr. GIAIMO. They don't invest; they give you their securities?

Mr. MONK. That is right. They hold it.

Mr. DRIVER. They credit it to their account and post interest to it every now and then.

Mr. GIAIMO. Bookkeepingwise, you have $7,962 million?

Mr. DRIVER. Yes.

Mr. JONAS. Actually the Treasury is your fiscal agent, isn't it?

Mr. MONK. Yes, sir.

Mr. JONAS. You turn the money right over to the Treasury—it goes straight into the Treasury actually?

Mr. DRIVER. They pay it out and we tell them whom to pay it to.

Mr. GIAIMO. What happens is that as claims are made and you need so many dollars to pay the claims, the Treasury makes this available.

Mr. DRIVER. That is true. The interest here is that we have enough in these funds to meet the claims.

Mr. EVINS. U.S. Government life insurance, No. 1, the value of the policies is $1,052 million and the assets is $1,024. You have almost enough assets to pay off the full face value.

Mr. DRIVER. The life expectancy here is not very long at the moment. We are up to an average of 72 with the World War I veterans.

DIVIDENDS

Mr. EVINS. One of the better benefits of these programs are these annual dividends paid to all the policyholders.

In 1966 VA sent out $127 million in dividends. You are doing that once a year or twice a year?

Mr. MONK. Once a year.

CONVERSION OF TERM INSURANCE

Mr. JONAS. You said the average age of the World War I veteran—if he didn't convert that and pay that policy up, he has paid in more money than he will get out, hasn't he?

Mr. DRIVER. In all likelihood, and he is complaining bitterly today because of the high premium.

Mr. JONAS. And that premium is not descending?

Mr. DRIVER. Oh, no, it is just going straight up. After you get beyond 50 or 55 it gets to be a terrible burden. We have urged people to convert.

Mr. JONAS. You have notified everybody time and again and urged them to convert?

Mr. DRIVER. Yes. As you indicated, Mr. Jonas, when they get along in years, the premiums are offensive.

Mr. JONAS. I have had some correspondence with people who are complaining.

SELECTED DVB PROGRAMS

Mr. EVINS. Place into the record 1–178, along with 1–183. Look at other services. I think we have talked about this. It is on 1–185 and 1–186. Put those in the record.

(The pages follow:)

Insurance

Program	Policies in force (thousands)	Value (millions)	Assets (millions)
USGLI	241	$1,052	$1,024
NSLI	4,799	31,391	6,735
VSTI	637	5,596	177
S-DVI	63	550	6
VRI	140	986	20
Total	5,880	39,575	7,962

HIGHLIGHTS

$355 million was paid to beneficiaries of deceased policyholders in 1966.

$127 million was paid in dividends to policyholders in 1966.

Legislation (PL 89-214) was enacted which provided group life insurance to members on active duty in the uniformed services.

The extension of coverage from age 60 to 65 under the total disability income provision authorized by legislation in 1964 has been well received. Approximately 65% of these policyholders who had the age 60 rider elected to take the age 65 rider. In addition, some 68,000 new disability riders have been issued.

Approximately 129,000 policyholders have converted their National Service Life Insurance to the new Modified Life Plan provided by PL 88-664.

Over 200,000 policies have been issued under the limited reopening of the National Service Life Insurance program.

INSURANCE

EMPLOYMENT AND WORKLOAD

The employment estimates for 1967 and 1968 are reduced from 1966 due principally to the reduction in 1967 and the elimination in 1968 of requirements for issuing policies under the limited reopening of National Service Life Insurance, PL 89-664.

In addition, personnel requirements for normal operations are projected on a declining basis for each year in accordance with estimated workload. Manpower requirements are computed through a work measurement system which is kept current by updating standards commensurate with changes in operations.

Cost reductions pertaining to this program as itemized in Part 5, Special Analyses, have been considered as well as increased productivity in computing this estimated employment.

The following chart summarizes major workload trends anticipated for this Program:

Workloads

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Reinstatements	169,177	168,000	163,000	−5,000
Maintenance of active accounts	5,920,027	5,919,000	5,851,000	−68,000
Disability insurance claims actions	129,276	135,000	142,000	+7,000
Underwriting actions	1,243,075	794,000	735,000	−59,000
Loans and surrenders	125,759	167,000	167,000	
Adjustments	1,432,427	1,266,000	1,227,000	−39,000
Correspondence	1,539,098	1,420,000	1,383,000	−37,000
Premium information requirements (death and waiver)	130,115	142,000	153,000	+11,000
Return mail	148,794	158,000	162,000	+4,000
Refunds	86,970	81,000	79,000	−2,000

The workload trends as indicated above reflect a slight decline in the majority of items.

Disability Insurance Claims Actions and Premium Information Requests reflect increases in both 1967 and 1968 over the past year due to the increased age of the insureds.

A large volume of the 20-year endowment policies issued in 1947 and 1948 will mature in 1967 and 1968 which will increase Loans and Surrenders transactions.

OFFICE SERVICES

The administrative functions such as budgeting, fiscal payments and reporting, maintaining records, handling mail and personnel administration are included in the Office Services category. In the Department of Veterans Benefits these activities are accomplished by three separate programs.

Administrative

This program is responsible for planning and directing department policy and procedures in regard to general office administration; paperwork, records and property management; and publication controls.

Program Planning and Budgeting

This program is responsible for all budgetary programs; development of fund and budgetary estimates; effective and efficient usage of all funds; adequacy, efficiency and quality of Finance Field operations; establishment and maintenance of departmental-wide work measurement standards; preparation of long range program plans, policies and objectives; and cost reduction and manpower utilization programs.

Personnel

This program represents field personnel responsible to the Station Manager for personnel activities such as recruitment and placement; policies and procedures and the incentive awards program.

OFFICE SERVICES

Summary of requirements

	1966 actual	1967 estimate	1968 estimate	Increase(+) or decrease(−)
Average employment:				
Departmental	119	114	113	−1
Field	4,986	5,637	5,510	−127
Total	5,105	5,751	5,623	128
Costs:				
Personnel compensation	$30,762,749	$34,746,000	$33,847,000	−$899,000
Personnel benefits	2,226,105	2,957,000	2,552,000	−405,000
Total, personal services and benefits	32,988,854	37,703,000	36,399,000	−1,304,000
Travel and transportation of persons	956,105	1,022,000	987,000	−35,000
Transportation of things	661,372	663,000	420,000	−243,000
Rents, communications, and utilities	4,463,741	5,170,000	5,016,000	−154,000
Printing and reproduction	1,291,904	1,130,000	1,000,000	−130,000
Other services	1,251,677	828,000	1,824,000	+996,000
Supplies and materials	951,153	935,000	900,000	−35,000
Equipment	861,592	600,000	600,000	
Total, costs	43,426,398	48,051,000	47,146,000	−905,000
Common service adjustments	−2,461,817	−2,508,000	−2,461,000	+47,000
Net costs	40,964,581	45,543,000	44,685,000	−858,000

Compensation and Pensions

Program and financing

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Program by activities:			
1. Compensation:			
(a) Veterans:			
Spanish-American War	267	257	222
World War I	166,579	158,124	151,956
World War II	1,282,981	1,295,650	1,330,833
Korean conflict	235,392	241,617	251,597
Peacetime service	145,237	166,464	189,398
Total living veterans	1,830,456	1,862,112	1,924,006
(b) Survivors:			
Prior to Spanish-American War	56	51	44
Spanish-American War	1,035	960	905
World War I	64,913	61,904	64,125
World War II	271,519	256,715	270,173
Korean conflict	56,468	54,857	57,485
Peacetime service	89,049	97,019	117,961
Total deceased veterans	483,040	471,506	510,693
Total compensation	2,313,497	2,333,618	2,434,699
2. Pensions:			
(a) Veterans:			
Prior to Spanish-American War	11	8	7
Spanish-American War	17,811	14,893	12,056
World War I	980,621	908,616	866,880
World War II	282,229	323,205	379,068
Korean conflict	19,873	22,567	26,334
Peacetime service	28	27	26
Total living veterans	1,300,574	1,269,316	1,284,371
(b) Survivors:			
Prior to Spanish-American War	1,474	1,247	1,068
Spanish-American War	45,710	43,680	41,340
World War I	342,044	346,432	354,978
World War II	270,642	293,087	321,461
Korean conflict	28,990	33,049	38,556
Peacetime service	6	5	4
Total deceased veterans	688,866	717,600	757,407
Total pensions	1,989,439	1,986,916	2,041,778
3. Other:			
(a) Retired officers	2,432	2,270	2,116
(b) Adjusted service and dependents pay	70	61	56
(c) Subsistence allowance	12,055	16,310	15,100
(d) Burial benefits	59,547	60,410	63,421
(e) Special allowance, dependents	248	270	270
(f) Invalid lifts and other devices	158	250	260
(g) Tort claims settlements	83	300	300
(h) Death gratuities	10,972	15,300	----
Total other	85,566	94,171	81,523
Total program costs, funded	4,388,502	4,415,705	4,558,000
Change in selected resources [1]	3,441	----	----
10 Total obligations—costs (object class 42.0)	4,391,943	4,415,705	4,558,000
Financing:			
13 Receipts and reimbursements from: Trust fund accounts—Payments from adjusted service certificate fund	−2,646	----	----
21 Unobligated balance available, start of year	−2,002	−41,705	----
24 Unobligated balance available, end of year	41,705	----	----
New obligational authority	4,429,000	4,374,000	4,558,000

[1] Selected resources as of June 30 are as follows: Accounts receivable (benefit overpayments collectible from beneficiaries), 1965, $13,894 thousand; 1966, $17,335 thousand; 1967, $17,335 thousand; 1968, $17,335 thousand.

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	New obligational authority:			
40	Appropriation	4,430,000	4,374,000	4,558,000
41	Transferred to "Readjustment benefits" (79 Stat. 538)	−1,000		
43	Appropriation (adjusted)	4,429,000	4,374,000	4,558,000
	Relation of obligations to expenditures:			
10	Total obligations	4,391,943	4,415,705	4,558,000
70	Receipts and other offsets (items 11-17)	−2,646		
71	Obligations affecting expenditures	4,389,297	4,415,705	4,558,000
72	Obligated balance, start of year		173,669	380,800
	Receivables in excess of obligations, start of year	−1,339		
74	Obligated balance, end of year	−173,669	−380,800	−390,800
90	Expenditures	4,214,289	4,208,574	4,548,000

Mr. EVINS. We come to part II, the benefits. We have been speaking mostly of the program, speaking mostly of administrative costs. Will you please give us a statement of the overall compensation and pension, how much is involved?

Mr. STRATTON. We are asking this year for $44 million over what we asked for last year. This comes about primarily because of the details given by the Administrator in his opening remarks, to increase caseload in certain areas and particularly the increased survivors' caseload in the pension area for the World War II widow. The World War II man is now getting at an age where he is dying and he is also so remote from the service when he dies that it is unlikely that he will be service connected and therefore the survivor's pension program is increasing.

Mr. EVINS. We know you are asking $44 million more. Highlight the third paragraph in your justification: "Has a considerable impact on the Nation's economy. In 1966 more than $4.3 billion was paid to over 3,211,000 living veterans and the survivors of more than 1.3 million deceased veterans at a rate of——"

Mr. STRATTON. $365 million to survivors.

Mr. EVINS. $365 million to survivors. Compensation and pension will continue to increase.

I thought you said earlier "at an unpredictable rate." Here you say "at a predictable rate" in years to come.

Mr. STRATTON. It is predictable. In a program this size, we can't always hit it. We can tell, for example, to the extent the Vietnam conflict would continue. The pension is easier to predict because of the nonservice aspects.

Mr. EVINS. What appropriation language changes are you wanting in "Compensation and pensions?"

Mr. STRATTON. This is the language on the second page.

Mr. EVINS. You have three or four listed.

Mr. MONK. There is no change to language, I believe, Mr. Chairman. The legislative changes are those laws we were referring to awhile ago.

SUMMARY OF REQUIREMENTS

Mr. EVINS. We have already reviewed the charts. Insert 2-10 to 2-20.

(The pages follow:)

Summary of requirements

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Benefit costs:				
Compensation	$2,313,496,703	$2,407,722,000	$2,434,699,000	+$26,977,000
Pensions	1,989,439,272	2,024,081,000	2,041,778,000	+17,697,000
Other related benefits	85,565,852	123,901,713	81,523,000	−42,378,713
Total cost	4,388,501,827	4,555,704,713	4,558,000,000	+2,295,287
Adjustment of cost to obligations (net)	[1] 3,441,476			
Total obligations	4,391,943,303	4,555,704,713	4,558,000,000	+2,295,287
Transfer in from adjusted service certificate fund	−2,646,468			

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Unobligated balance available, start of year	−$2,001,548	−$44,704,713		+$41,704,713
Unobligated balance available, end of year	41,704,713			
New obligational authority	4,429,900,000	[2] 4,514,000,000	$4,558,000,000	+44,000,000
Transfer to readjustment benefits appropriation	1,000,000			
Appropriation	4,430,000,000	[2] 4,514,000,000	4,558,000,000	+44,000,000

See footnotes at end of table, p. 539.

	1966			1967			1968		
	Average cases	Average cost	Cost	Average cases	Average cost	Cost	Average cases	Average cost	Cost
Total costs			$4,388,501,827			$4,555,704,713			$4,558,000,000
Compensation, total	2,356,525	$982	2,313,496,703	2,364,012	$1,018	2,407,722,000	2,371,557	$1,027	2,434,699,000
Veterans, total	1,991,752	919	1,830,456,238	1,996,075	957	1,910,100,000	2,000,565	962	1,924,006,000
Spanish-American War	84	3,177	266,849	75	3,420	257,000	65	3,420	222,000
World War I	115,687	1,440	166,579,484	108,000	1,500	162,000,000	100,500	1,512	151,956,000
World War II	1,481,162	866	1,282,981,003	1,470,000	905	1,329,688,000	1,459,000	912	1,330,833,000
Korean conflict	227,265	1,036	235,392,184	231,000	1,072	247,540,000	234,000	1,075	251,597,000
Peacetime service	167,554	867	145,236,718	187,000	912	170,615,000	207,000	915	189,398,000
Survivors, total	364,773	1,324	483,040,465	367,937	1,352	497,622,000	370,992	1,377	510,693,000
Indian wars	2	1,635	3,269	2	2,000	4,000	2	2,000	4,000
Civil War	39	1,346	52,498	35	1,343	47,000	30	1,333	40,000
Spanish-American War	647	1,600	1,035,285	600	1,608	965,000	560	1,616	905,000
World War I	40,270	1,612	64,913,068	39,800	1,621	64,507,000	39,300	1,632	64,125,000
World War II	233,989	1,160	271,519,203	229,400	1,186	272,134,000	224,500	1,203	270,173,000
Korean conflict	40,228	1,404	56,467,931	40,600	1,408	57,165,000	40,600	1,416	57,485,000
Peacetime service	49,598	1,795	89,049,211	57,500	1,788	102,800,000	66,000	1,787	117,961,000
Pensions, total	2,170,125	917	1,989,439,272	2,202,240	919	2,024,081,000	2,217,089	921	2,041,778,000
Veterans, total	1,218,654	1,067	1,300,573,569	1,201,045	1,079	1,296,294,000	1,179,639	1,089	1,284,371,000
Indian wars	7	1,547	10,829	5	1,600	8,000	4	1,600	7,000
Spanish-American War	12,567	1,417	17,811,023	10,500	1,418	14,893,000	8,500	1,418	12,056,000
World War I	959,340	1,022	980,621,414	902,000	1,029	928,158,000	840,000	1,032	866,880,000
World War II	230,736	1,223	282,228,898	270,000	1,223	330,156,000	310,000	1,223	379,068,000
Korean conflict	15,854	1,254	19,873,092	18,400	1,254	23,052,000	21,000	1,254	26,334,000
Peacetime service	150	189	28,313	140	193	27,000	135	193	26,000
Survivors, total	951,471	724	688,865,703	1,001,195	727	727,787,000	1,037,450	730	757,407,000
Indian wars	310	735	227,920	270	735	198,000	230	735	169,000
Civil War	1,661	750	1,245,682	1,400	749	1,049,000	1,200	749	899,000
Spanish-American War	58,989	775	45,709,790	56,000	780	43,680,000	53,000	780	41,340,000
World War I	534,394	640	342,044,206	550,000	640	351,780,000	555,000	640	354,978,000
World War II	324,590	834	270,641,813	357,000	833	297,524,000	386,000	833	321,461,000
Korean conflict	31,498	920	28,990,414	36,500	919	33,551,000	42,000	918	38,556,000
Peacetime service	29	203	5,878	25	200	5,000	20	200	4,000

Other, total			85,565,852			123,901,713			81,523,000
Retired officers	945	2,573	2,431,776	880	2,580	2,270,000	820	2,580	2,116,000
Adjusted service and dependents pay	(3)		70,101	(3)		61,000	(3)		56,000
Subsistence allowance	5,965	2,021	12,055,219	8,000	2,039	16,310,000	7,400	2,041	15,100,000
Burial benefits	(4)		59,547,313	(4)		60,440,713	(4)		63,421,000
Special allowance dependents	220		248,407	250		270,000	250		270,000
Death gratuity			10,972,412			44,000,000			
Invalid lifts and other devices			157,874			250,000			260,000
Tort claims			82,750			300,000			300,000

[1] Change in selected resources.
[2] Includes supplemental of $140,000,000.
[3] Represents adjusted service certificate fund and adjusted service and dependents pay, numbers not additive.
[4] Represents burial allowances and burial flags, numbers not additive.

The estimated requirements of the compensation and pension program in fiscal year 1968 amount to $4,558,000,000 compared with $4,555,704,713 estimated for 1967. The budgeted increase of $2,295,287 is the net result of many plus and minus factors—the most significant being increases of $26,977,000 for compensation and $17,697,000 for pensions, offset by a decrease of $42,378,713 in other related benefits. The increases are basically attributable to new legislation and to the normal changes in the composition of the benefit payment rolls. The decrease in other related benefits is due primarily to the expiration in fiscal year 1968 of the period for making one-time death gratuity payments authorized by Public Law 89–214, approved September 29, 1965 as amended by Public Law 89–730, approved November 2, 1966. Actual and estimated costs, average payments and average caseloads are summarized, respectively, for each major entitlement category in the table presented on page 2–11.

COMPENSATION

Compensation is a monetary benefit payable to a veteran or his dependents because of the veteran's service-connected disability or death. The major objectives are: (1) to compensate those living veterans who have suffered the loss of or the reduction of earning power resulting from service-connected disabilities; and (2) to afford benefits to the widow and dependents of veterans whose deaths are related to service-connected disabilities to make up for the loss of family income. A fact sheet setting forth data relative to eligibility, nature of benefits and allowances for dependents is contained in Part 5, Special Analyses, page 5–14. Estimated costs for veterans disability compensation and survivors death compensation and dependency and indemnity compensation are as follows:

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Veterans	$1,830,456,238	$1,910,100,000	$1,924,006,000	+$13,906,000
Survivors	483,040,465	497,622,000	510,693,000	+13,071,000
Total compensation	2,313,496,703	2,407,722,000	2,434,699,000	+26,977,000

Veterans: About 2,000,000 disabled veterans will receive compensation payments in 1968 at an estimated cost of $1,924,006,000. This is an increase of $13,906,000 over 1967 and is attributable to budgeted increases in caseload and average payment. The projected growth in caseload arises from the increasing trend being experienced in the peacetime and Korean conflict categories, which more than offsets the declining caseloads (because of death, etc.) for the earlier war period categories. The projected increase in the peacetime roll assumes that the current strength for the Armed Forces will be maintained and that the casualties associated with the Southeast Asian crisis will not lessen. The increase in the Korean conflict category is primarily traceable to the retirement of career servicemen from the Armed Forces.

It is estimated that in 1968 compensation payments will be made to: (a) 1,603,000 veterans, representing about 80% of the veterans on the disability compensation rolls, whose disabilities are evaluated 0%–40% disabling at a monthly rate from $17 to $82, at a cost of $767 million; (b) 286,000 veterans, or 14% of the veterans on the disability compensation rolls, whose disabilities are evaluated 50%–90% disabling at a monthly rate from $90–$209, plus an allowance for dependents, at a cost of $657.5 million; and (c) 112,000 veterans, or 6% of the veterans on the disability compensation rolls, whose disabilities are evaluated at 100% at a monthly rate from $240–$300, plus an allowance for dependents, at a cost of $499.5 million.

Included in the foregoing figures are 155,000 veterans having certain disabilities with special monthly awards provided by law receiving between $38 to $850, at a cost of $234.7 million.

The increase of $5.00 in average payment for 1968, from $957 to $962, is basically related to the change in the composition of the benefit payment roll, although some rise is attributable to higher peso benefit payments authorized by Public Law 89–641.

The table on page 2–11 shows total cost, the average annual payment, and the number of disabled veterans, by war period category, who will be receiving disability compensation in 1968.

Survivors: Widows, children and parents of over 370,000 veterans whose deaths resulted from service will receive death compensation or dependency and indemnity compensation payments in 1968 at an estimated cost of $510,693,000. This is an increase of $13,071,000 over 1967 and is attributable to budgeted increases in caseload and average payment, as well as the impact of legislation enacted in 1966. The caseload increase is due to the growth of the peacetime roll, related to the Southeast Asian crisis, notwithstanding declining caseloads in World War I and World War II, and prior war categories due to deaths of widows and parents, and the termination of children from the rolls.

It is estimated that in 1968, (1) 153,000 widows will be compensated at a monthly rate from $70 to $377 at a total cost of $238.4 million; (2) 58,000 children will receive benefits at a monthly rate from $54 to $80 for a single child with greater monthly rates for more than one child, at a total cost of $55.2 million; and (3) 268,000 parents will be compensated at a monthly rate from $12 to $87 at a total cost of $217.1 million.

The increase of $25 in average payment for 1968, from $1,352 to $1,377, is basically related to: (1) the change in the composition of the roll; (2) the influence of amendatory legislation; and (3) an increasing proportion of cases receiving the higher dependency and indemnity compensation rates over those receiving the "old" death compensation rates.

The table on page 2–11 shows total cost, the average annual payment and the average number of survivor cases, by war category, who will be receiving death compensation or dependency and indemnity compensation in 1968.

PENSIONS

Pensions is a monetary benefit which is based upon the concept of furnishing a partial measure of financial support to war veterans and their dependents who are in need. The major objectives of the pension program are: (1) to provide, within a framework of need criteria, financial assistance to war veterans who are permanently and totally disabled, housebound, or in need of regular aid and attendance by virtue of disease or injury without regard to service origin; and (2) to afford, within a framework of need criteria, financial aid to the widows and children of veterans of wartime service whose deaths are unrelated to service. A fact sheet containing data relative to eligibility, nature of benefits, and allowances for survivors is presented in Part 5, Special Analyses, page 5–16. Estimated costs for veterans pensions and survivors pensions are as follows:

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Veterans	$1,300,573,569	$1,296,294,000	$1,284,371,000	−$11,923,000
Survivors	688,865,703	727,787,000	757,407,000	+29,620,000
Total pension	1,989,439,272	2,024,081,000	2,041,778,000	+17,697,000

Veterans: Nearly 1,180,000 veterans are expected to be receiving pension in 1968 at a cost of over $1.2 billion which is almost $12 million less than the amount paid in 1967. The decrease in cost is due primarily to the fewer numbers of Spanish-American and World War I veterans expected to be continued on the rolls. In this respect, while less than 1 percent of the total roll are Spanish-American War or earlier war veterans over 71% are World War I veterans. Declining caseloads in these war categories are based on mortality trends, especially, as they relate to World War I veterans in the 65–74 age group. On the other hand, an increasing number of World War II and Korean conflict veterans are becoming eligible for pension because of the rising incidence of permanent and total disability as these veterans become older. In this respect, in relation to the total roll it is anticipated that World War II veterans will represent 26.3% of the disability pension roll and 1.8% will account for Korean conflict veterans.

It is estimated that in 1968, 109,000 veterans under age 65, without dependents will receive pension benefits under "current law pension system" (see Part 5, page 5–16) at a monthly rate of $43 to $200 at a cost of $129.6 million; 138,000 veterans under 65 years of age, with dependents will be paid pension under "current law pension system" at a monthly rate of $48 to $215 at a cost of $177.6

million; 167,000 veterans age 65 and over, without dependents will receive financial support under "current law pension system" at a monthly rate of $43 to $200 at a cost of $172.0 million; 436,000 veterans age 65 and over, with dependents will receive pension payments under "current law pension system" at a monthly rate of $48 to $215 at a cost of $474.5 million; and 321,000 veterans will be paid pension under "old law pension system" (see Part 5, page 5–16) at a monthly rate of $66.15 to $135.45 at a cost of $318.6 million. In addition, service pension payments will be made to 8,500 veterans of the Spanish-American War and prior wars at a monthly rate of $67.73 to $135.45 at a cost of $12.1 million.

The budgeted increase in average annual payment is directly related to the changing composition of the disability pension caseload. Basically, the increasing number of younger veterans; namely, World War II and Korean conflict, being added to the rolls have not acquired substantial retirement benefits, such as Social Security and company pensions, and as a result are paid at the higher pension rate because of their lower income. The losses from the rolls are chiefly in the World War I group many of whom still receive the rate provided by the older pension program which is lower.

The table on page 2–11 shows total cost, average annual payment, and the average number of pensioners, by war period category, who will be receiving disability pension in 1968.

Survivors: Over 1,000,000 widows and children of war veterans will receive pension benefits in 1968 at a cost of $757,407,000. This is a budgeted increase of over $29 million more than the $727,787,000 estimated for 1967. The growth of the non-service-connected death pension roll is largely dominated by the World War II category as the incidence of death continues to rise among this reservoir of veterans.

It is estimated that in 1968, 420,000 widows of wartime veterans without dependents will receive pension benefits under "current law pension system" (see Part 5, page 5–17) at a monthly rate of $27 to $64 at a cost of $270.6 million; 145,000 widows of wartime veterans with dependents will be paid pension under the "current law pension system" at a monthly rate of $43 to $80 for one child and $15 for each additional child for a total cost of $176.4 million; 235,000 children will receive financial aid under the "current law pension system" at a monthly rate of $38 for a single child with $15.00 added for each additional child, at a cost of $156.4 million; and, 183,000 widows and children will be paid under "old law pension system" (see Part 5, page 5–17) at a monthly rate of $50.40 for a widow without children, and $63.00 for a widow with one child plus $7.56 for each additional child, and $27.30 for one child alone to $54.60 for three children plus $7.56 for each additional child, at a cost of $111.6 million. In addition pension payments will be made to 54,000 survivors of Spanish-American and earlier wars paid at a monthly rate of $40.64 to $75 for widows and $73.13 for one child plus $8.13 for each additional child at a cost of $42.4 million.

The budgeted increase of $3.00 in average payment for 1968, from $727 to $730, is attributable to the increasing growth of the death pension roll and the liberalizing effect of Public Law 89–311 which permits the children of deceased wartime veterans who are attending school to remain on the pension roll until attaining age 23.

The table on page 2–11 shows total cost, average annual payment, and the average number of survivor cases, by war period category, that will receive pension benefits in 1968.

OTHER RELATED BENEFITS

These miscellaneous benefits cover payments which are not readily combined with either of the preceding compensation or pension categories. Actual and estimated costs are summarized below and pertinent statements follow for each category:

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Total costs	$85,565,852	$123,901,713	$81,523,000	−$42,378,713

Retired officers: Emergency officers of World War I and certain officers of the Regular Establishment who have retired because of service-connected disability are entitled to special retirement benefits. The caseload is declining because of the deaths among this group. The minor increase in average payment in 1967 is attributable to the Uniformed Services Act of 1965. No change is projected for 1968.

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Total costs	$2,431,776	$2,270,000	$2,116,000	−$154,000
Annual average payment	$2,573	$2,580	$2,580	
Average caseload	945	880	820	−60

Adjusted service and dependents pay: Claims made pursuant to the provisions of the World War Adjusted Compensation Act of 1924, as amended, are payable from this appropriation. If the amount of adjusted service credit was more than $50 the veteran was entitled to receive an adjusted service certificate. The payment of adjusted service certificates was heretofore made from the Adjusted Service Certificate Fund. Activities of this fund including unexpended balances in the fund were transferred in 1966 to this appropriation.

During 1966, $1,140 in adjusted service and dependents pay was paid to eligible beneficiaries, and it is anticipated $1,000 will be expended in 1967 and 1968 for this purpose. During 1966, $68,961 was expended for Adjusted Service Certificates, and it is anticipated $60,000 will be expended in 1967 for this purpose, and $55,000 in 1968.

Subsistence allowance: Payments are made to disabled veterans enrolled in vocational rehabilitation and education programs. Estimated caseloads and increased costs for 1967 reflect the full year effect of Public Laws 89–137, effective October 1, 1965, and 89–138, effective August 26, 1965, which liberalized eligibility criteria and monthly allowances, respectively. The decrease in costs for 1968 is associated with fewer number of disabled veterans participating in the vocational rehabilitation and educational program.

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Total costs	$12,055,219	$16,310,000	$15,100,000	−$1,210,000
Annual average payment	$2,021	$2,039	$2,041	+$2
Average caseload	5,965	8,000	7,400	−600

Burial benefits: The Administrator is authorized to: (1) pay an allowance of $250 (plus transportation charges where death occurs under VA care) to defray the burial and funeral expenses of a deceased veteran; and (2) furnish a flag to drape the casket of each deceased veteran entitled thereto. The increase in costs is mainly related to the estimated increase in veterans' deaths, although the provisions of Public Law 89–641, increasing the dollar cost of peso benefit awards, has also contributed to the increase in 1967 and 1968.

Total costs ..... $59,547,313 $60,440,713 $63,421,000 +$2,980,287

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Burial allowances:				
Cost	$58,486,894	$59,240,713	$62,121,000	+$2,880,287
Average payment	$267.76	$268.00	$268.00	
Number	218,433	221,000	231,600	+10,600
Burial flags:				
Cost	$1,060,419	$1,200,000	$1,300,000	+$100,000
Average payment	$5.04	$5.06	$6.00	+$0.40
Number	210,400	214,300	216,700	+2,400

Special allowances, dependents: Under certain conditions, a special allowance (38 USC 412) is payable to dependents of certain veterans who died after December 31, 1956, but who were not fully and currently insured under the Social Security Act. The estimated increases projected in cases and costs assume that current strengths and death rates for the Armed Forces will be maintained through 1968.

An average of about 220 cases were paid $248,407 in 1966. An average of 250 cases costing $270,000 annually is estimated for 1967 and 1968, respectively.

Invalid lifts and other devices: The Administrator may furnish an invalid lift to veterans in receipt of pension under 38 USC 617 based on the need of regular aid and attendance. A negligible change in lifts furnished has occurred, but a rise experienced in 1966 is associated with certain benefits afforded by PL 88–450.

Cost of $157,874 were cumulated during 1966. The amounts of $250,000 and $260,000 have been estimated for 1967 and 1968 respectively.

Tort claim settlements: Payments of compromises or settlements under 38 USC 351 resulting from litigation under the Federal Tort Claims Act are made from this appropriation.

During 1966, fourteen compromise payments were made at a cost of $82,750. Compromise payments for 1967 and 1968 were estimated at $300,000 for each year.

Death gratuities: Public Law 89–214, approved September 29, 1965, authorized as a one time payment a death gratuity of not to exceed $5,000 to the widows, children or parents of veterans whose deaths occurred during the period January 1, 1957, through September 28, 1965, if death resulted from the extra hazards of service. Some original restrictive provisions of the law were removed by PL 89–730, approved November 2, 1966. The amendment removed the requirements that the payment to each claimant had to be reduced by the amount of death compensation or dependency and indemnity compensation previously received and that acceptance of payment constituted a bar to future death compensation or dependency and indemnity compensation. The time limit for filing claim was extended to November 1, 1967. It is estimated that $44,600,000 will be required in FY 1967 to satisfy these claims.

Readjustment Benefits

Program and financing

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Program by activities:			
1. Education and training:			
(a) World War II education	4		
(b) Korean conflict veterans	11		
(c) Sons and daughters	31,016	30,742	27,947
(d) Post-Korean conflict veterans		327,000	386,000
Total education and training	31,031	357,742	413,947
2. Special assistance to disabled veterans:			
(a) Vocational rehabilitation	5,371	7,687	7,551
(b) Housing grants	4,818	4,950	4,950
(c) Automobiles or other conveyances for disabled veterans	930	800	752
Total special assistance to disabled veterans	11,119	13,437	13,253
Total program costs, funded	42,150	371,179	427,200
Change in selected resources [1]	−53		
10 Total obligations	42,097	371,179	427,200
Financing:			
21 Unobligated balance available, start of year	−1,376	−1,779	
24 Unobligated balance available, end of year	1,779		
New obligational authority	42,500	369,400	427,200
New obligational authority:			
40 Appropriation	41,500	369,400	427,200
42 Transferred from "Compensation and pensions" (79 Stat. 538)	1,000		
43 Appropriation (adjusted)	42,500	369,400	427,200
Relation of obligations to expenditures:			
71 Total obligations (affecting expenditures)	42,097	371,179	427,200
72 Obligated balance, start of year	.4	66	5,066
74 Obligated balance, end of year	−66	−5,066	−15,066
90 Expenditures	42,115	366,179	417,200

[1] Selected resources as of June 30, are as follows: Accounts receivable (benefit overpayments collectible from beneficiaries) 1965, $414 thousand; 1966, $361 thousand; 1967, $361 thousand; 1968, $361 thousand.

Object classification

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
41.0 Grants, subsidies, and contributions	35,849	362,692	418,897
42.0 Insurance claims and indemnities	6,301	8,487	8,303
Total cost, funded	42,150	371,179	427,200
94.0 Change in selected resources	−53		
99.0 Total obligations	42,097	371,179	427,200

Mr. Evins. We next have readjustment benefits. Insert the justification material.

(The material follows:)

General Summary and Highlight Statement

The Veterans Administration is responsible for administering a program of educational and training assistance which has its statutory basis in title 38, United States Code, "Veterans' Benefits". This program of vocational rehabilitation and education serves three groups; namely, (a) disabled veterans, (b) sons and daughters of veterans who died or became permanently and totally disabled as a result of service, and (c) post-Korean conflict veterans who served on active duty after January 31, 1955.

The primary objective, for each of these programs, is to fulfill and supply an educational need which was created by service in the Armed Forces. As a secondary benefit, the national educational level is raised with consequent economic and social benefits, and more skilled artisans and technicians become available to the nation's work forces. To meet the needs of small groups of seriously disabled veterans, assistance is also furnished in the form of a monetary grant for specially adapted housing and toward the purchase of an automobile or other conveyance.

From a veteran population of over 25 million as of June 1966, approximately 11 million veterans have received education and training to enhance their readjustment to useful, productive occupations. Of this number, 7,800,000 World War II and 2,391,000 Korean conflict veterans received readjustment training and education; 709,100 disabled veterans entered vocational rehabilitation training of which 619,600 were World War II veterans, 74,400 were Korean conflict veterans and 15,100 were peacetime veterans. In addition, 91,800 sons and daughters of deceased veterans and permanently and totally disabled veterans have received educational assistance allowances to finance their education.

The charts on page 2–23 reflect the activity of this appropriation, showing actual experience for the past five years and estimates for the current and budget years. The declining trend through 1966 is due to the expiration of education and training benefits for the World War II and Korean conflict veterans. The trend reversal in 1967 and 1968, is due to the enactment of Public Law 89–358, effective June 1, 1966, which provides educational assistance to facilitate readjustment to civil life to those who served in the Armed Forces since February 1, 1955.

THE BUDGET ESTIMATE

The cost of the educational and training assistance program is governed by the basic laws authorizing these benefits. In any given year the size of the program is largely dependent on the number of beneficiaries who will avail themselves of the educational opportunities provided by the education and rehabilitation laws administered by the Veterans Administration.

With the enactment of Public Law 89–358, veterans' educational benefits became available as a permanent program for the first time and no distinction is made in eligibility requirements between wartime and peacetime service. The program became effective June 1, 1966, and provides financial assistance to veterans who served on active duty after January 31, 1955, to obtain educational opportunities which were interrupted due to service. About 4.5 million veterans are potentially entitled under this new law. In addition, servicemen on active duty two years or longer are also eligible to receive educational benefits while in service. The number of veterans and servicemen entitled to this educational benefit is directly dependent on the size of the Armed Forces and the yearly rate of discharge.

APPROPRIATION LANGUAGE

"For the payment of readjustment and rehabilitation benefits to or on behalf of veterans as authorized by law (38 U.S.C., chapters 21, 31 (except section 1504), and 33–39), $427,200,000, to remain available until expended."

LEGISLATIVE CHANGES

Public Law 89–358, approved March 3, 1966

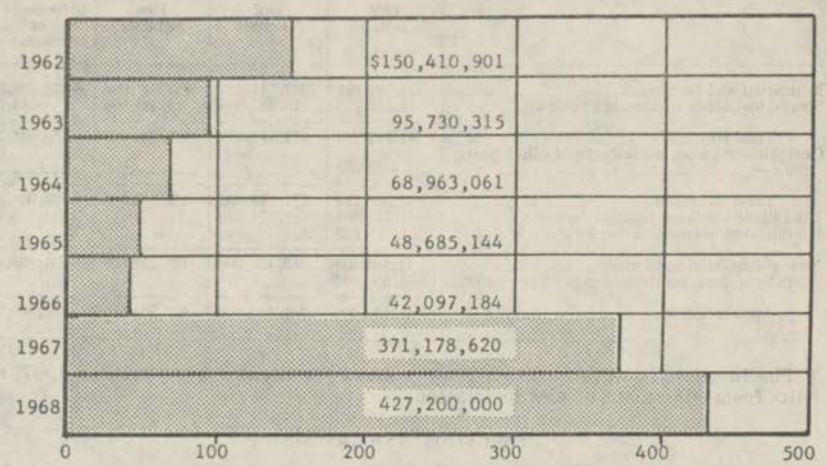
This law, known as "The Veterans Readjustment Benefits Act of 1966", provides financial assistance to veterans who served on active duty after January 31, 1955, to obtain educational opportunities which were interruped due to service. Estimated cost for 1967 and 1968 is $327 million and $386 million, respectively.

Public Law 89–613, approved September 30, 1966

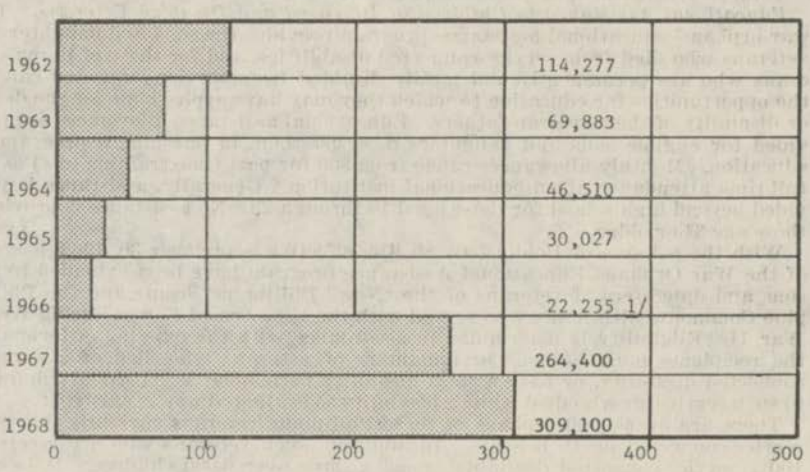
This law extends the benefits of the War Orphans Educational Assistance program to the sons and daughters of veterans of the "New" Philippine Scouts and the Philippine Commonwealth Army (including guerrillas) who served with the United States Armed Forces during World War II. Provision is also made that the educational assistance allowance will be paid at a rate in Philippine pesos equivalent to $0.50 for each dollar. Estimated cost for 1967 and 1968 is $2 million and $3.4 million, respectively.

7 YEAR COMPARISON OF OBLIGATIONS AND TRAINEES

Obligations



Average Number of Trainees



1/ Does not include PL 89-358 trainees for June 1966.

Summary of requirements

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Education and training	$31,031,091	$357,741,620	$413,947,000	+$56,205,380
Special assistance to disabled veterans	11,118,775	13,437,000	13,253,000	−184,000
Total cost	42,149,866	371,178,620	427,200,000	+56,021,380
Cost financed from obligations of other years, net (−)	−52,682			
Total obligations	42,097,184	371,178,620	427,200,000	+56,021,380
Unobligated balance brought forward	−1,375,804	−1,778,620		+1,778,620
Unobligated balance carried forward	1,778,620			
New obligational authority	42,500,000	369,400,000	427,200,000	+57,800,000
Transfer in from compensation and pensions	−1,000,000			
Appropriation	41,500,000	369,400,000	427,200,000	+57,800,000

The increase in appropriation requirements for fiscal years 1967 and 1967, results from enactment of new legislation.

EDUCATION AND TRAINING

World War II and Korean Conflict. All education and training benefits for the World War II and Korean conflict veterans terminated January 31, 1965. Payments shown below are settlement of old claims.

Total cost, settlement of old claims, $15,505.

Educational Assistance to Children of Deceased and Disabled Veterans. The war orphans' educational assistance program provides the sons and daughters of veterans who died from service-connected disabilities, and for those of living veterans who are permanently and totally disabled from service-connected causes, the opportunities for education to which they may have aspired but for the death or disability of their veteran-fathers. Educational assistance allowances are provided for eligible sons and daughters to assist them in pursuing a program of education. Monthly allowances range from $60 for part-time training to $130 for full-time attendance at an educational institution. Generally, assistance is provided beyond high school for those aged 18 through 23. No assistance is provided those age 31 or older.

With the passage of Public Law 89-613, effective September 30, 1966, benefits of the War Orphans Educational Assistance program have been extended to the sons and daughters of veterans of the "New" Philippine Scouts and the Philippine Commonwealth Army who served with the U.S. Armed Forces during World War II. Eligibility is determined in accordance with the existing criteria that the recipients must be sons or daughters of veterans who died of a service-connected disability, or have a total disability permanent in nature attributable to such service, or who died while a disability so evaluated was in existence.

There are over 4,000 orphans of these Philippine veterans currently receiving service-connected death benefits. In addition, such veterans who are receiving 100% service-connected disability benefits, have over 6,000 children. It is estimated that of those children potentially eligible, about 8,000 will eventually enter training. An average of 2,000 trainees is estimated for 1967 and an average of 3,400 trainees is estimated for 1968.

With the same type of educational assistance, and the same basic program provided to the children of Philippine Commonwealth Army veterans and the "New" Philippine Scouts, it is anticipated that the peak training load will occur in 1967. A downward trend is projected for 1968 because the estimated increase in the number of eligible Filipino children in training will not offset the decline in the number of eligible children in training of persons who served n the American Armed Forces.

The decrease in average cost per trainee is attributable to the effect of the set rate of payment for children of Filipino veterans; i.e., a monetary-peso rate equivalent to $0.50 for each dollar authorized.

The following table shows the average number of all trainees, the average cost per trainee and the total cost of educational assistance payments to those sons and daughters who will be pursuing a program of education or training:

	1965 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average number of trainees	16,290	16,400	15,700	−700
Average cost per trainee	$1,904	$1,875	$1,780	−$95
Total cost	$31,015,586	$30,741,620	$27,947,000	−$2,794,620

Readjustment—Educational Assistance to Post-Korean Conflict Veterans.—The Veterans' Readjustment Benefits Act of 1966, Public Law 89–358, establishes, in part, a program of readjustment education and training benefits to eligible veterans who served in the Armed Forces after January 31, 1955. The program became effective June 1, 1966, and provides financial assistance to veterans who served on active duty since February 1, 1955, to obtain educational opportunities which were interrupted due to service. Veterans' educational benefits are now available as a permanent program for the first time and no distinction is made in eligibility requirements between wartime and peacetime service. Benefits may not be paid beyond 8 years after the veteran's discharge.

To be eligible a veteran must have served continuously for a period of at least 181 days, any part of which occurred after January 31, 1955. Servicemen on active duty two years or longer are also eligible to receive educational benefits. Entitlement to one month of training is earned for each month of active duty with a maximum entitlement of 36 months. A veteran attending school full-time is paid an allowance of $100 monthly. If he has one dependent, the monthly allowance rises to $125. A maximum of $150 a month is payable for two or more dependents.

Under this new program, it is estimated that the number of veterans who will be eligible to initiate training in fiscal year 1967, approximates 4.5 million. This is the number of men who entered the Armed Forces on or after February 1, 1955, and had returned or will have returned to civil life by June 30, 1967. On-duty servicemen with over 2 years of service are estimated to be 1,800,000. From this universe of potential trainees it is estimated that more than one-half million veterans and servicemen are expected to enroll for training during 1967 and about 255,000 during 1968.

The following table shows the estimated average number of trainees, the average cost per trainee, and the total cost of educational assistance payments for those veterans and servicemen who will avail themselves of the educational opportunities provided by this new law.

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average number of trainees	----------	240,000	286,000	+46,000
Average cost per trainee	----------	$1,363	$1,350	−$13
Total cost	----------	$327,000,000	$386,000,000	+$59,000,000
Total cost, education and training	$31,031,091	$357,741,620	$413,947,000	+$56,205,380

SPECIAL ASSISTANCE TO DISABLED VETERANS

Rehabilitative Training of Disabled Veterans.—The objective of this program is to provide vocational rehabilitation to eligible veterans to overcome loss of employability resulting from service-connected disability and to assist them in preparing for, finding and holding suitable employment.

While pursuing a course of vocational rehabilitation training and for two months after his employability is determined, eligible veterans receive subsistence allowance in addition to their disability compensation both of which are paid from the Compensation and Pensions appropriations. When a trainee is pursuing a full-time course of higher education the monthly subsistence rates are $110 without dependents, $150 with one dependent, and $175 with more than one dependent. For trainees pursuing on-the-job, institutional on-the-farm, or cooperative training, the monthly subsistence rates range from $95 to $175, depending on the number of dependents. The cost of their books, fees, tuition and

training supplies is paid by the Veterans Administration, from the Readjustment Benefits Appropriation.

The following tables show the estimated average number of disabled veterans who will pursue vocational rehabilitation training, the cost of tuition and the cost of supplies and equipment:

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average number of trainees:				
Higher learning	2,296	3,440	3,480	+40
Below college	3,131	3,900	3,350	−550
Institutional on-farm	103	110	80	−30
Job training	435	550	490	−60
Total	5,965	8,000	7,400	−600

Tuition

A moderate increase in average cost for tuition is projected in line with increased annual trends.

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average number of trainees (excluding job trainees)	5,530	7,450	6,910	−540
Average cost per trainee	$819	$860	$900	+$40
Total cost	$4,527,947	$6,407,000	$6,219,000	−$188,000

Supplies and equipment

The average cost per trainee for books, supplies and equipment is moderately increased in accordance with trend experience.

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Average number of trainees	5,965	8,000	7,400	−600
Average cost per trainee	$141	$160	$180	+$20
Total cost	$843,249	$1,280,000	$1,332,000	+$52,000
Total cost, vocational rehabilitation	$5,371,196	$7,687,000	$7,551,000	−$136,000

Housing grants

Certain disabled veterans of wartime or peacetime service are entitled, under certain conditions, to a grant from the Veterans Administration to acquire specially adapted housing. The veterans must have a service-connected disability entitling them to compensation for permanent and total disability due to the loss or loss of use of both lower extremities or blindness in both eyes, having only light perception, plus loss or loss of use of one lower extremity.

Eligible veterans receive a grant of not more than 50 percent of the cost of their homes up to a maximum of $10,000. The grant may be used to pay part of the cost of building or buying such homes, or to remodel existing dwellings for their requirements. Also, the grant may be used to pay off the indebtedness of such homes already acquired by the veteran.

About 8,800 grants have been made through 1966. It is anticipated that this activity will remain fairly constant, around 500 grants per year, for several years to come. As grants are made and the veteran uses his entitlement, a new group becomes eligible, due to worsening of disabilities, so the potential number of eligibles remains about the same.

Estimated requirements for this benefit are:

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Number of grants	485	500	500	
Average cost per grant	$9,934	$9,900	$9,900	
Total cost	$4,817,823	$4,950,000	$4,950,000	

Automobiles

The Veterans Administration is authorized to provide or assist in providing an automobile or other conveyance for veterans of World War II and the Korean conflict who are entitled to compensation for service-connected loss or loss of use of one or both feet, one or both hands, or for specified degree of blindness.

The law authorizes assistance, not to exceed $1,600, only in the initial purchase of an automobile or other conveyance and not in the maintenance or replacement.

Since the law was first approved in 1946, over 49,000 disabled veterans have been assisted in the purchase of an automobile or other conveyance. It is anticipated that this activity also will remain fairly constant, representing about 500 vehicles per year, for some time to come. Here again, as a veteran uses up his entitlement, a new group becomes eligible and the potential number remains about the same.

Estimated requirements for this benefit are:

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Number of cars	582	500	470	−30
Average cost per car	$1,598	$1,600	$1,600	
Total cost	$929,756	$800,000	$752,000	−$48,000
Total cost, special assistance to disabled veterans	$11,118,775	$13,437,000	$13,253,000	−$184,000

VETERANS' INSURANCE AND INDEMNITIES

Program and financing

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Program by activities:			
Operating costs, funded:			
1. Military and naval insurance:			
(a) Payment to U.S. Government life insurance fund	85	90	90
(b) Direct payments to policyholders and beneficiaries	2,190	2,132	2,100
2. National service life insurance:			
(a) Payment to National service life insurance fund	5,171	5,080	4,605
(b) Direct payments to policyholders and beneficiaries	737	741	745
3. Service-disabled veterans insurance fund: Payment to service disabled veterans insurance fund	3,000	4,000	2,000
4. Servicemen's indemnities: Payments to beneficiaries	4,732	571	
Total operating costs, funded	15,915	12,614	9,540
Capital outlay:			
5. Acquisition of loans and liens, net	47	40	40
10 Total program costs, funded obligations	15,962	12,654	9,580
Financing:			
21 Unobligated balance available, start of year	−688	−2,264	−1,780
22 Unobligated balance transferred from "Veterans special term insurance" fund (80 Stat. 678)	−7,000	−8,000	−2,000
24 Unobligated balance available, end of year	2,264	1,780	
New obligational authority	10,536	4,170	5,800
New obligational authority:			
Current authorization:			
40 Appropriation	9,900	3,500	5,150
Permanent authorization:			
60 Appropriation	636	670	650
Relation of obligations to expenditures:			
71 Total obligations (affecting expenditures)	15,962	12,654	9,580
72 Obligated balance, start of year	58	9	23
74 Obligated balance, end of year	−9	−23	−28
90 Expenditures	16,010	12,640	9,575

Object classification

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
33.0 Investments and loans, net	47	40	40
41.0 Grants, subsidies, and contributions	8,256	9,170	6,695
42.0 Insurance claims and indemnities	7,659	3,444	2,845
99.0 Total obligations	15,962	12,654	9,580

Mr. EVINS. Insert pages 2–31 through 2–36 on Veterans Insurance and Indemnities.

(The pages follow:)

This appropriation provides funds for:

Military and Naval Insurance.
National Service Life Insurance.
Service-Disabled Veterans Insurance.
Servicemen's Indenmities.

APPROPRIATION LANGUAGE

For military and naval insurance, national service life insurance, servicemen's indemnities, and service-disabled veterans insurance, to remain available until expended, $7,150,000 of which $2,000,000 shall be derived from the Veterans Special Term Insurance Fund.

The transfer from the Veterans Special Term Insurance Fund results from the favorable mortality experience on insurance written against that fund.

Receipts have been well above claims payments, thereby producing an annual increase in the retained earnings of the fund.

Summary of requirements

	1966 actual	1967 estimate	1968 estimate
1. Military and naval insurance:			
(a) Payment to USGLI fund	$85,072	$90,000	$90,000
(b) Direct payments to policyholders and beneficiaries	2,190,127	2,132,000	2,100,000
2. National service life insurance:			
(a) Payments to NSLI fund	5,170,557	5,080,000	4,605,000
(b) Direct payments to policyholders and beneficiaries	736,990	741,000	745,000
3. Service-disabled veterans insurance: Payment to S-DVI fund	3,000,000	4,000,000	2,000,000
4. Servicemen's indemnities: Payments to beneficiaries	4,731,415	571,000	
5. Acquisition of loans and liens, net	47,388	40,000	40,325
Total program (obligations)	15,961,549	12,654,000	9,580,325
Unobligated balance brought forward	−688,295	−2,264,325	−1,780,325
Unobligated balance transferred from Veterans' Special Term Insurance Fund	−7,000,000	−8,000,000	−2,000,000
Change in unappropriated receipts	−1,457		
Unobligated balance carried forward	2,264,325	1,780,325	
New obligational authority	10,536,122	4,170,000	5,800,000
Appropriation:			
Annual definite	9,900,000	3,500,000	5,150,000
Permanent indefinite	636,122	670,000	650,000

1. *Military and Naval Insurance.*—Payments are made for claims on war-risk insurance issued to servicemen and veterans of World War I and for certain expenses of the United States Government Life Insurance Fund.

(a) *Payments to the U.S. Government Life Insurance Fund:* Payments are made on claims for total permanent disability or death traceable to extra hazards of military service. Payments are also made on claims for certain other non permanent total disabilities traceable to extra hazards of military service. Actual and estimated requirements are:

	1966 actual	1967 estimate	1968 estimate
Death and permanent total disability awards:			
Number	5	9	9
Average payment	$3,565	$3,333	$3,333
Disability awards:			
Number	123	113	113
Average payment	$526	$531	$531

(b) *Direct payments to policyholders and beneficiaries*: Payments of $5.75 per month per $1 thousand of war risk insurance held are made to veterans becoming permanently and totally disabled for as long as the disability shall continue. Upon the death of a veteran receiving payments for disability, the remaining value of the policy is paid to the beneficiary as a death award. Actual and estimated requirements are:

	1966 actual	1967 estimate	1968 estimate
Disability awards:			
Average number	4,456	4,340	4,274
Average payment	$491	$491	$491
Death awards:			
Number	1	2	2
Average payment	$628	$625	$625

VOCATIONAL REHABILITATION REVOLVING FUND

Mr. EVINS. Part II. Here is another one. Vocational rehabilitation revolving fund. Tell us about the status of these funds.

Mr. MONK. That is just a small fund there, Mr. Chairman, that is used to make loans to disabled veterans going into rehabilitative training until they get their first check. It is a $100 average loan.

HOUSING CREDIT ASSISTANCE

Mr. EVINS. Refer to part III, housing credit assistance. We have discussed direct loans and guaranteed loans.

You show a balance available for direct loans of $878 million. This is shown on 3-5. Is this from appropriations? Is this to be converted, or is this from sales participation, or an authorized amount?

Mr. MONK. No.

Mr. EVINS. On 3-5 balance available for new loans under status of lending.

Mr. MONK. That is from sale of participations; it is from sale of loans; it is from collections of principal repayments.

Mr. EVINS. You have sold your paper and you have this amount of money in the revolving fund where you can make additional loans?

Mr. MONK. That is right.

Mr. EVINS. So we are not up against the wire?

Mr. MONK. Not in this one.

Mr. EVINS. We are liquid?

Mr. MONK. Yes, sir.

Mr. EVINS. Your guaranteed loans go to the financial institutions, but in the direct loans you have to have the money available to make them?

Mr. MONK. In hand, that is right.

SALE OF LOANS

Mr. EVINS. The Participation Sales Act has been working out rather well with the VA. VA and FHA were selling the loans long before the Congress passed an act, is that right?

Mr. MONK. That is right.

Mr. EVINS. You set the example.

Mr. MONK. In 1964.

Mr. EVINS. How many housing loans has the VA sold since the inception of the program?

Mr. DERVAN. In the direct loan program, sir, the program is roughly $468 million which has been sold to private investors.

Mr. EVINS. You have twice that amount in here now.

Mr. DERVAN. In the guaranteed loan program, sir, we have sold what we call vendee accounts under repurchase agreements to the extent of about $879 million.

Mr. JONAS. You sold $468 million of direct loans?

Mr. DERVAN. Yes, sir.

Mr. JONAS. What did you receive for that?

Mr. DERVAN. We sold those, sir, at a par price.

Mr. JONAS. That is what I thought. These other loans, the guaranteed loans that you sold interest in, which is sort of similar to participations——

Mr. DERVAN. These we take back from the purchasers——

Mr. JONAS (continuing). What discounts did you have to make there?

Mr. DERVAN. We sold overall at a premium of about $9 million.

Mr. JONAS. You got more for them than the net?

Mr. DERVAN. The reason for that is this, sir: These bore an interest rate which generally was better than the guaranteed loan interest rate.

PARTICIPATION CERTIFICATE SALES

Mr. JONAS. What do you estimate the insufficiencies will be if you come in under this new act this year?

Mr. DERVAN. We are requesting an insufficiency of $946,000 in the loan guaranty program for fiscal year 1968.

Mr. JONAS. Now, for the loans you expect to sell through the Sales Participation Act, you will get nearly $1 million less than par for, and will need $946,000 in deficiency, or insufficiency, for a total of how many?

Mr. DERVAN. 946——

Mr. JONAS. That is the insufficiency. The total amount of the sales.

Mr. MONK. $106 million against that 946,000.

Mr. JONAS. What does that discount amount to percentagewise?

Mr. MONK. It isn't a discount.

Mr. JONAS. I know, but it is in a way, too. You don't call it a discount but how much less, what percentage less than par?

Mr. MONK. That is 1 percent. It is close to 1 percent.

Mr. DERVAN. If we had to sell those loans which were pledged in support of this and some of them were, say, 5-percent loans, to 5¼, the discount that private investors would have required would have been very substantial.

Mr. JONAS. That is right because your guaranteed loans carry an interest rate pretty close to the market, but it would be quite different if you carried an interest rate of 3 percent, wouldn't it?

Mr. DERVAN. That is right.

Mr. JONAS. Thank you.

AVAILABLE FUNDS FOR DIRECT LOANS

Mr. EVINS. Do you want to explain these tables on 3-5? Give us these figures. From the authorized Treasury advances, $1,730 million. From repayments of principal, $639 million. From sale of loans, $468 million. From sale of participation certificates, $778 million. Total available for making loans, $3,616 million. This is for all types of loans.

Mr. MONK. Direct loans.

Mr. DRIVER. Since 1950.

Mr. EVINS. This is since the inception.

Mr. DRIVER. Yes, sir.

Mr. EVINS. You have had this amount available?

Mr. MONK. That is right.

Mr. EVINS. You transferred to the fund $305 million more.

Mr. MONK. No; that came off. We put that over into the loan guaranty revolving fund.

Mr. EVINS. So you had available $3,310 million?

Mr. MONK. That is right. We made 262,408 direct loans for $2,380,703,670, and we have committed for loans that we haven't disbursed——

Mr. EVINS. Another $15 million?

Mr. MONK. That is right.

Mr. DRIVER. That is right.

Mr. MONK. And we have reserved for loans that are in process——

Mr. EVINS. $35.5 million.

Mr. MONK. So we have available—now, this was at the end of June 1966—$878 million.

Mr. EVINS. You are still in good operating position.

Mr. MONK. We have a little cash in hand.

Mr. EVINS. Put this chart in the record.

(The page follows:)

PROGRAM ACCOMPLISHMENTS

The number of Direct loans made to date is only a small fraction of the number of loans guaranteed or insured by the Veterans Administration. This was to be expected in a program intended only to supplement the Loan guaranty program in providing credit assistance to veterans. Since the Direct loan program was initiated in 1950, 262,408 loans have been made in the amount of about $2.4 billion. As of the end of June 1966, 46,321 Direct loans have been repaid in full, 46,448 had been sold; and 6,468 had been terminated by foreclosure or voluntary conveyance. This left 163,171 loans with an unpaid principal balance of about $1.2 billion still outstanding.

Funds for making Direct loans are provided by periodic U.S. Treasury advances, the proceeds from the sale of Direct loans to private investors, the proceeds of principal repayments on loans made and the sale of mortgage pool participation certificates. From the beginning of the Direct loan program in 1950 through June 1966, a total of about $3.6 billion had become available for making Direct loans.

The following table indicates by source the cumulative amount of funds that were available for making Direct loans through June 30, 1966:

From authorized Treasury advances	$1,730,077,996
From repayments of principal	639,437,728
From sale of loans	468,747,381
From sale of participation certificates	778,000,000
Total available for making loans	3,616,263,105
Less: Capital funds transferred to the loan guaranty revolving fund	−305,718,022
Net available	3,310,545,083

Status of direct lending as of June 30, 1966:

Funds expended for 262,408 direct loans	$2,380,703,670
Loan funds committed but not disbursed	15,710,109
Funds reserved for loans in process	35,590,548
Balance available for new loans	878,540,756
Total	3,310,545,083

Result of operations:

Total borrowed from Treasury	1,733,055,599
Less: Repayments to Treasury	2,977,603
Capital transferred to loan guranty fund	−305,718,022
Interest bearing capital	1,424,359,974

SALES INSUFFICIENCIES

Mr. JONAS. This $946,000, which is budgeted in 1968 to make up the insufficiency, what will be the length of those loans? How long will that be a recurring charge?

Mr. STRATTON. Fifteen years is the outside limit of that sale.

Mr. EVINS. Some of the loans will mature before——

Mr. ECHOLS. The $946,000 relates to a series of participation certificates which range in equal amounts for maturity from 5 years to 15 years. In the first 5 years part of them will be paid off.

Mr. JONAS. For the first year it will be $946,000. Next year, if some loans are paid off, it will be somewhat less; but do you have a projection to show what the insufficiency will be over the maturity of the loans?

Mr. ECHOLS. No, sir; we haven't projected the insufficiency out for that——

Mr. JONAS. Would it be fair to say it will be seven times that?

Mr. ECHOLS. No, sir; I don't think it would come to——

Mr. JONAS. You would have to know the number of maturities per year?

Mr. DRIVER. And the dollar values associated with them.

Mr. JONAS. An average would be 7.5, but it might be more or less than 7.5 times that.

Mr. ECHOLS. This, of course, also will be affected as we work into the 15-year period, by the experience that we have with respect to defaults, foreclosures, and prepayments on these loans.

Mr. JONAS. If there were defaults it could conceivably be much higher, but it couldnt' be much higher if all the loans were paid off at maturity.

Mr. DERVAN. If the supply of loans in our inventory isn't committed, if we could then increase the pledge, we could possibly avoid an insufficiency in another year.

Mr. JONAS. You mean replace the mortgages with other mortgages?

Mr. DERVAN. Increase the number of—increase the amount.

Mr. JONAS. Increase the number of mortgages. You wouldn't likely do that unless you got money back.

Mr. DERVAN. That is right. It will depend on what our supply of mortgages is.

Mr. JONAS. You don't voluntarily go in and increase your collateral, normally?

Mr. DRIVER. Not unless you can make some money.

RESTORATION OF LOAN GUARANTEE ENTITLEMENT

Mr. EVINS. Is there any way a veteran can get two guaranteed loans?

Mr. DERVAN. Yes, sir.

Mr. EVINS. Tell us about it.

Mr. DERVAN. Under the governing law, when a veteran disposes of property for a compelling reason without fault on his part and in connection with that disposal of the property the existing guaranteed loan is paid off, we are authorized under those circumstances to restore his entitlement. An example of this situation would be John Jones, who is working for IBM in Massachusetts. He buys a home in that

area with a GI loan. He works there for 3 years in New England, and the firm transfers him to the west coast. He places his home in New England up for sale and he sells it. In connection with the sale, the existing GI mortgage is paid off. In those circumstances, since we won't be liable for two guarantees at one time, we will restore his entitlement so he may use it on the west coast.

Mr. EVINS. Place him in the position in which he was formerly situated?

Mr. DERVAN. Yes, sir; provided we had not been prejudiced.

Mr. GIAIMO. Could he sell that original home to another qualified veteran who would then assume the mortgage?

Mr. DERVAN. He may allow it to be assumed, but if he does he doesn't get the restoration of entitlement.

Mr. GIAIMO. Even though you have another veteran who has taken over by assumption?

Mr. DERVAN. That is right. What he should do in this situation is have the purchaser get his own loan and thereby pay it off.

Mr. EVINS. Taking the case you give as an example, suppose veteran A in New England has another veteran who was a brother and he was then transferred to the west coast. Would he then be entitled to another loan?

Mr. DERVAN. No, sir.

Mr. EVINS. He has to sell it to somebody?

Mr. DERVAN. I assumed that in your example, Mr. Chairman, that Mr. Jones continues to reside in that locality and there was no particular compelling reason for effecting that sale in order to go to any other area.

Mr. DRIVER. No; he moved to California.

Mr. EVINS. He moved to California. His company ordered him out to California and he decided to sell to his brother who was a veteran.

Mr. DERVAN. I misunderstood. Yes. We would restore in that case if the GI loan were repaid in full.

Mr. GIAIMO. You are only saying that the loan has to be paid in full in all of these examples; isn't that so?

Mr. DERVAN. Yes. The fact that he sold it to his brother is not a reason——

Mr. DRIVER. You can't have two outstanding obligations at the same time.

However, he could come in—if he was going to sell it in the example of Mr. Giaimo, couldn't the case be presented to VA and he be relieved of his liability provided the second purchaser——

Mr. DERVAN. He may be relieved of liability, but our guarantee still continues.

Mr. DRIVER. We would not issue another guarantee.

Mr. DERVAN. That is right.

Mr. DRIVER. He couldn't get another GI loan. He has used his entitlement which is still outstanding.

Direct Loan Revolving Fund

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Program by activities:			
	Capital outlay, funded:			
	1. Direct loans to veterans	65,529	145,140	156,210
	2. Cash advances—vendee loans	67	75	100
	3. Property improvements	336	420	465
	Total capital outlay, funded	65,932	145,635	156,775
	Change in selected resources [1]	1,835	25,000	20,000
	Total capital outlay, obligations	67,767	170,635	176,775
	Operating costs, funded:			
	4. Interest on borrowings	22,826	22,000	22,200
	5. Operating expenses, general	583	600	600
	6. Property management expense	320	360	320
	7. Sales expense	438	563	630
	8. Commission on sale of participation certificates—Participations sales fund	2,332	600	938
	9. Participation sales insufficiencies			1,775
	Total operating costs, funded—obligations	26,499	24,123	26,463
10	Total obligations	94,266	194,758	203,238
	Financing:			
14	Receipts and reimbursements from:			
	Non-Federal sources:			
	Loans repaid:			
	(a) Loans to veterans	−32,763	−19,100	−15,700
	(b) Vendee loans	−1,425	−1,800	−2,200
	Sale of loans	−8,923		−10,000
	Sale of participation certificates	−685,000	−154,000	−250,000
	Other repayments	−92	−100	−125
	Sale of properties	−652	−660	−660
	Interest on loans	−32,510	−16,300	−13,100
	Rental and other revenue	−4,075	−4,800	−5,200
	Unobligated balance available, start of year:			
21.47	Authorization to spend from public debt receipts	−265,849	−205,304	−196,540
21.98	Fund balance	−283,587	−954,760	−906,762
23.98	Unobligated balance transferred to loan guaranty revolving fund (80 Stat. 679)		50,000	
	Unobligated balance available, end of year:			
24.47	Authorization to spend from public debt receipts	205,304	196,540	
24.98	Fund balance	954,760	906,762	1,000,509
25.47	Unobligated balance lapsing: Authorization to spend from public debt receipts	60,545	8,764	196,540
67	New obligational authority (authorization to spend from public debt receipts) (permanent)	100,000	100,000	
47	New obligational authority (authorization to spend from public debt receipts) (current)	−100,000	−100,000	
	Relation of obligations to expenditures:			
10	Total obligations	94,266	194,758	203,238
70	Receipts and other offsets (items 11–17)	−765,440	−196,760	−296,985
71	Obligations affecting expenditures	−671,174	−2,002	−93,747
72.98	Obligated balance, start of year	59,731	47,510	73,753
74.98	Obligated balance, end of year	−47,510	−73,753	−96,716
90	Expenditures	−658,953	−28,245	−116,710
	Cash transactions:			
93	Gross expenditures	98,496	166,806	178,300
94	Applicable receipts	−757,449	−195,051	−295,010

[1] Balances of selected resources are identified on the statement of financial condition.

NOTE.—The above statement excludes the following exchanges of nonworking capital assets: The settlement of defaulted veterans loans by foreclosures and conveyances (1966, $8,118 thousand; 1967, $9,964 thousand; 1968, $10,704 thousand); the settlement of vendee loans by foreclosures and conveyances (1966, $855 thousand; 1967, $870 thousand; 1968, $1,080 thousand); the acquisition of vendee loans in exchange for real property (1966, $8,129 thousand; 1967, $10,592 thousand; 1968, $11,917 thousand).

Revenue, expense, and retained earnings

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Revenue	61,560	57,760	66,286
Less portion applicable to participation certificates sold, Participation sales fund	−24,974	−36,660	−47,986
Net revenue	36,586	21,100	18,300
Expense	−26,929	−24,474	−26,814
Net operating income or loss (−)	9,657	−3,374	−8,514
Nonoperating income or loss (−):			
Proceeds from sale of properties:			
Cash	652	660	660
Other	8,038	10,500	11,800
Net book value of properties sold	−8,903	−11,110	−12,410
Net gain or loss (−) from sale of properties	−213	50	50
Net income or loss (−) for year	9,444	−3,324	−8,464
Analysis of retained earnings:			
Retained earnings, start of year	26,513	35,957	32,633
Retained earnings, end of year	35,957	32,633	24,169

Financial condition

[In thousands of dollars]

	1965 actual	1966 actual	1967 estimate	1968 estimate
Assets:				
Treasury balance	343,318	1,002,271	980,515	1,097,225
Accounts receivable—regular net	5,080	6,724	6,900	7,400
Interest collections on deposit with trustee—Participations sales fund		5,939	7,500	9,000
Loans receivable, net:				
Vendee loans	29,886	35,551	43,448	52,060
Direct loans to veterans	1,200,946	1,159,712	1,203,421	1,245,005
Less: Participation certificates outstanding	−93,000	−768,700	−872,627	−1,072,255
Funds on deposit with trustee for payment of principal on participation certificates	7,124	52,011	74,738	101,613
Equity in loans receivable	1,144,956	478,574	448,980	326,423
Principal collections in escrow for trustee—Participations sales fund	3,536	6,467	6,034	7,010
Real property owned	4,802	4,914	4,554	3,924
Less: Valuation allowance		−227	−165	−165
Equity in real property	4,802	4,687	4,389	3,759
Total assets	1,501,693	1,504,662	1,454,318	1,450,817
Liabilities:				
Current:				
Accrued interest payable	20,287	9,135	11,000	12,000
Accounts payable and accrued liabilities	29,927	35,013	36,100	40,038
Deferred credits	605	197	225	250
Total liabilities	50,819	44,345	47,325	52,288
Government equity:				
Interest-bearing capital:				
Start of year	1,624,360	1,424,360	1,424,360	1,374,360
Transfer to non-interest-bearing capital of the Loan guaranty revolving fund (78 Stat. 661) (80 Stat. 679)	−200,000		−50,000	
End of year	1,424,360	1,424,360	1,374,360	1,374,360
Retained earnings, end of year	26,513	35,957	32,633	24,169
Total Government equity	1,450,873	1,460,317	1,406,993	1,398,529

Analysis of Government equity and undrawn authorizations

	1965 actual	1966 actual	1967 estimate	1968 estimate
Undisbursed loan obligations [1]	13,992	15,828	40,828	60,828
Unobligated balance	549,435	1,160,064	1,103,302	1,000,509
Invested capital and earnings	1,153,294	489,729	459,403	337,192
Subtotal	1,716,721	1,665,621	1,603,533	1,398,529
Undrawn authorizations	−265,849	−205,304	−196,540	
Total Government equity	1,450,873	1,460,317	1,406,993	1,398,529

[1] The changes in these items are reflected on the program and financing schedule.

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
25.1	Other services	3,673	2,123	4,263
33.0	Investments and loans	65,932	145,635	156,775
43.0	Interest and dividends	22,826	22,000	22,200
	Total costs, funded	92,431	169,758	183,238
94.0	Change in selected resources	1,835	25,000	20,000
99.0	Total obligations	94,266	194,758	203,238

Mr. EVINS. We will place in the record pages 3–3 through 3–19. (The pages follow:)

DIRECT LOANS TO VETERANS AND RESERVES REVOLVING FUND

In various segments of the country private capital historically has been generally unavailable on GI loan terms. These locations are rural places or small cities which are remote from metropolitan centers and their commuting areas. In such localities designated as "housing credit shortage areas," the Administrator has been authorized to make loans directly to the veteran. Such Direct loans are made to purchase, construct or improve a home; to purchase a farm on which there is a farm residence to be occupied by the veteran; or to construct, alter, repair or improve a dwelling to be occupied by the veteran as his home.

Initiated by the Congress in April of 1950, the Direct loan program has subsequently been extended. Under existing statutory provisions, the eligibility of World War II and Korean conflict veterans, have been phasing out since 1962, with terminal dates of July 25, 1967 for World War II veterans and January 31, 1975 for Korean conflict veterans.

Effective March 3, 1966, Public Law 89–358, extended the authority to make direct loans to post-Korean veterans and some active duty servicemen. The authority to make loans or to issue commitments to make loans, however, expires on January 31, 1975.

Financing.—Public Law 87–84, approved July 6, 1961, authorized the Veterans Administration to draw $1.2 billion from the U.S. Treasury at stated intervals through Fiscal Year 1967 with the provision that after the first year (1962) the amount so authorized was to be reduced by the amount of loans sold in the preceding fiscal year. During Fiscal Years 1963 through 1966 Direct loans sales were $403.5 million. The aggregate authorization to borrow from the Treasury, was further reduced in the Appropriation Act for Fiscal Year 1966 and 1967 by $100 million each year, leaving a net aggregate authorization of $596.5 million for the 6 year period. During Fiscal Year 1962, $200 million was borrowed and an additional $200 million in Fiscal Year 1963. No borrowings were made in Fiscal Years 1964, 1965 or 1966, and none are planned for 1967. The unused borrowing authority of $196.5 million will lapse at the close of Fiscal Year 1967.

The following table summarizes the disposition of the $1.2 billion borrowing authority authorized by Public Law 87–84:

[In thousands]

Total	$1,200,000
Less:	
Sale of loans	−403,460
Statutory reductions	−200,000
Borrowed	−400,000
Lapsed after June 30, 1967	196,540

Financing of the Direct loan program is accomplished through the Direct Loan Revolving Fund. This fund bears all the expense of:

Direct loans to eligible veterans.

Interest on funds borrowed from Treasury.

Related operating expenses, such as property maintenance, management and selling expenses; except that administrative costs (salaries, etc.) are borne by the Veterans Administration "General Operating Expenses" appropriation.

Major sources of capital and revenue are:

Sale of participation certificates through the Government Mortgage Liquidation Trust beginning in FY 1965.

Sale of participation certificates under the Participation Sales Act of 1966 (Public Law 89–429) beginning in FY 1967.

Principal repayments on loans.

Sales of loans to private investors.

Interest received on loans.

Borrowings from Treasury.

PARTICIPATION SALES AUTHORIZATION

The Housing Act of 1964, PL 88–560, approved September 2, 1964 authorized the Administrator of Veterans Affairs to participate in mortgage pools. The Administrator may, from time to time, as he determines advisable, set aside first mortgage loans, and installment sale contracts, owned and held by him as the basis for the sale of participation certificates. For this purpose the Administrator may enter into agreements, with the Federal National Mortgage Association, and any other Federal agency, under which the Association as fiduciary may sell certificates of participation based on principal and interest collections to be received by the Administrator and the Association or any other such agency, on first mortgage loans and installment sale contracts comprising mortgage pools established by them. See page 5–51 Part 5. Special Analyses, re: proposed appropriation language change.

PAYMENT OF SALES INSUFFICIENCIES

Public Law 89–429, approved May 24, 1966 provides in part, that monies are authorized to be appropriated, without fiscal year limitation, as may be necessary to enable any trustor to pay the trustee such insufficiency as the trustee may require when receipts from pledged assets are insufficient to meet outstanding beneficial interests or participations. See page 5–51 Part 5. Special Analyses re: proposed appropriation language change.

PROGRAM ACCOMPLISHMENTS

The number of Direct loans made to date is only a small fraction of the number of loans guaranteed or insured by the Veterans Administration. This was to be expected in a program intended only to supplement the Loan guaranty program in providing credit assistance to veterans. Since the Direct loan program was initiated in 1950, 262,408 loans have been made in the amount of about $2.4 billion. As of the end of June 1966, 46,321 Direct loans have been repaid in full, 46,448 had been sold; and 6,468 had been terminated by foreclosure or voluntary conveyance. This left 163,171 loans with an unpaid principal balance of about $1.2 billion still outstanding.

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From sale of participation certificates	778,000,000
Total available for making loans	3,616,263,105
Less: Capital funds transferred to the loan guaranty revolving fund	−305,718,022
Net available	3,310,545,083
Status of direct lending as of June 30, 1966:	
Funds expended for 262,408 direct loans	2,380,703,670
Loan funds committed but not disbursed	15,710,109
Funds reserved for loans in process	35,590,548
Balance available for new loans	878,540,756
Total	3,310,545,083
Result of operations:	
Total borrowed from Treasury	1,733,055,599
Less: Repayments to Treasury	2,977,603
Capital transferred to loan guaranty fund	−305,718,022
Interest bearing capital	1,424,359,974
Earnings through June 30, 1966:	
Income	516,539,719
Less:	
Interest payments to Treasury	−336,044,755
Other expenses	−16,384,955
Net earnings	164,110,009
Less: Earnings transferred to the loan guaranty revolving fund	−128,152,978
Retained earnings June 30, 1966	35,957,031

During Fiscal Year 1966, 12,212 applications for Direct loans were received, 6,041 Direct loans were made, 7,624 were repaid in full and 924 terminated by foreclosure or voluntary conveyance, and 803 Direct loans amounting to $8.8 million were sold to private investors.

PROGRAM EXPENDITURES

The Direct loan fund requirements in FY 1967 are expected to be $194.8 million, or $100.5 million more than they were in FY 1966.

The FY 1968 requirements are expected to be $203.2 million, or $8.4 million more than FY 1967.

The following table summarizes the actual and estimated significant items of cost:

	1966 actual	1967 estimate	1968 estimate
Capital outlay:			
Direct loans to veterans	$65,529,421	$145,140,000	$156,210,000
Property improvements	335,546	420,000	465,000
Cash advances—vendee loans	67,314	75,000	100,000
Total	65,932,281	145,635,000	156,775,000
Operating expenses:			
Interest on borrowings	22,826,173	22,000,000	22,200,000
Operating expenses, general	582,986	600,000	600,000
Property management expense	319,784	360,000	320,000
Property sales expense	437,719	563,000	630,000
Commission on sale of participations	2,332,267	600,000	938,000
Participation sales insufficiencies			1,775,000
Total operating expenses	26,498,929	24,123,000	26,463,000
Total cost	92,431,210	169,758,900	183,238,000
Adjustment to obligations: Undisbursed obligations:			
Start of year	−13,992,338	−15,827,733	−40,827,733
End of year	15,827,733	40,827,733	60,827,733
Total obligations	94,266,605	194,758,000	203,238,000

Capital Outlay

Capital outlay includes direct loans to veterans, cash advances to borrowers and expenditures for improvements made on acquired property that increase their book value.

Direct loans to veterans

Direct loans to veterans in FY 1967 are expected to total $145.1 million, or $79.6 million more than they were in FY 1966.

The FY 1968 loans are expected to total $156.2 million, or $11.1 million more than in FY 1967. This increase is due entirely to an increase of $900 in the average loan amount.

The following tables summarize the changes in the number and amount of Direct loans outstanding at the beginning and end of each year:

	1966 actual	1967 estimate	1968 estimate
Number of loans:			
Outstanding, start of year	$166,481	$163,171	$165,871
New loans made	+6,041	+12,300	+12,300
Loans sold	−803		−910
Loans paid in full	−7,624	−8,500	−9,000
Loans foreclosed	−924	−1,100	−1,200
Total loans outstanding, end of year	163,171	165,871	167,061
Amount of debt:			
Outstanding, start of year	1,200,946,280	1,159,712,132	1,203,421,000
New loans made	+65,529,421	+145,140,000	+156,210,000
Loans sold	−8,763,752		−10,000,000
Principal repayments	−89,881,743	−91,467,000	−93,922,000
Loans foreclosed	−8,118,074	−9,964,132	−10,704,000
Outstanding, end of year	1,159,712,132	1,203,421,000	1,245,005,000

Property improvements and acquisition costs

Properties are acquired by foreclosure on or the voluntary conveyance of title to properties securing loans owned by the Veterans' Administration. In addition to those funds expended incident to the acquisition of these properties which are capitalized, additional expenditure for rehabilitation or improvements are often necessary to put the property in a salable condition. The cost included

under this item does not include the cost of maintaining properties owned by Veterans' Administration. The following table summarizes the expenditures for property improvements and acquisition costs capitalized.

	1966 actual	1967 estimate	1968 estimate
Number of properties acquired	1,017	1,200	1,325
Average per property	$330	$350	$350
Total cost	$335,546	$420,000	$465,000

Cash advances—vendee loans

Small cash loans are occasionally made to the borrower to cover minor tax deficiencies etc. These amounts are added to the current loan balance. These advances are usually made at the time Veterans Administration receives the tax bill to be paid on the real estate, and finds that the balance accumulated in the escrow account is not quite sufficient.

Total cost:

1966 actual	$67,314
1967 estimated	75,000
1968 estimated	100,000

Interest on borrowings from Treasury

Interest expense is accrued monthly and paid semi-annually to the Treasury. These accruals are computed on the interest-bearing capital of the fund. However, Veterans Administration receives an interest credit for cash left with the Treasury.

Total cost:

1966 actual	$22,826,173
1967 estimated	22,000,000
1968 estimated	22,200,000

Operating expenses, general

This item includes all the general expenses of the fund that are not related to the management, maintenance or sale of real property or participation certificates. The write-off of uncollectable vendee loans, veterans liabilities and other accounts receivable is approximately 87% of this item.

	1966 actual	1967 estimate	1968 estimate
Accounts written off	$505,304	$520,000	$520,0000
Other	77,682	80,000	80,000
Total cost	582,986	600,000	600,000

Property management expense

This includes all the cost of ownership of acquired properties except capitalized expenditures made incident to the acquisition or rehabilitation of properties. Included in managemet expense is grass cutting, repair of broken windows, winterizing, etc., also payments for services performed by management brokers and real estate taxes. It also includes the cost of the initial clean-up and repairs to properties required to place them in salable condition, but which are not added to the book value of the property.

	1966 actual	1967 estimate	1968 estimate
Average number of properties owned	534	574	512
Average cost per property	$599	$625	$625
Total cost	$319,784	$360,000	$320,000

Property sales expense

This includes brokers fees and advertising costs incident to the sale of properties owned by Veterans' Administration.

	1966 actual	1967 estimate	1968 estimate
Number of sales	1,013	1,250	1,400
Average cost per sale	$432	$450	$450
Total cost	$437,719	$563,000	$630,000

Commission on sale of participations—Participation sales fund

This represents that portion of the cost of marketing serial participation certificates through a nationwide group of underwriters, which is charged to Veterans Administration by the Federal National Mortgage Association as Trustee for the Participation sales fund.

Total cost:	
1966 actual	$2,332,267
1967 estimated	600,000
1968 estimated	938,000

Participation sales insufficiencies

Represents the difference between the amount of interest collections received from portfolio loans pledged to the Trust, and the amount of interest the Trustee is required to pay holders of participation certificates in respect to which portfolio loans have been set aside pursuant to 38 U.S.C. 1820(e).

Total cost:	
1966 actual	----------
1967 estimated	----------
1968 estimated	$1,775,000

Adjustment of cost to obligations

These entries are made to reflect the change in the amount of loans in the hands of loan closers and unliquidated operating expenses at the beginning and end of each fiscal year.

	1966 actual	1967 estimate	1968 estimate
Undisbursed obligations:			
Start of year	−13,992,338	−15,827,733	−40,827,733
End of year	15,827,733	40,827,733	60,827,733
Total	1,835,395	25,000,000	20,000,000

PROGRAM FINANCING

The unobligated cash balance of available funds at the end of FY 1967 will be $906.8 million. Operations during FY 1968 will produce $297.0 million, however, $203.2 million will be required for loans to veterans and other operating expenses. This will leave an unobligated cash balance of $1.0 billion at the end of FY 1968.

There are no plans to borrow any additional funds from the Treasury and the undrawn treasury authorization of $196.5 million will lapse at the end of FY 1967.

The following table summarizes the actual and estimated significant sources of funds:

	1966 actual	1967 estimate	1968 estimate
Unobligated balance, start of year	$549,435,525	$1,160,064,070	$906,762,400
Undrawn authorization	(265,848,464)	(205,303,670)	
Cash	(283,587,061)	(954,760,400)	(906,762,400)
Capital receipts:			
Sale of—			
Mortgage pool participation certificates	685,000,000	154,000,000	250,000,000
Direct loans	8,763,752		10,000,000
Vendee loans	158,900		
Repayment of—			
Direct loans	32,762,768	19,100,000	15,700,000
Vendee loans	1,424,802	1,800,000	2,200,000
Other repayments	92,056	100,000	125,000
Sale of properties (cash)	651,960	660,000	660,000
Total, capital receipts	728,854,238	175,660,000	278,685,000
Revenue:			
Operating revenue:			
Interest on loans	32,510,423	16,300,000	13,100,000
Rental and other revenue	4,075,283	4,800,000	5,200,000
Total, operating revenue	36,585,706	21,100,000	18,300,000
Total receipts and revenue	765,439,944	196,760,000	296,985,000
New obligational authority (indefinite appropriation)			
Total available	1,314,875,469	1,356,824,070	1,203,747,400
Less:			
Prior year direct loan sales	−60,544,794	−8,763,752	
Obligations	−94,266,605	−194,758,000	−203,238,000
Transfer to loan guaranty revolving fund		−50,000,000	
Total unobligated balance, end of year	1,160,064,070	1,103,302,318	1,000,509,400
Undrawn authorization	(205,303,670)	[1](196,539,918)	
Cash	(954,760,400)	(906,762,400)	(1,000,509,400)

[1] Not available after June 30, 1967.

Sale of mortgage pool participation certificates—Participation sales fund

The primary purpose of mortgage pools is to provide a device for realizing cash from loans held by Veterans Administration which are not readily salable and to attract new private funds not heretofore available for direct mortgage investment. Funds from the sale of mortgage participations will be used in lieu of borrowing from the Treasury. In FY 1966, the Trustee for the Participation Sales Fund sold $685 million in participation certificates that were secured by Direct loans.

The estimates include $154 million in proceeds from sales of mortgage participation certificates in FY 1967 and an additional $250 million in mortgage participation certificates to be marketed in FY 1968.

Principal and interest collections on loans set aside for mortgage pools are transmitted monthly to the Trustee.

Sale of Direct Loans

When Direct loans are sold for cash, they in effect become guaranteed loans and are subject to the same conditions, terms and limitations which would be applicable to guaranteed loans. Proceeds from the sale of these loans are available for making new Direct loans to veterans.

	1966 actual	1967 estimate	1968 estimate
Number of sales	803		910
Average per sale	$10,914		$11,000
Total	$8,763,752		$10,000,000

Loan and other repayments

The following table summarizes loan and other repayments exclusive of amounts collected on loans pledged to the mortgage pool, and retained by the trustee.

	1966 actual	1967 estimate	1968 estimate
Repayment of—			
Direct loans	$32,762,768	$19,100,000	$15,700,000
Vendee loans	1,424,802	1,800,000	2,200,000
Other repayments	92,056	100,000	125,000
Total	34,279,626	21,000,000	18,025,000

Sale of Real Property

Most sales of acquired property involve a small cash down payment by the purchaser and the establishment of new mortgage loan or installment contract to be held by the Veterans Administration. The following table summarizes this activity.

	1966 actual	1967 estimate	1968 estimate
Number of properties sold	1,013	1,250	1,400
Cash proceeds	$651,960	$660,000	$660,000
Loans established	8,038,146	10,500,000	11,800,000
Subtotal	8,690,106	11,160,000	12,460,000
Book value of properties sold	−8,902,592	−11,110,000	−12,410,000
Gross profit on sales	−212,486	+50,000	+50,000

Operating revenue

Interest income.—This item includes the interest income on (1) Direct loans not "set aside" for the mortgage pool, (2) vendee loans and (3) veterans indebtedness. The decrease in interest income is the result of increases in the amount of loans pledged to the mortgage pool.

Total:

1966 actual	$32,510,423
1967 estimated	16,300,000
1968 estimated	13,100,000

Rental and other revenue.—This item includes income related to the operation of the mortgage pool such as fees retained by the Veterans Administration for servicing loans pledged to the pool, premium on sale of participation certificates, interest on investments made by the Trustee, Direct loan application fees, builders fees, and rental income. Certain administrative expenses of the Trustee are netted against these income items.

Total:

1966 actual	$32,510,423
1967 estimated	4,800,000
1968 estimated	5,200,000

Revenue, Expense and Retained Earnings

The following table reflects the revenue, expenses and net income for each fiscal year.

	1966 actual	1967 estimate	1968 estimate
Revenue:			
Interest income (gross)	$57,484,350	$52,960,000	$61,086,000
Less interest applicable to participation certificates sold, PSF	−24,973,927	−36,660,000	−47,986,000
Net interest	32,510,423	16,300,000	13,100,000
Rental and other revenue	4,075,282	4,800,000	5,200,000
Total operating revenue	36,585,705	21,100,000	18,300,000
Gross gain from sale of property	−212,486	50,000	50,000
Total revenue	36,373,219	21,150,000	18,350,000
Funded expense	26,498,929	24,123,000	26,463,000
Nonfunded expense:			
Writeoff of assets:			
Direct loans	194,482	175,000	175,000
Vendee loans	8,536	8,000	8,000
Property acquired	707	3,000	3,000
Provision for allowance on unsold properties	226,696	165,000	165,000
Total	430,422	351,000	351,000
Total expenses	26,929,351	24,474,000	26,814,000
Net income or deficit(−) for year	9,443,868	−3,324,000	−8,464,000
Analysis of retained earnings:			
Retained earnings, start of year	26,513,163	35,957,031	32,633,000
Net income or deficit (−) for year	9,443,868	−3,324,000	−8,464,000
Retained earings, end of year	35,957,031	32,633,031	24,169,000

PROGRAM CONDITION

The program expenditures and financing transactions outlined in the preceding pages will result in the following program condition at the close of fiscal years 1966, 1967, and 1968:

	1966 actual	1967 estimate	1968 estimate
Assets:			
Treasury balance	$1,002,270,740	$980,515,000	$1,097,225,000
Accounts receivable, net	6,723,783	6,900,000	7,400,000
Interest collections on deposit with trustee-participations sales fund	5,938,769	7,500,000	9,000,000
Loans receivable, net:			
Vendee loans	35,550,672	43,448,000	52,060,000
Direct loans to veterans	1,159,712,132	1,203,421,000	1,245,005,000
Principal collections on deposit with trustee	52,011,397	74,738,000	101,613,000
Less participation certificates outstanding	−768,700,000	−872,627,000	−1,072,255,000
Equity in loans receivable	478,574,201	448,980,000	326,423,000
Principal collections in escrow for trustee	6,467,151	6,034,000	7,010,000
Real property owned	4,914,227	4,554,000	3,924,000
Less valuation allowance	−226,706	−165,000	−165,000
Equity in real property	4,687,521	4,389,000	3,759,000
Total assets	1,504,662,164	1,454,318,000	1,450,817,000
Liabilities:			
Current:			
Accrued interest payable	$9,135,426	$11,000,000	$12,000,000
Accounts payable and accrued liabilities	35,012,516	36,100,000	40,038,000
Deferred credits	197,217	225,000	250,000
Total liabilities	44,345,159	47,325,000	52,288,000
Government-equity:			
Interest-bearing capital:			
Start of year	1,424,359,974	1,424,360,000	1,374,360,000
Transfer to loan guaranty revolving fund		−50,000,000	
End of year	1,424,359,974	1,374,360,000	1,374,360,000
Non-interest-bearing capital: Appropriation			
Retained earnings, end of year	35,957,031	32,633,000	24,169,000
Total Government equity	1,460,317,005	1,406,993,000	1,398,529,000
Total liabilities and Government equity	1,504,662,164	1,454,318,000	1,450,817,000

Relation of obligations to expenditures

	1966 actual	1967 estimate	1968 estimate
Total obligations	$94,266,605	$194,758,000	$203,238,000
Total receipts and revenue	−765,439,944	−196,760,000	−296,985,000
Obligations affecting expenditures (−)	−671,173,339	−2,002,000	−93,747,000
Obligated balance, start of year	59,731,051	47,510,341	73,752,733
Obligated balance, end of year	−47,510,341	−73,752,733	−96,715,733
Net expenditures	−658,952,629	−28,244,392	−116,710,000

Computation of obligated balances, end of year

	1966 actual	1967 estimate	1968 estimate
Current liabilities	$44,345,159	$47,325,000	$52,288,000
Undisbursed loan obligations, end of year	+15,827,733	+40,827,733	+60,827,733
Accounts receivable, net	−6,723,783	−6,900,000	−7,400,000
Interest on deposit with trustee	−5,938,768	−7,500,000	−9,000,000
Total obligated balance end of year	47,510,341	73,752,733	96,715,733

Relation of Treasury cash and net expenditures

(Minus net expenditures represent an increase in the Treasury balance)

Treasury balance June 30, 1965	$343,318,112
Fiscal year 1966 net expenditures	(+)658,952,628
Treasury balance, June 30, 1966	1,002,270,740
Fiscal year 1967 net expenditures	(+)28,244,392
Transfer to loan guaranty fund	−50,000,000
Treasury balance, June 30, 1967	980,515,000
Fiscal year 1968 net expenditures	(+)116,710,000
Appropriation	
Treasury balance, June 30, 1968	1,097,225,000

Analysis of Government equity and undrawn authorization

	1966 actual	1967 estimate	1968 estimate
Undisbursed loan obligations	$15,827,733	$40,828,000	$60,828,000
Unobligated balance	1,160,064,068	1,103,302,000	1,000,509,000
Invested capital and earnings	489,728,872	459,403,000	337,192,000
Subtotal	1,665,620,674	1,603,533,000	1,398,529,000
Undrawn authorization (−)	−205,303,669	−196,540,000	
Total Government equity	1,460,317,005	1,406,993,000	1,398,529,000

Computation of invested capital and earnings

	1966 actual	1967 estimate	1968 estimate
Total assets	$1,504,662,164	$1,454,318,000	$1,450,817,000
Less:			
Treasury balance	−1,002,270,740	−980,515,000	−1,097,225,000
Accounts receivable, net	−6,723,784	−6,900,000	−7,400,000
Interest on deposit with trustee	−5,938,768	−7,500,000	−9,000,000
Invested capital and earnings	489,728,872	459,403,000	337,192,000

Assets

Treasury balance.—The treasury balance represents the amount available with the Treasury for disbursements. Prior year balances agree with the amounts shown in the Treasury Department's Combined Statement.

Accounts receivable, net.—This item includes the following:

(a) Veterans Liability—which represents amount owed by the veteran to the Government after liquidation of the loan.

(b) Accrued Interest—which represents interest currently accrued on loans and advances to veterans, vendee accounts and veterans liability accounts.

(c) Accrued rent on property owned.

(d) Miscellaneous receivables include rent due from former tenants, deficiencies from liquidated vendee accounts and deficiencies on loans transferred to third parties by veterans released from liability.

(e) Collections in transit not reported by the Treasury as a part of the unexpended balance of the fund.

Vendee loans.—This item represents the net amount outstanding on loans made on acquired properties sold on terms for less than all cash.

Equity in real property.—Represents Real property which has been capitalized by VA, less an allowance for losses on unsold properties.

Loans receivable

The following table summarizes the Veterans Administration equity in loans receivable at the end of each year:

	1966 actual	1967 estimate	1968 estimate
Loan balances pledged to mortgage pool:			
Direct loans pledged	$906,926,582	$991,652,000	$1,175,076,000
Less participation certificates outstanding	−768,700,000	−872,627,000	−1,072,255,000
Principal repayments on deposit with trustee	52,011,397	74,738,000	101,613,000
Excess pledges	190,237,979	193,763,000	204,434,000
Loan balances unpledged:			
Direct loans	252,785,550	211,769,000	69,929,000
Vendee loans	35,550,672	43,448,000	52,060,000
Total unpledged	288,336,222	255,217,000	121,989,000
VA equity	478,574,201	448,980,000	326,423,000

Liabilities

Accounts payable and accrued liabilities include the following:

(a) Accrued interest due Treasury—The law provides for semi-annual interest payments to the Treasury as of December 31 and June 30. Accrued interest at June 30 is paid in the subsequent fiscal year.

(b) Borrowers' tax and insurance funds collected and held in escrow by the Veterans Administration for the purpose of paying taxes and/or insurance on the mortgaged properties securing the borrowers' loan.

(c) Funds collected which have been deposited and held for specific purpose pending determination of final disposition.

(d) Disbursements in transit between VA and Treasury at end of year.

Deferred credits.—Represents undistributed collections which have been deposited pending determination of accounts to be credited.

Government equity

Interest-bearing capital represents cash advances from the U.S. Treasury less capital transfers to the Loan Guaranty Revolving Fund. Government equity includes the retained earnings of the fund and equals the total assets less the total liabilities.

Loan Guaranty Revolving Fund

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Program by activities:			
	Capital outlay, funded:			
	1. Real property acquisitions	255,165	256,950	263,385
	2. Property improvements	16,365	16,800	17,200
	3. Claims paid	22,208	23,525	25,400
	4. Repurchase of loans sold, net	44,578	39,625	38,940
	5. Cash advances—vendee loans	913	1,500	1,500
	6. Loans acquired	5,586	4,100	4,100
	Total capital outlay, funded	344,815	342,500	350,525
	Operating costs, funded:			
	7. Commission on sale of participation certificates—Participations sales fund	702	500	2,200
	8. Property management expense	14,597	14,400	14,300
	9. Sales expense	17,913	17,600	18,075
	10. Participation sales insufficiencies			946
	Total operating costs, funded	33,212	32,500	35,521
10	Total program costs, funded—obligations	378,027	375,000	386,046
	Financing:			
14	Receipts and reimbursements from:			
	Non-Federal sources:			
	Loans repaid:			
	(a) Vendee loans	−11,788	−14,200	−10,600
	(b) Acquired loans	−757	−900	−1,100
	Sales of loans	−95,729		−40,000
	Sale of participation certificates	−200,000	−106,000	−600,000
	Sale of properties	−12,918	−12,500	−10,700
	Collection of claims receivable (veterans indebtedness)	−4,707	−4,000	−4,000
	Other repayments	−822	−900	−900
	Interest on loans	−28,862	−29,660	−23,185
	Funding fees	−750	−5,100	−6,200
	Rental and other revenue	−1,725	−500	−1,050
21.98	Unobligated balance available, start of year	−189,579	−169,610	−18,370
22.98	Unobligated balance transferred from "Direct loans to veterans and reserves revolving fund" (80 Stat. 679)		−50,000	
24.98	Unobligated balance available, end of year	169,610	18,370	33,005
40	New obligational authority (indefinite appropriation)			946
	Relation of obligations to expenditures:			
10	Total obligations	378,027	375,000	386,046
70	Receipts and other offsets (items 11-17)	−358,058	−173,760	−697,735
71	Obligations affecting expenditures	19,969	201,240	−311,689
72.98	Obligated balance, start of year	8,893	13,139	17,750
74.98	Obligated balance, end of year	−13,139	−17,750	−30,275
90	Expenditures	15,723	196,629	−324,214
	Cash transactions:			
93	Gross expenditures	372,435	369,133	372,346
94	Applicable receipts	−356,712	−172,504	−696,560

Note.—The above statement excludes the following exchanges of nonworking capital assets: The settlement of VA-guaranteed or insured loans by the acquisition of real property (1966, $266,110,000; 1967, $238,713,000, 1968, $258,808,000); the settlement of defaulted VA-owned loans by acquisition of real property (1966, $47,391,000; 1967, $54,065,000; 1968, $62,317,000); the acquisition of vendee loans in exchange for real property (1966; $336,141,000; 1967, $324,300,000; 1968, $327,700,000).

Revenue, expense, and retained earnings

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Revenue	33,036	48,434	61,925
Less portion applicable to participation certificates sold: Participations sales fund	−2,896	−13,174	−32,040
Net revenue	30,140	35,260	29,885
Expense	−58,640	−56,240	−62,021
Net operating loss	−28,500	−20,980	−32,136
Nonoperating income:			
Proceeds from sale of properties:			
Cash proceeds	12,918	12,500	10,700
Other (vendee loans)	336,141	324,300	327,700
Net book value of properties sold	−346,830	−335,300	−331,700
Net gain from sale of properties	2,229	1,500	1,700
Proceeds from sale of mortgages:			
Cash proceeds	96,926	.....	40,550
Asset value of mortgages sold	−95,729	.....	−40,000
Net gain from sale of mortgages	1,197	.....	550
Net loss for year	−25,074	−19,480	−29,886
Analysis of deficit:			
Deficit, start of year	−71,112	−96,186	−115,666
Deficit, end of year	−96,186	−115,666	−145,552

Financial condition

[In thousands of dollars]

	1965 actual	1966 actual	1967 estimate	1968 estimate
Assets:				
Treasury balance	198,472	182,750	36,120	361,280
Accounts receivable, regular—net	2,283	3,633	4,900	6,100
Loans receivable, net	510,481	737,505	1,029,145	1,266,640
Less: Participation certificates outstanding	−7,000	−206,300	−301,844	−891,688
Funds on deposit with trustee for payment of principal on participation certificates	537	2,879		7,666
Equity in loans receivable	504,018	534,084	727,301	382,618
Principal collections in escrow for trustee—Participations sales fund	37	702	945	2,951
Advances for bidding at public sales	48	100	100	125
Claims receivable	32,068	31,487	23,765	20,525
Less: Allowance for losses	−25,654	−25,187	−19,792	−17,200
Claims receivable, net	6,414	6,300	3,973	3,325
Real property owned	181,487	164,523	139,351	140,976
Less: Valuation allowance		−6,169	−3,000	−3,200
Property acquisitions pending settlement	2,511	−10,131	2,500	2,800
Equity in real property	183,998	148,223	138,851	140,576
Total assets	895,270	875,792	912,190	896,975
Liabilities:				
Accounts payable and accrued liabilities	11,041	16,633	22,500	36,200
Deferred credits	135	139	150	175
Total liabilities	11,176	16,772	22,650	36,375
Government equity:				
Non-interest-bearing capital:				
Start of year	755,206	955,206	955,206	1,005,206
Transfer from "Direct loans to veterans and reserves revolving fund" (78 Stat. 661) (80 Stat. 679)	200,000		50,000	
Appropriation				946
End of year	955,206	955,206	1,005,206	1,006,152
Deficit, end of year	−71,112	−96,186	−115,666	−145,552
Total Government equity	884,094	859,020	889,540	860,600

Analysis of Government equity

(In thousands of dollars)

	1965 actual	1966 actual	1967 estimate	1968 estimate
Unobligated balance	189,579	169,610	18,370	331,005
Invested capital and earnings	694,515	689,409	871,170	529,595
Total Government equity	884,094	859,020	889,540	860,600

NOTE.—Contingent liability on guaranteed or insured loans held by private investors: 1965, $16,594 million; 1966, $16,301 million; 1967, $15,857 million; 1968, $15,319 million.

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
25.1	Other services	33,212	32,500	35,521
33.0	Investments and loans	344,815	342,500	350,525
99.0	Total obligations	378,027	375,000	386,046

Mr. EVINS. Payment of sales insufficiencies, participation sales authorization; you have explained all this. Pages 3–21 through 3–25, we will place those in the record.

(The pages follow:)

The Loan Guaranty Revolving Fund was established at the beginning of 1962 by 74 Stat. 533, in order that the revenue obtained from principal repayments on vendee accounts and acquired loans, income from interest payments on such assets, and miscellaneous income such as rental of properties could be used to defray the expenses for paying claims, acquiring, managing and selling properties.

APPROPRIATION LANGUAGE

Proposed language for FY 1968 is shown below. Proposed additions to FY 1967 language are underlined; proposed deletions are in parenthesis:

(During the current fiscal year, the) *The* Loan guaranty revolving fund shall *hereafter* be available for expenses (, but not to exceed $375,000,000,) for property acquisitions and other loan guaranty and insurance operations under Chapter 37, title 38, United States Code, except administrative expenses as authorized by section 1824 of such title: Provided, that (not to exceed $200,000,000 of) the unobligated balance including retained earnings of the Direct loan revolving fund shall *hereafter* be available (, during the current fiscal year,) for transfer to the Loan guaranty revolving fund (in such amounts as may be necessary) to provide for the (foregoing expenses) *timely payment of obligations of such fund* and the Administrator of Veterans Affairs shall not be required to pay interest on amounts so transferred after the time of such transfer.

Because of the uncontrollable nature of expenditures in the Loan Guaranty Program, we are again requesting that the limitation on expenditures be removed. In past years expenditure limitations have resulted in the deferment of payment for claims and property acquisitions, and produced numerous operating problems.

PARTICIPATION SALES AUTHORIZATION

The Housing Act of 1964, PL 88–560, approved September 2, 1964, authorized the Administrator of Veterans Affairs to participate in mortgage pools. The Administrator may, from time to time, as he determines advisable set aside first mortgage loans and installment sale contracts, owned and held by him as the basis for the sale of participation certificates. For this purpose the Administrator may enter into agreements, with the Federal National Mortgage Association, and any other Federal Agency, under which the Association as fiduciary may sell certificates of participation based on principal and interest collections to be received by the Administrator and the Association or any other such agency, on first mortgage loans and installment sale contracts comprising mortgage pools established by them. See page 5–51 Part 5, Special Analyses, re: proposed appropriation language change.

PAYMENT OF SALE INSUFFICIENCIES

Public Law 89–429, approved May 24, 1966, provides in part that monies are authorized to be appropriated, without fiscal year limitation, as may be necessary to enable any trustor to pay the trustee such insufficiency as the trustee may require when receipts from pledged assets are insufficient to meet outstanding beneficial interest or participations. See page 5–51 Part 5, Special Analyses, re: proposed appropriation language change.

Since the beginning of the Loan Guaranty Program in 1944, the Veterans Administration has guaranteed more than 6.8 million home, farm, and business loans with an aggregate initial loan amount of $64.3 billion and an initial guaranty amount of $33.7 billion. In addition, 262,408 direct loans for $2.4 billion had been made. Of the direct loans made, 46,448 had been sold with 60% guarantees to private investors and such sold loans are included in the more than 6.8 million underwritten loans.

As of the end of fiscal year 1966, the estimated principal balance on outstanding guaranteed or insured loans was $31.0 billion on which the contingent liability of the government amounted to $16.3 billion.

Approximately 95% of the cumulative loans guaranteed have been for the purchase or construction of homes. Except in the years following closely on the end of World War II, guaranteed loans for farming and business ventures have been relatively infrequent.

From the beginning of the Loan Guaranty Program through June 1966, lenders have reported 1,531,569 defaults on GI home, farm, and business loans. In most cases these defaults have been cured and claims averted by arranging with veterans to pay the delinquencies, by modifying the terms of repayment, or by arranging for the disposition of the property without a claim payment. Through June 30, 1966, these efforts to restore defaulted loans to good standing have been successful in about 83 percent of the cases reported.

Expenditures for the Loan Guaranty Program are primarily related to the number of claims submitted by holders of loans under the guaranty or insurance provisions of the law.

Claims under the Guaranty or insurance provision have been paid on 3.0 percent of the total loans, guaranteed or insured. Home loans have proven to be somewhat better risks than farm or business loans. Only 2.9 percent of the home loans guaranteed have resulted in claims compared to 3.2 percent of the farm loans and 6.4 percent of the business loans.

Funds have been provided through FY 1966 for the expense of the program from the following sources:

Appropriation (net)	$521,335,096
Receipts from operations	1,585,907,019
Transfers from direct loan fund:	
Capital	305,718,022
Direct loan earnings	128,152,978
Total availability	2,541,113,115

As of June 30, 1966, approximately $169.6 million of the total shown above remained available for obligation. A summary statement of the use made of the total amounts which have become available to this fund is shown below:

Unobligated balance June 30, 1966	$169,610,385
Expenditures:	
Payment of claims and acquisitions of properties	2,031,666,436
Property selling and other miscellaneous expenses	339,836,294
Total	2,371,502,730
Total availability	2,541,113,115
Analysis of deficit:	
Expenditures	2,371,502,730
Receipts from operations	—1,585,907,019
Net accountability	785,595,711
Invested capital:	
Loans receivable	534,083,812
Real property	148,223,411
Veterans indebtedness	6,300,516
Other	801,514
Total	689,409,253
Deficit, June 30, 1966	96,186,458
Total invested capital and deficit	785,595,711

PROGRAM EXPENDITURES

The Loan guaranty fund requirements in FY 1967 are expected to be $375.0 million or $3.0 million less than they were in FY 1966.

The FY 1968 requirements are expected to be $386.0 million or $11.0 million more than in FY 1967.

The following table summarizes the actual and estimated significant items of cost:

	1966 actual	1967 estimate	1968 estimate
Capital outlay:			
Real property acquisitions	$255,165,277	$256,950,000	$263,385,000
Claims paid	22,208,138	23,525,000	25,400,000
Repurchase of loans sold	44,578,266	39,625,000	38,940,000
Loans acquired	5,585,518	4,100,000	4,100,000
Capitalized improvements to acquired properties	16,365,159	16,800,000	17,200,000
Cash advances, vendee loans	912,671	1,500,000	1,500,000
Total	344,815,029	342,500,000	350,525,000
Operating expenses:			
Property management expense	$14,597,303	$14,400,000	$14,300,000
Property sales expense	17,912,719	17,600,000	18,075,000
Commission on sale of participations	702,400	500,000	2,200,000
Participation sales insufficiencies			946,000
Total	33,212,422	32,500,000	35,521,000
Total obligations	378,027,451	375,000,000	386,046,000

Real property acquisitions

Private lenders who have acquired property as a result of foreclosure on defaulted guaranteed or insured loans may elect to convey that property to the Veterans Administration. The following table reflects this activity:

	1966 actual	1967 estimate	1968 estimate
Number of property acquisition vouchers processed	21,692	21,235	21,674
Average cost per acquisition	$11,763	$12,100	$12,152
Total cost	$255,165,277	$256,950,000	$263,385,000

Claims paid

These payments are made to lenders in accordance with the Veterans Administration guaranty contract and represents the difference between the amount owed by the veteran on a defaulted loan plus allowable foreclosure costs and the value of the foreclosed property (as established by VA). These payments are in addition to property acquisition costs shown above. The following table reflects this activity:

	1966 actual	1967 estimate	1968 estimate
Number of claims	21,838	21,385	21,900
Average cost per payment	$1,016	$1,100	$1,160
Total cost	$22,208,138	$23,525,000	$25,400,000

Repurchase of loans sold

Pursuant to VA Regulation 4600, dated March 22, 1962, the Administrator may sell mortgage loans, which have been created incident to the sale of Veterans Administration acquired properties, with full recourse in the event of default:

	1966 actual	1967 estimate	1968 estimate
Number of loans repurchased	3,854	3,415	3,355
Average cost per repurchase	$11,567	$11,600	$11,600
Total cost	$44,578,266	$39,625,000	$38,940,000

Loans acquired

Guaranteed or insured loans in a default status may be purchased by the Administrator to avoid foreclosure when it is felt that temporary forebearance will allow the veteran borrowers to cure the default:

	1966 actual	1967 estimate	1968 estimate
Number of loans acquired	411	300	300
Average cost per acquisition	$13,590	$13,600	$13,600
Total cost	$5,585,519	$4,100,000	$4,100,000

Capital improvements to acquired properties

After conveyance of the property to the Veterans Administration, repairs are often necessary to place the property in salable condition. To the extent that such repairs increase the book value of the property, i.e., improvements of a permanent nature, additions, alterations, etc., the cost is capitalized, however, all costs capitalized do not increase the market value of the properties.

	1966 actual	1967 estimate	1968 estimate
Number of properties acquired	27,312	26,828	27,474
Average per property	$599	$625	$625
Total cost	$16,365,159	$16,800,000	$17,200,000

Cash advances—Vendee loans

Small cash loans are occasionally made to the borrower to cover minor tax deficiencies, etc. The amounts are added to the current vendee loan balance. $912,671 was used for this purpose in FY 1966, and it is estimated that $1,500,000 will be required in FY 1967 and also FY 1968.

Property management expense

The cost of ownership of Veterans Administration acquired properties is financed from this fund. These costs include local real estate taxes, services performed by management brokers and maintenance of the property. It also includes the cost of initial cleanup and repairs to properties required to place them in salable condition but which are not added to the book value of the property.

Insurance Funds

Insurance programs. We discussed part I. These are the insurance funds. This is always a big story and an interesting one. Insert pages 4–3 and 5.

(The pages follow:)

Insurance Funds

SUMMARY

The Veterans Administration administers five life insurance programs for the benefit of servicemen, veterans, and their beneficiaries and oversees the administration of a sixth. The five administered by the Veterans Administration are:

United States Government Life Insurance (USGLI) which had its origin in World War I and was closed to all but World War I veterans in 1940, and to all new issues in 1951. There are now about 240,000 policyholders remaining.

National Services Life Insurance (NSLI) which had its origin in 1940 during World War II. This program was closed to all new issues in 1951. Currently, there are about 4.8 million policyholders.

Service-Disabled Veterans Insurance (S–DVI) which was added in 1951 during the Korean Conflict by amendment to the original NSLI Act. It provides insurance only to veterans with service connected disabilities. This insurance is still available and we have about 63,000 policyholders.

Veterans Special Term Insurance (VSTI) which was also added during the Korean Conflict. It covers insurance issued principally to Korean Conflict veterans, after April 1951 and before January 1957. There are about 637,000 policyholders.

Veterans Reopened Insurance (VRI) which was issued for a period of one year, beginning May 1, 1965 for certain service and non-service disabled

veterans who had active service during the period October 8, 1940 to January 1, 1957. This program was closed to applications May 2, 1966.

The administrative expenses of the Veterans Reopened Insurance program are charged to the insureds. Administrative expenses in connection with the other programs are borne by the General Operating Expenses appropriation.

Five separate funds, three revolving funds and two trust funds, have been established in the U.S. Treasury as the financing mechanisms of the five programs. All premiums and collections on insurance issued under a fund are credited to that fund and all payments on such insurance is made from that fund. Each of the program funds is operated on a commercial basis to the extent possible consistent with all applicable statutes.

These programs make a significant contribution toward providing reasonably adequate insurance protection for veterans, their families and dependents. Disability income benefits are available on an optional basis, with the exception of S–DVI. The policies provide for waiver of premium in the event of total disability. Permanent plan policies provide for additional benefits in the form of loans at modest interest rates, cash surrender values, paid-up insurance and extended insurance features.

The Government life insurance programs have a siginficant impact on the economy. Through FY 1966, payments to beneficiaries and to living policyholders from the insurance funds have totaled about $20.0 billion since the inception of the various programs. About $7 billion of the $20 billion total payments were made from appropriated funds since the United States bears the excess mortality and disability cost resulting from the hazards of war. Beneficiaries of deceased policyholders were paid about $10.0 billion. Policyholders received about $7.4 billion in dividends and about $2.5 billion in disability payments, matured endowments, surrender value, and interest on dividend credit and deposit accounts. On several occasion insurance dividend payments have been made on an accelerated basis. Another acceleration is due in 1967. Normal dividend payments are expected to exceed $200 million each year. Death claim payments are expected to continue at about $400 million per year and disability payments will decrease from $23.8 million for FY 66 to $21.2 million for FY 68.

In addition to these five insurance programs, the Veterans Administration also administers Article IV of the Soldiers' and Sailors' Civil Relief Act of 1940, as amended. Under its provisions the Government guarantees premium payments to commercial insurance companies on life insurance policies carried by servicemen during active military service.

Very recently the Veterans Administration assumed a major role in the establishment of a new insurance program for members of the uniform services. Effective September 29, 1965, and known as Servicemen's Group Life Insurance, it provides for group life insurance coverage by non-government insurers and is paid for by payroll deduction. The Veterans Administration initially negotiated the insurance contract with the insurer and on a continuing basis will be the agent for receiving premiums paid by service personnel and transmitting premiums payable to the primary insurer. A revolving fund was created for this purpose. All claims and payments will be administered by the insurer; however, the insurer must annually account to the Veterans Administration for its experience and activity under this program of insurance.

The following table shows data relative to each of the five insurance programs for which the Veterans Administration is responsible.

June 30, 1966

Issued	U.S. Government life insurance (USGLI), World War I	National service life insurance (NSLI), World War II	Service-disabled veterans' insurance (S-DVI), Korean	Veterans' special term insurance (VSTI), Korean	Veterans' reopened insurance (VRI), World War II-Korean	Total
Beginning date	1- 1-19	10- 8-40	4-25-51	4-25-51	5- 1-65	
Closing date	4-25-51	4-25-51	(1)	12-31-56	5- 2-66	
Policies in force, 5-year term	3,682	2,487,440	33,578	472,516		2,997,216
Policies in force permanent plans	237,391	2,305,234	29,834	164,375	139,735	2,876,569
Total policies in force	241,073	4,792,674	63,412	636,891	139,735	5,873,785
Total insurance in force (millions)	$1,052	$31,358	$550	$5,596	$986	$39,542
Average amount per policy	$4,363	$6,543	$8,668	$8,786	$7,057	$6,732
Average attained age in 1966	67.7	45.6	34.8	34.7	44.8	
Annual death rate per 1,000	35.7	4.9	11.8	1.2	9.3	

[1] Open to new issues.

REINSTATEMENT OF INSURANCE

Mr. EVINS. Is there any way for a veteran now to get his insurance reinstated once he has lost it? Is it still open ended and can he get it reinstated?

Mr. MOORE. If the veteran applies within the term period he may reinstate. We have a proposal before the Congress now to give every man 5 years to reinstate after lapse of the term policy.

Mr. EVINS. If this law is passed he can reinstate? This is about the same pattern as before.

Mr. DRIVER. Before it was within the year.

Mr. MOORE. Now he may reapply up to the expiration period but if he lapses late in his time period he does not have the full 5 years as we propose in this bill.

SOLDIERS' AND SAILORS' CIVIL RELIEF

Mr. EVINS. Soldiers' and Sailors' Relief Act. 4–11.

(The page follows:)

SOLDIERS' AND SAILORS' CIVIL RELIEF

The Soldiers' and Sailors' Civil Relief Fund finances claims that result from the guarantees of premiums due on commercial life insurance policies held by servicemen while they are in service and for 2 years after discharge (72 Stat. 487). The Government guarantees the repayment of any indebtedness not liquidated by the insured himself. Claims paid, on applications for coverage submitted and approved prior to October 6, 1942, are not reimbursable to the fund. Claims receivable are established for any payments made on applications for coverage submitted after that date, since these payments are reimbursable to the fund. Administrative expenses are paid from the appropriation, General Operating Expenses.

The program plans are included below.

Program plans

	1966 actual	1967 estimate	1968 estimate
Program:			
1. Claims paid	$14,090	$17,000	$12,000
2. Loans—receivables established	2,111	9,000	3,000
Total obligations	16,201	26,000	15,000
Financing:			
1. Recovery of receivable writeoffs	1,015	1,000	1,000
2. Loans repaid	7,313	7,000	7,000
Unobligated balance, start of year	17,074	34,201	16,201
New appropriation	25,000		
Unobligated balance, end of year	−34,201	−16,201	−9,201
Total financing	16,201	26,000	15,000

Program costs

The activity of the fund is indicated in the following table:

	1966 actual	1967 estimate	1968 estimate
Claims paid:			
Number of settlements	9	10	10
Average cost per settlement	$1,565	$1,700	$1,200
Receivables established:			
Number of settlements	10	15	10
Average cost per settlement	$211	$600	$300

Financing

1. Obligations of the fund are financed from recovery of receivable writeoffs, loans repaid, and appropriations as required.

VETERANS' SPECIAL TERM INSURANCE

Mr. EVINS. Veterans' special term insurance. What kind of insurance is this?

Mr. STRATTON. That is a special term that was established for veterans who served in the Armed Forces after April 1951 and up to January 1, 1957.

This is the fund where we are in pretty good shape.

Mr. EVINS. 629,000 have taken advantage of this special insurance?

Mr. STRATTON. That is right.

Mr. EVINS. Is this insurance that the commercial companies provide under contract with the Veterans' Administration?

Mr. STRATTON. No, sir.

Mr. DRIVER. That is only after September 1965.

Mr. MONK. That is a serviceman's group life.

Mr. DRIVER. This special term was during and right after Korea.

Mr. EVINS. That is the group life.

This is the open end insurance?

Mr. DRIVER. Yes, sir.

Mr. EVINS. You have less employees. You have that mechanized and computerized and are paying frequent dividends.

What do you do with these problem cases where they do not pay the insurance?

LAPSED POLICIES

Mr. MOORE. We have to lapse them, I am afraid, Mr. Chairman, if they do not pay the premium.

Mr. EVINS. How long do you keep the door open for them?

Mr. MOORE. It depends on his eligibility for reinstatement. If it is in a 3-month period on a term policy, we let him complete a comparative health statement and pay the premiums and let him back in.

Mr. EVINS. If you have enough dividends accumulated to carry it forward for him for a while?

Mr. MOORE. Sir, we would not consider the use of trust funds for that purpose.

Mr. EVINS. Commercial insurance companies do that?

Mr. MOORE. If they were his dividends; yes, sir.

Mr. EVINS. If he had not accumulated dividends not paid to the veterans?

Mr. MOORE. We apply his dividend credit to the account, those that he was entitled to but left with us, so that insurance continues in force.

Mr. POISSANT. Special term is straight nonparticipating and no dividend. He would not have recourse to a dividend credit.

Mr. EVINS. The dividend is accumulated and you send the check out. The check is returned and it is deposited to the account. If the policy expires you could carry it along for a while as long as the dividend was sufficient?

Mr. POISSANT. Only World War II and I funds involve dividends. We have others where this is not possible.

Mr. EVINS. What is the percentage of those dropping the policies, letting them default?

Mr. POISSANT. Very, very low. There are about half of 1 percent dropping their insurance which is very low compared to private insurance which runs 5, 6, or 7 percent.

Mr. EVINS. Half a percent?

Mr. POISSANT. Yes, sir. Virtually nonexistent.

Mr. EVINS. You have already told us the number of policies in force by the various categories and the amounts.

SERVICEMEN'S GROUP LIFE INSURANCE

Servicemen's group insurance. How does this group insurance differ from the others? $10,000? Everybody in the service?

Mr. STRATTON. Yes, sir. Unless they specifically decline in writing or selected $5,000 instead of $10,000 they are in the program. Ninety-nine percent of them are covered.

Mr. EVINS. Everybody that goes in the armed services, the day he is inducted is automatically given $10,000 insurance and unless he signs a statement he does not want it or reduced to $5,000?

Mr. STRATTON. Yes, sir.

Mr. EVINS. Why would one want to reduce to $5,000?

Mr. STRATTON. Maybe the difference between $1 and $2 makes the difference to him but that is the only reason.

Mr. DRIVER. We have some.

Mr. STRATTON. Very few.

Mr. DRIVER. One percent declined.

Mr. EVINS. $2 deducted from his pay.

Insert pages 4–21 through 4–23.

(The pages follow:)

SERVICEMEN'S GROUP LIFE INSURANCE

The Servicemen's Group Life Insurance fund was established in Fiscal Year 1966 in accordance with PL 89-214 (38 U.S.C. sec. 765-776) to handle the financing of the Servicemen's Group Life Insurance program. All members of the uniformed services on active duty September 29, 1965, the effective date of the program, were automatically insured in the amount of $10,000. All future members are automatically insured on their first day of duty. Members may elect in writing not to be insured under the program or to be insured for only $5,000. There are no other alternatives. The insurance is against death only. No provision was made for disability benefits.

Members are insured for the full amount of $10,000, unless they have elected otherwise, regardless of any NSLI or USGLI they may be carrying. The insurance continues 120 days after release or separation from active service. At any time during the period the insurance is in force the insured may request that his policy be replaced by a plan currently written by one of the companies participating in the program. The insurance will be granted without a medical examination.

The Prudential Insurance Company of America was selected as the primary insurer. There are over 500 other commercial companies participating in the program as reinsurers with about 19 as converters.

The Servicemen's Group Life Insurance Fund receives sums withheld from the pay of members and contributions from the appropriations of concerned departments for the extra hazards of service cost. The fund then pays to the primary insurer all premiums and extra hazard cost on the group life insurance policy covering insured members. It also reimburses the Veterans Administration for the nominal cost of its operation. However, neither the revolving fund nor the Veterans Administration is involved in the handling of claims or the payment of proceeds from the insurance. All claims will be handled between the service departments and the primary insurer. All payments incident to them will be made by the primary insurer.

The program plans are included below:

Program plans

	1966 actual	1967 estimate	1968 estimate
Program:			
1. Premium payments	$77,650,624	$119,040,000	$119,040,000
2. Payment to "General operating expenses" appropriation	90,849	35,000	35,000
Total obligations	77,741,473	119,075,000	119,075,000
Financing:			
1. Withholdings from service pay	52,497,334	74,400,000	74,400,000
2. Contributions for extra hazards of service	25,378,332	44,640,000	44,640,000
Unobligated balance, start of year		134,193	99,193
Unobligated balance, end of year	−134,193	−99,193	−64,193
Total financing	77,741,473	119,075,000	119,075,000

Program costs

The large increase in the 1967 estimates for premium payments to the insurers over the actuals for 1966 is due to the fact that the program was in effect for only nine months of Fiscal Year 1966.

The payment to "General operating expenses" appropriation represents the reimbursements for the Veterans Administration's expense in administering the program. The 1966 costs are larger than the following years estimates because of the initial setting up of the program.

Financing

The estimated withholdings from service pay are based on 3.1 million members at a $2.00 per month premium.

The contributions for extra hazards of service are estimated at 60% of the withholdings.

The 1966 actuals are for only nine months of the year with the percent for extra hazards of service fluctuating during the year until an adequate level was reached.

Operating results and financial condition

The following table summarizes the current and estimated financial condition of the fund:

	1966 actual	1967 estimate	1968 estimate
Total assets	$134,193	$99,193	$64,193
Government equity	134,193	99,193	64,193

The assets consists entirely of cash on hand and is offset as the unobligated balance in Government equity.

NATIONAL SERVICE LIFE INSURANCE

Mr. EVINS. National service life insurance. This is the World War II insurance. Insert pages 4–25 through 4–28.

(The pages follow:)

NATIONAL SERVICE LIFE INSURANCE

The National Service Life Insurance fund was established in 1940 as the financing mechanism for World War II servicemen's and veterans' insurance program by the National Service Life Insurance Act of 1940 (72 Stat. 1154). Over 22 million policies have been issued under this program. About $14.9 billion have been paid to policyholders and beneficiaries in the form of disability and death benefits and matured endowments and dividends. The issuance of new policies ended in 1951. A gradual general decline in the activity of the fund will continue as indicated in the following table:

	June 30, 1966	June 30, 1967	June 30, 1968
Number of policies in force	4,792,674	4,752,000	4,691,000
Amount of insurance in force	$31,358,210,125	$31,150,000,000	$30,685,000,000

The program plans are included below. The estimates included in these statements are based on actuarial analyses and established trends.

Program plans

	1966 actual	1967 estimate	1968 estimate
Program:			
1. Death claims	$340,878,816	$324,540,461	$313,271,431
2. Disability claims	2,530,990	3,009,740	3,581,820
3. Cash surrenders	37,838,805	43,930,857	50,930,857
4. Matured endowments	13,226,991	79,767,181	79,278,090
5. Dividends	117,438,876	303,886,345	100,400,000
6. Interest paid on dividend deposits	6,357,026	7,240,000	7,500,000
7. Other expense	542,509	500,416	499,802
8. Policy loans made	106,000,343	107,653,000	109,164,000
9. Policy liens made	573,070	373,000	270,000
10. Purchase of participations in pool of financial assets		100,000,000	
Total obligations	625,387,426	970,901,000	664,896,000
Financing:			
1. Premiums earned	514,707,475	524,785,000	522,229,000
2. Interest on U.S. securities	190,782,527	196,164,000	203,293,000
3. Other interest income	22,736,382	24,308,506	25,987,255
4. Payment from "Veterans insurance and indemnities" appropriation	5,795,395	5,780,000	4,585,000
5. Optional income settlement	45,910,541	46,175,142	47,142,496
6. Other income	49,398	50,352	50,249
7. Policy loans repaid	58,001,295	64,200,910	67,000,000
8. Policy liens repaid	549,274	393,417	287,000
Total revenue and other receipts	838,532,287	861,857,327	870,574,000
Unobligated balance, start of year	5,582,446,654	5,795,591,515	5,686,547,842
Unobligated balance, end of year	−5,795,591,515	−5,686,547,842	−5,892,225,842
Total financing	625,387,426	970,901,000	644,896,000

Program costs

The cash disbursements in 1966, other than those made for the purchase of U.S. Securities amounted to $484,744,915.

The large increase in dividends to be paid in 1967 over those paid in 1966 and in 1968 is due primarily to approximately one half of the fiscal year 1966 dividends being paid during January of fiscal year 1965 and approximately one half of the fiscal year 1968 dividends being paid in fiscal year 1967. The gross annual dividends naturally will have a downward trend due to the number of policies maturing each successive year.

All other operating costs for 1967 and 1968 are about $55 million over those of 1966. This is due mostly to matured endowment policies reaching maturity.

New policy loans should continue the usual trend and increase by about $1.5 million in each of the next two years.

It is anticipated that $100 million will be spent in the purchase of participations in the pool of financial assets.

Financing

Payments from this fund are financed primarily from premium receipts and interest on U.S. Securities. The cash revenue for 1966 amounted to $692,913,206 which is $208,168,291 more than the disbursements.

Except for a group of about $0.5 million on bonds at 4⅜% the rate of interest earned on U.S. Securities ranges from 3% to 3¾% with about ½ invested at 3%. We can expect an increase in the investment balance in the next two years with a resultant increase in interest earned.

Other interest income consists of interest earned on policy loans and liens and premiums in arrears.

The payments from "Veterans Insurance and Indemnities" appropriation are statutory reimbursements for death and disability claims resulting from the extra hazards of military service.

Operating results and financial condition

The following table summarizes the current and estimated financial condition of the fund:

	1966 actual	1967 estimate	1968 estimate
Total assets	$6,735,254,167	$6,887,975,842	$7,118,313,842
Current liabilities	341,139,325	459,523,000	442,071,000
Long term liabilities	6,327,480,190	6,357,625,275	6,602,874,598
Retained earnings	66,634,652	70,827,567	73,368,244

A reasonable amount of cash income is held in the cash account for current expenses with the remaining excess invested in interest bearing U.S. Securities. Those investments, $6,113 million in 1966 constitute about 90.8% of the total assets. There should be sufficient capital to increase these investments by $201 million in the next two years. Policy loans of about $600 million, in addition to $100 million invested in participation certificates constitute most of the remaining assets.

Current liabilities is comprised mostly of the following:

(*a*) Dividends due the insured, but left on credit or deposit constituting about 64.6% of the total. They bear interest for the insured and are a safeguard in case of premium shortages.

(*b*) Matured contracts payable representing amounts due policyholders and beneficiaries on matured contracts pending issuance of awards. They constitute about 7.5% of the total current liabilities.

(*c*) Unearned premiums which are premiums paid in advance of the end of the reporting period. They amount to about 23.2% of the total current liabilities.

Long term liabilities or operating reserves are amounts actuarially determined and set aside to assure payment of future benefits.

Retained earnings are the cumulative earnings in excess of those set aside as operating reserves. They provide an additional safety margin against contingent liabilities.

U.S. GOVERNMENT LIFE INSURANCE

Mr. EVINS. U.S. Government life insurance. This is World War I. Insert pages 4–29 through 4–32.

(The pages follow:)

U.S. GOVERNMENT LIFE INSURANCE

The U.S. Government Life Insurance fund was established in 1919 (72 Stat. 1161) to receive premiums and pay claims on insurance issued under the provisions of the War Risk Insurance Act. Approximately 1,150,000 policies have been issued under this program. About $2.8 billion in benefits have been paid to policyholders and beneficiaries from the fund. The gradual decline in the activity of the fund will continue as indicated in the following table:

	June 30, 1966	June 30, 1967	June 30, 1968
Number of policies in force	241,073	231,000	220,000
Amount of insurance in force	$1,051,782,695	$1,009,000,000	$962,000,000

The program plans are included below. The estimates included in these statements are based on actuarial analyses and established trends.

Program plans

	1966 actual	1967 estimate	1968 estimate
Program:			
1. Death claims	$50,013,584	$51,053,628	$52,123,000
2. Disability claims	21,129,298	18,726,000	17,210,600
3. Cash surrenders and matured endowments	8,487,227	8,700,000	8,100,000
4. Dividends	10,147,397	20,749,466	7,445,000
5. Interest paid on dividend deposits	416,238	460,000	474,000
6. Other expense	4,661	5,000	5,000
7. Policy loans made	8,277,193	7,500,000	7,000,000
8. Policy liens made	47,996	45,000	43,000
Total obligations	98,523,594	107,239,094	92,400,600
Financing:			
1. Premiums earned	13,879,237	13,556,255	12,896,000
2. Interest on securities	33,183,045	32,429,150	31,425,510
3. Other interest income	3,349,982	3,194,480	3,025,490
4. Payment from "Veterans insurance and indemnities appropriation"	74,787	108,000	98,000
5. Optional income settlement	14,692,425	14,310,000	14,000,000
6. Other income	14,487	15,000	15,000
7. Policy loans repaid	12,220,653	11,818,514	11,300,000
8. Policy liens repaid	50,686	47,785	44,800
Total revenue	77,465,302	75,479,184	72,804,800
Unobligated balance, start of year	939,514,785	918,456,493	886,696,583
Less: Unobligated balance end of year	−918,456,493	−886,696,583	−867,100,783
Total financing	98,523,594	107,239,094	92,400,600

Program costs

The cash disbursements in 1966, other than those made for the purchase of U.S. Securities amounted to $68,938,651.

The $10.6 million increase in the 1967 dividends over 1966 and $13.3 million in 1967 over 1968 is due primarily to part of the fiscal year 1966 dividends being paid during January of fiscal year 1965 and part of the 1968 dividends being paid in fiscal year 1967. Normally the gross annual dividends would show a downward trend due to the number of policies maturing each successive year.

All other operating costs show a downward trend of about $1 million for each of the next two years.

A downward trend in new policy loans and liens is also forecast.

Financing

Payments from this fund are financed primarily from premium receipts and interest on U.S. Securities. The cash revenue for 1966 amounted to $47,155,004 which is $21,783,647 less than the cash disbursements. The necessary additional cash is obtained by redeeming U.S. Securities.

The rate of interest earned on U.S. Securities ranges from 3½ to 4¾% with approximately 75% at 3½%. Additional securities will be redeemed in the next two years with a resultant decrease in interest earned.

Other interest income consists of interest earned on policy loans, liens and premiums in arrears.

The payment from "Veterans Insurance and Indemnities" appropriation are statutory reimbursements for death and disability benefits resulting from the extra hazards of military service.

Operating results and financial condition

The following table summarizes the current and estimated financial condition of the fund:

	1966 actual	1967 estimate	1968 estimate
Total assets	$1,024,212,489	$989,272,183	$964,668,383
Current liabilities	22,104,897	23,246,000	22,540,000
Long-term liabilities	974,300,606	942,219,000	922,637,000
Retained earnings	27,806,986	23,807,183	19,491,383

Investments in U.S. Securities amounting to $937,670,000 as of June 30, 1966 constitute about 91.5% of the total assets. About $30 million in securities will have to be redeemed in 1967 and $20 million in 1968 in order to meet current expenses. Policy loans constitute most of the remaining assets.

Current liabilities are comprised mostly of the following: (a) Dividends due the insured but left on credit or deposit constituting about 58.6% of the total; (b) Matured contracts payable representing amounts due policyholders and beneficiaries on matured contracts pending issuance of awards. They constitute about 22.9% of the total current liabilities; (c) Unearned premiums which are premiums paid in advance of the end of the reporting period. They amount to about 13.5% of the total current liabilities.

Long term liabilities or operating reserves are amounts actuarially determined and set aside to assure payment of future benefits.

Retained earnings are the cumulative earnings in excess of those set aside as operating reserves. They provide an additional safety margin against contingent liabilities.

Special Analysis

Mr. Evins. Special analysis. This gives us a lot more information about everything we discussed.

Mr. Driver. That is right.

Mr. Evins. Mr. Stancil, how do you get a case raised from 10 percent to 50 percent? A man writes to me and says when I came out of service they gave me 100 percent or 50 percent, and now they have cut me down to 10 percent. How can I get it raised?

Mr. Stancil. The first thing to do is to file an appeal, get your statement of the case, study it carefully, and spell out wherein you disagree with it, send the case to us, and we will raise it.

Mr. Evins. You have a chart here on page 5–13 that tells you the degrees of percentages paid—$21 to $300. When I came out, they gave me 100-percent disability. Now they call me in and look me over and cut me down.

Mr. Driver. Just lucky. His condition had to improve.

Mr. Evins. Then you have the tables for widows and children. How many children can you have to get the increase? You have it limited now?

Mr. Driver. Compensation?

Mr. Evins. Yes.

Mr. Driver. No limit. We have got some cases of 15.

Mr. Evins. Mr. Stancil, we admire you for having all these facts and figures in your mind and being able to compute the old law and the new law and decide these cases equitably.

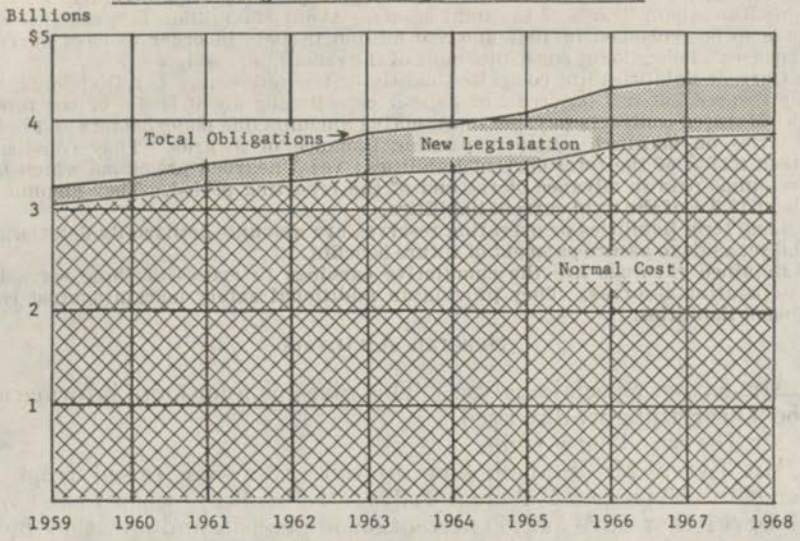
Cost of New Legislation

This is a very good chart here on page 5–20 that shows the cost of new legislation in the past 10 years. Congress passed these laws?

Mr. Driver. Yes, sir.

(The page follows:)

Cost of New Legislation During Past 10 Year Period



[In millions]

Fiscal year	Normal cost	New legislation [1]	Total obligations
1959	$3,061	$215	$3,276
1960	3,159	208	3,367
1961	3,326	296	3,622
1962	3,412	296	3,708
1963	3,470	398	3,868
1964	3,542	417	3,959
1965	3,639	469	4,108
1966	3,770	622	4,392
1967	3,791	765	4,556
1968	3,784	774	4,558

[1] Represents cumulative costs.

NOTE.—New legislation, as shown above consists of a cost estimate for each year of all new laws enacted subsequent to 1958. In 1960, Public Law 86-146 had a savings effect. In 1962, there was no legislation with any significant cost effect.

Mr. EVINS. It has gone up from $3 to $4 billion by laws passed by Congress. What do you mean by normal costs?

Mr. DRIVER. That is prior to the legislation. Just starting there is a benchmark to build from. All the laws passed prior to 1959 would have been $3 billion. The increase is up almost $4.5 billion when you get through 1968 at the end of the year.

Mr. EVINS. Payments distribution in the 10-year period goes up from $3.276 billion in 1959 to $4.558 billion in 1968 and $4.447 billion within the 50 States and $75 million in foreign countries, is that right?

Mr. DRIVER. Yes, sir.

FOREIGN PAYMENTS

Mr. EVINS. We talked last year about the veteran getting his money and draining the gold supply. I have heard many favorable comments that the VA is now urging them to spend the money in the United States, to deposit 10 percent in the United States and get a special interest figure if they keep the money here.

Do you have a regulation on that?

Mr. DRIVER. That is the Armed Forces.

Mr. EVINS. Not the Veterans' Administration?

Mr. DRIVER. No.

Mr. EVINS. I have been giving the Veterans' Administration credit for that.

Mr. DRIVER. I wish that you had not brought that up.

Mr. EVINS. Seriously, why can't you say the Armed Forces gives you 10 percent to deposit your money in the United States, not spend it overseas?

Mr. DRIVER. The Armed Forces are temporarily abroad but the veteran beneficiary in the average case is a permanent resident of a foreign country.

Mr. EVINS. Is there anything in the world you can do about the outflow of the money?

Mr. DRIVER. We went through an exercise with the Treasury. They have the option of paying these in other currencies and it is up to them to do it if they wish. They abandoned doing it in our program because of the problems.

Mr. EVINS. The Treasury is interested in doing it and the Army is interested in doing it but the Veterans' Administration is not?

Mr. DRIVER. We are very much interested but most of these payments go to localites I understand where we don't have these reserves to pay from. If this money were going into Egypt, somewhere like this, I guess they could do it that way. Going into Italy, France, this is not possible.

Mr. MONK. Wherever Treasury can they pay this in excess foreign currencies. Last year they paid about $1 million.

Mr. DRIVER. Generally it does not pay off.

Mr. SHYTLE. It is very small.

Mr. EVINS. I was thinking you were doing something about this and I was giving you credit for it.

Mr. DRIVER. Actually this is not an instance where the Treasury is our agent. We don't have anything to say about how this is paid really.

Mr. EVINS. If everybody would take a step in this direction we could make some sizable dent in this problem. Everybody is concerned about it but nobody seems to do much about it.

Mr. DRIVER. In our case, for example, a substantial part of this is being paid in the Philippines and at the present time the Treasury is under negotiations with the Philippine Government to try to put most of the increase from the laws passed last year in a special status to improve the balance of funds. This is being negotiated separately.

READJUSTMENT BENEFIT LEGISLATION

Mr. EVINS This list on page 5–22 and 5–23, are these all new laws passed?

Mr. DRIVER. Yes, sir.

Mr. EVINS. Put these lists in the record.

(The pages follow:)

READJUSTMENT BENEFITS

The Servicemen's Readjustment Act of 1944, which was better known as the "G. I. Bill", primarily established benefit programs that are or were, basically, financed through the Readjustment Benefits Appropriation.

These benefit programs are as follows:

1. Education and Training, World War II
2. Education and Training, Korean Conflict
3. Education and Training, Sons and Daughters
4. Education and Training, Post-Korean Conflict Veterans
5. Vocational Rehabilitation
6. Homes for Paraplegic Veterans
7. Automobiles
8. Loan Guaranty
9. Readjustment Allowances

Education and training, World War II.—This program was established by PL 78–346, approved June 22, 1944. Almost 8 million veterans entered training and a total of $14.5 billion was expended. July 25, 1956 was the termination date for the majority of World War II veterans. All benefits terminated January 31, 1965.

Education and training, Korean Conflict.—This program was established by PL 82–550, approved July 16, 1952. Almost 2.5 million veterans entered training and a total of $4.5 billion has been expended. January 31, 1965 was the termination date for this benefit.

Education and training, sons and daughters.—This benefit, originally known as the War Orphan Program, was established by PL 84–634, approved June 29, 1956. Public Law 86–785, approved September 14, 1960, liberalized these benefits to include children of veterans with service during the induction period. Public Law 88–361, approved July 7, 1964, extended these benefits to children of permanently and totally disabled veterans having a service-connected disability. Public Law 89–222, effective November 1, 1965, increased the educational assistance allowance for these trainees. Public Law 89–349, approved November 8, 1965, extended these benefits to the children of veterans who served during peacetime subsequent to the Spanish-American War and prior to September 16, 1940. Public Law 89–613, effective September 30, 1966, extended these benefits to the eligible children of the Philippine Commonwealth Army veterans and "new" Philippine Scouts. To date, almost 92,000 children have entered training and a total of $171 million has been expended.

Education and training, post-Korean conflict veterans.—This program was established by PL 89–358, approved March 3, 1966, and is known as the Veterans' Readjustment Benefits Act of 1966. It provides, in part, for readjustment education and training benefits, effective June 1, 1966, to eligible veterans who served on active duty after January 31, 1955. Veterans' educational benefits are now available as a permanent program for the first time and no distinction is made in eligibility requirements between wartime and peacetime service. The time limit for a veteran whose service ended before June 1, 1966, is May 31, 1974. Entitlement accrues at the rate of one month of training for one month of active duty, with a maximum entitlement of 36 months. The educational allowance for a veteran attending school on a full-time basis, ranges from $100 per month without dependents to $150 per month when there are two or more dependents. It is estimated that $327 million in benefits will be paid to over 500,000 veterans in FY 1967, and $386 million will be paid to 545,000 veterans in FY 1968.

Vocational rehabilitation.—This benefit had its origin back in World War I days through the National Defense Act of June 3, 1916. Public Law 78–16, approved March 24, 1943, provided for rehabilitation of disabled veterans of World War II. Public Law 81–894, approved July 13, 1950 extended these benefits to Korean conflict veterans. Public Law 89–138, approved August 26, 1965, extended to seriously disabled veterans a liberalization of time limits. Over 709,000 veterans have entered vocational rehabilitation training since World II. Dollar expenditures, for veterans of World War I, World War II, Korean conflict and peacetime service, approximated $2.5 billion.

Homes for paraplegics.—This program was established by Public Law 80–702, approved June 19, 1948. About 8,800 grants have been approved to date, representing a total expenditure approximating $85 million.

Automobiles.—This program was established by Public Law 79–663, approved August 8, 1946. To date, over 49,000 disabled veterans have been assisted in the purchase of an automobile or other conveyance at a total cost of $79.4 million.

Loan guaranty.—This program was established by Public Law 78–346, approved June 22, 1944. This function remained in the Readjustment Benefits Appropriation through fiscal year 1961. Public Law 87–141, approved August 17, 1961, established the Loan Guaranty Revolving Fund. Over $1.1 billion was expended for this benefit from this appropriation.

Readjustment allowances.—This program was established by Public Law 78–346, approved June 22, 1944. Cumulative expenditures for this program amounts to over $3.8 billion of which 85% represented unemployment allowances and 15% represented self-employment allowances. Nearly 10 million veterans applied for this benefit.

Mr. EVINS. Education Training Act, sons' and daughters' training, post-Korean-conflict veterans, vocational rehabilitation, homes for paraplegic veterans, automobiles, loan guarantee, housing credit paid.

Put in pages 5–25 through 5–29.

(The pages follow:)

HOUSING CREDIT ASSISTANCE PROGRAM

GI AND DIRECT LOANS

The goal of the Veterans Administration Housing Program is to provide credit assistance whereby the housing credit needs of World War II and Korean conflict veterans and effective March 3, 1966, post-Korean veterans and active duty servicemen, may be satisfied, primarily by private capital on more liberal terms than generally available to non-veterans, without the assumption of undue risks by the Government.

Under existing statutory provisions, the eligibility of World War II veterans and Korean conflict veterans has been phasing out since 1962, with terminal dates of July 25, 1967, for World War II veterans and January 31, 1975, for Korean conflict veterans. Public Law 89–358, effective March 3, 1966, extended indefinitely into the future, these benefits to post-Korean and active duty servicemen. The eligibility of each individual post-Korean veteran will not extend, at a maximum beyond 20 years after discharge or release from active duty. However, direct loans cannot be made after January 31, 1975, except pursuant to commitments issued by the Administrator on or before that date.

With the aim of ultimately extinguishing the Veterans Administration liabilities and liquidating its investments acquired as the consequence of credit assistance extended to veterans, the servicing and management of loans and properties must be so conducted as to result in the systematic repayment of loans, the orderly discharge of obligations incurred pursuant to guaranty contracts, and the maximum utilization of assets to finance operations.

The primary objectives are:

(a) To honor the Government's commitments with respect to the guaranty and insurance of loans outstanding through the encouragement of loan repayments and timely payment of claims under the guaranty.

(b) To manage and protect the Government's equity in loans which resulted from the direct extension of credit.

Within the primary objectives, there are secondary objectives as follows:

(a) To manage assets so as to avoid, insofar as possible, additional appropriations from the Congress.

(b) To attain the maximum substitution of private for Government capital.

(c) To manage asset liquidations and expenditures required to be made pursuant to the Government's contract of guaranty or insurance in a manner which will minimize losses to the Government, but which will, at the same time, not be inconsistent with any of the other objectives stated, and which will not discourage the flow of private capital into loans to veterans.

The indirect credit assistance of VA operates by substituting the guaranty of the Federal government for the investment protection afforded, under conventional mortgage terms, by substantial down payments and relatively shorter terms of loans. Thus, eligible veterans are enabled to finance home purchases with capital provided by private lenders even though they may not have the resources to qualify for conventional loans.

In rural areas, small cities and towns, where private credit for VA guaranteed loans is found to be not generally available, VA makes home and farmhouse loans directly to veterans from funds advanced by the Secretary of the Treasury. Direct lending operations, however, are conducted with adherence to the principle of substituting private for public credit, and this is accomplished through the requirement that, before VA will entertain applications for direct loans, all prospective applicants must request loans from private lending institutions known to be interested in making guaranteed loans.

VA credit assistance differs from similar activities of other Federal departments and agencies in several important respects. First, there is no requirement imposed by the Government for downpayments to be made by veterans in purchasing homes through the assistance afforded by VA guaranteed loans or direct loans. Second, there is no fee or charge levied against veterans for the credit assistance of VA, except that PL 89–358 does provide for the payment of an initial ½ of 1% fee to VA by post-Korean veterans and servicemen toward defraying expenses and losses.

Prior to March 3, 1966, VA guaranteed loans and direct loans were subject to statutory interest rate maxima which were established from time to time. The interest rate on corresponding loans insured by FHA, on the other hand, has been adjusted by the Agency as required, within an authorized ceiling of 6%. For much of the time since the end of WW II, the VA rate was less than the FHA rate and, as a consequence, VA loan volume was handicapped and under restraint. PL 89–358, however, authorized VA to adjust the rate as the loan market may demand. Currently, the VA and FHA rates are on a parity at 6%, and so far as VA is concerned, the two agencies hereafter will move concurrently to effect rate changes.

Approximately 95% of the cumulative loans guaranteed have been for the purchase or construction of homes. Except in the years following closely on the end of WW II, guaranteed loans for farming and business ventures have been relatively infrequent.

As of June 30, 1966, more than 6.8 million home, farm and business loans, aggregating $64.3 billion, have been guaranteed or insured. In addition, 262,408 direct loans on homes and farmhouses, for $2.4 billion, had been made. Of the direct loans made 46,448 had been sold with 60% guarantees to private investors and such sold loans are included in the more than 6.8 million underwritten loans.

When a private lending institution has made a loan which is guaranteed by VA, the financial transactions that have occurred consist of the pay-out of loan proceeds by the lender, the acquisition of an asset by the lender in the form of a loan receivable, the assumption of responsibility and liability by the veteran for the repayment of the loan obligation, and the assumption of a contingent liability by VA for the repayment of the loan. Up to that time, except for the commitment of manpower and other administrative resources incident to the processing of the loan, there have been no expenditures made by VA. Guaranteed loans in general, though, represent a potential long term cost to the Government, such as the expenses and losses associated with foreclosures and voluntary conveyances that occurred on 3.0% of the cumulative number of loans guaranteed through 1966. In the event of default on a guaranteed loan, VA, through its contract of guaranty, stands ready to make good any loss sustained by the holder up to the amount of guaranty and, in most cases, to accept title to the security for ultimate sale or other disposition.

VA has broad power and authority to pay or compromise any claims incident to the liquidation of guaranteed loans and to take title, manage and dispose of properties acquired.

The Chief Government contribution to the VA credit assistance program is the assumption of the contingent liability incident to the extension of credit by private lending institutions. This contingent liability amounted to $16.3 billion at the end of FY 1966.

Cumulatively, payments for the guaranties on defaulted loans through FY 1966 amounted to over $1 billion. By acquiring, managing and selling properties, the Government's loss was reduced to $96.2 million. Direct loan activities, which produced cumulative net earnings of $164.1 million through FY 1966, generated only a relatively minor volume of foreclosed loans to be salvaged.

FY 1968 will see the first significant impact of PL 89-358 so far as concerns the acquisition of properties which will be at a higher level than anticipated prior to the approval of PL 89–358. By reason of continued emphasis on the genera-

tion of large volumes of sales each year, the inventory of acquired properties on hand is planned on a declining trend.

In this connection, in an activity generating 28,000 property acquisitions, an inventory of 15,000 to 16,000 properties is about the irreducible minimum, in view of redemption statutes, adverse occupancy and repair programs which reduce the number of houses available for sale. An inventory of 14,000 to 15,000 in relation to 28,000 acquisitions a year represents a turnover of the available supply of about twice a year.

The Budget contemplates that generally property sales will be made at prices exceeding book values, resulting in a gross profit each year. In this connection, the margin of gross profit, however, will tend to narrow, primarily because of the impact of recently adopted policies looking toward uniform and proper capitalization of initial repairs following acquisitions. Furthermore, expenditures for selling expenses and real estate taxes will be more than heretofore, in view of increased values of properties acquired, and this may tend to raise the average loss per property sold.

The present and prospective cash balances of the Direct Loan Revolving Fund and the Loan Guaranty Revolving Fund will be adequate to finance operations, assuming that planned levels of asset liquidations are realized. There is a possibility, however, that the timing of the realization of cash from asset liquidations in the Loan Guaranty Revolving Fund may not coincide with the demands for expenditures to be made from that fund. Consequently, it will be desirable to have authority for the transfer of excess direct loan capital to the Loan Guaranty Revolving Fund, in order to avoid the deferment of expenditures to meet the legal obligations of the Government, such as occurred in FY 1963 and FY 1964.

Cost of the Program to the Government

The measure of success attained in the administration of Government programs is reflected not only in the manner in which legislative objectives are met, but also in terms of their cost to the Government.

Since the beginning of the loan guaranty programs, VA has spent about $315 million for salaries and administrative expenses. Expenditures for administrative expenses include travel costs and miscellaneous contractual services necessary to the operating activities of the program.

In addition to guaranteed insured, and direct loan activities, the VA has paid out approximately $85 million to about 8,800 paraplegic and paralzyed veterans for the purchase or construction of specially adapted housing. These grants are made under separate statutory authority and appropriation (Readjustment Benefits) but are administered by personnel of the loan guaranty program.

While it is impractical to prorate the direct cost for salaries and administrative expenses among the many types of activities performed in connection with the loan guaranty programs, the average cost per guaranteed, insured, and direct loan made as of June 30, 1966, would be less than $45, or about 21 cents per $100 loaned.

Two revolving funds are used to record the flow of funds between the Government and the participants in the housing program. Financial statements pertaining to the Direct Loan Revolving Fund and those relating to the Loan Guaranty Revolving Fund are presented separately in part 3.

Cumulative cost of the VA housing program through fiscal year 1966

Administrative expense financed through the General operating expenses appropriation	$315,029,516
Net loss: Loan guaranty fund	96,186,458
Net gain: Direct loan fund	164,110,009
Net cost: VA housing program	247,105,965

The net cost shown above does not include the four percent gratuities paid veterans from the Readjustment Benefits Appropriation ($403,998,173).

Net Expenditures

The following table summarizes the computation of the net expenditures for the combined Housing funds.

	1966 actual	1967 estimate	1968 estimate
Relation of obligations to expenditures:			
Total obligations	$472,294,056	$569,758,000	$589,284,000
Less total receipts and revenue	−1,123,498,401	−370,520,000	−994,720,000
Obligations affecting expenditures (−)	−651,204,345	+199,238,000	−405,436,000
Obligated balance, start of year	68,623,965	60,649,705	91,502,733
Less obligated balance, end of year	−60,649,705	−91,502,733	−126,991,000
Net expenditures	[1] −643,230,085	168,384,972	[1] −440,924,000

[1] Represents the excess receipts over expenditures and is reflected in the increase in the Treasury cash balance.

HOUSING PROGRAM EXPENDITURES

Mr. EVINS. Do you want to explain this chart on page 5–30?

Mr. MONK. This is a composite chart of the direct loan programs and the loan guaranty programs, of the expenditures for the years 1964, 1965, 1966, 1967, and 1968. The crossbar hatch is the money paid out for real property acquisition and improvements. That is where we took over a property or paid money to improve a property.

Mr. EVINS. All of this is capital expenditures, is it not?

Mr. MONK. All up to the clear part of the top. The clear part is other than capital expenditures. So that in 1964 we had capital expenditures of about $500 million, total expenditures.

Mr. EVINS. For all of the property that you are maintaining and operating and controlling, you expended about $500 million?

Mr. MONK. $500 million. Yes, sir. That is to buy, take the property and acquire and improve it.

Mr. EVINS. Rehabilitate it?

Mr. MONK. Then loans we have made to veterans and to pay the claims.

Mr. EVINS. You drop down in 1965 and a little further in 1966. It went up in 1967 and will go up again in 1968. This is combined direct loan and loan guaranty funds.

Mr. JONAS. May I ask a question there? How do you account for your better experience being in the direct loan program than in the guaranteed program?

Mr. MONK. Two things, I suppose.

One, we are our own banker in the direct loan. Maybe we are a little more selective; the farm boys, maybe are a little more stable.

Mr. JONAS. It is a significant difference, is it not?

Mr. MONK. Yes, sir

Mr. JONAS. You have had far better experience.

Mr. MONK. Yes, sir

Mr. DERVAN. Another factor that is relevant, we do not have the same degree and extent of economic dislocation in these rural areas as occurs in the urban area, such as Detroit where you have a sharp cutback.

Mr. JONAS. I think that the record will show that most of your direct loans made in rural areas are not made to farmers but to people to commute to work. They reside in rural communities and work in factories. They may do a little farming but they are not typical farm people.

Mr. DRIVER. No. That is true.

Mr. EVINS. Folks in Tennessee are fundamentally honest and good fighters. They are volunteers.

Gentlemen, that has all been very helpful. I hope it has been a helpful exercise.

PROPOSED LANGUAGE CHANGES

Mr. JONAS. I want to ask a question about the language change they proposed on page 5–51.

I refer to the second one. What does that $850 million come from?

Mr. SHYTLE. That is participation sales.

Mr. JONAS. You are not asking to sell that many next year?

Mr. MONK. $250 million in the direct loan fund.

Mr. JONAS. I thought you told me earlier today it was $106 million.

Mr. STRATTON. That is the 1967 authorization.

Mr. JONAS. Of the $850 million, what is direct?

Mr. SHYTLE. 600 in the loan guaranty program.

Mr. DERVAN. It is 600 in the loan guaranty fund and 250 in the direct loan fund.

Mr. EVINS. Suppose we come back tomorrow with the second large volume at 10 o'clock.

We stand adjourned.

WEDNESDAY, FEBRUARY 15, 1967.

MEDICAL SERVICES

Mr. EVINS. The committee will come to order. We will resume our hearings today with the representatives of the Veterans' Administration.

Yesterday we considered benefits. Today we are going to take up the medical programs and construction programs. This is volume III of your budget.

DEPARTMENT OF MEDICINE AND SURGERY

The Department of Medicine and Surgery is one of the three operating departments of the Veterans' Administration. The Department of Veterans Benefits, which we have discussed at some length, and the Department of Data Management, and the third is the Department of Medicine. The Data Management Division has gotten to be quite big. Three departments. Medicine and Surgery is headed by a Chief Medical Director who is responsible to the Administrator for all agencies of the medical program. The agency now requires an annual appropriation exceeding $1.4 billion.

Mr. DRIVER. Dr. Skouge, the Deputy Chief Medical Director, is here in Dr. Engle's place. Dr. Engle still remains under the weather.

Mr. EVINS. We are sorry Dr. Engle is ill. He is well represented by Dr. Skouge and we hope Dr. Engle will improve.

You have four accounts for medical appropriations financed under four operating appropriations. One is medical administration and this provides for the central staff of all medical programs, including a program of postgraduate and inservice training to support the medical care program, and exchange of medical information.

No 2, as set out in your justification, is medical and prosthetic research.

No. 3 is medical care which includes hospitals, domiciliaries, restoration centers, outpatient clinics, care of beneficiaries in contract hospitals, nursing home facilities not under the jurisdiction of the Veterans' Administration and aid to States for support of veterans eligible for care and your fourth account is a grant for the Republic of the Philippines.

SUMMARY OF OPERATIONS

We shall insert pages 1–1 through 1–7 at this point.

(The pages follow:)

DEPARTMENT OF MEDICINE AND SURGERY—SUMMARY

INTRODUCTION

The Department of Medicine and Surgery is one of three operating Departments of the Veterans Administration—the others being the Department of Veterans Benefits and the Department of Data Management.

The Department of Medicine and Surgery is headed by a Chief Medical Director whih is responsible to the Administration of Veterans Affairs for all Agency medical programs. Collectively, Agency medical programs now require annual appropriations exceeding $1.4 billion.

A chart outlining the organizational structure of the Department of Medicine and Surgery appears on the last page of this summary.

Appropriation structure

The Veterans Administration is responsbile for providing medical treatment and care to eligible veterans as authorized by law (Title 38 United States Code). Medical program financial requirements for fiscal year 1968 are set forth in this estimate under four operating appropriations and four non-appropriated fund accounts, described as follows:

Appropriation accounts

1. *Medical administration and miscellaneous operating expenses (annual appropriation).*—Provides for the administration by a Central Office staff of all medical programs of the Veterans Administration including a program of postgraduate and inservice training to support the medical care programs, and the exchange of medical information between the Veterans Administration and other elements of the nation-wide medical-scientific community.

2. *Medical and prostethic research (no-year appropriation).*—Provides for a program of medical research and a program of prosthetic testing and development to support the medical care program.

3. *Medical care (annual appropriation).*—Provides for maintenance and operation of Veterans Administration hospitals, domiciliaries, restoration centers, nursing bed care facilities, and outpatient clinics; care of beneficairies in contract hospital and nursing home facilities not under jurisdiction of the Veterans Administration; and aid to State or Territorial homes for support of veterans eligible for care by the Veterans Administration.

4. *Grants to the Republic of the Philippines (annual appropriation).*—Provides for reimbursement to the Republic of the Philippines for medical care and treatment of veterans of the Philippine Commonwealth Army, and for grants to the Veterans Memorial Hospital, Manila, P.I., for medical research and training.

Nonappropriated accounts

1. *Rental, maintenance, and repair of quarters.*—This account sets forth rental income and expense amounts for 129 housekeeping units located at VA Hospital Perry Point, Maryland. The rental income is used to defray all operating, maintenance, repair and modernization expenses for these quarters.

2. *Canteen service.*—This fund finances the operation of canteens of all VA hospitals and domiciliaries. These activities are under the management of the

Veterans Canteen Service, established by Congress in 1946. Income from sales has made this a self-sustaining activity with any excess profits paid to the Treasury.

3. *Supply fund.*—Under a revolving fund arrangement financed by reimbursements from using appropriations, this fund provides for procurement of certain supplies and centrally acquired equipment for the entire Agency, the operating expenses of three VA Supply Depots and the Marketing Center, the cost of the Service and Reclamation program in the depots, and procurement or production and distribution of printed matter for the Agency. VA Supply Depots also provide items and services to other government agencies when advantageous to the government.

4. *General post fund.*—This fund consists of gifts, bequests, and proceeds of sale of property left in the care of the facilities by former beneficiaries or the general public; patient's fund balances and proceeds of sale of effects of beneficiaries who die leaving no heirs or without having otherwise disposed of their estates. Such funds are used to promote the comfort and welfare of veterans at hospitals and homes where no general appropriation is available, or where the items desired are sufficiently low on the priority list as would preclude their being provided from appropriated funds on a timely basis.

Average employment and appropriation requirement summaries

Comparative fiscal year average employment and appropriation requirements for the Department of Medicine and Surgery programs are shown on the following two pages.

Summary of average employment (FTE) requirements by appropriation

Appropriation title	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Medical administration and miscellaneous operating expenses	663	716	711	−5
Medical and prosthetic research:				
Medical research	3,325	3,357	3,449	+92
Prosthetic research	36	36	38	+2
Subtotal	3,361	3,393	3,487	+94
Medical care	128,370	130,506	134,948	+4,442
Total	132,394	134,615	139,146	+4,531

Summary of appropriation requirements

Appropriation title	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Medical administration and miscellaneous operating expenses:				
Medical administration	$11,771,000	$12,344,000	$11,023,000	−$1,321,000
Postgraduate and inservice	1,725,000	1,968,000	2,277,000	+309,000
Exchange of medical information programs			1,000,000	+1,000,000
Total	13,496,000	14,312,000	14,300,000	−12,000
Medical and prosthetic research:				
Medical research	39,983,000	42,911,000	45,061,000	+2,150,000
Prosthetic research	1,275,000	1,347,000	1,397,000	+50,000
Total	41,258,000	44,258,000	46,458,000	+2,200,000
Medical care	1,209,412,000	1,292,875,000	1,357,293,000	+64,418,000
Grants to the Republic of the Philippines	386,000	1,386,000	1,325,000	−61,000
Grand total	1,264,552,000	1,352,831,000	1,419,376,000	+66,545,000

Appropriation changes for 1968

Appropriation title	Legislative and within grade payroll increases	Workload changes	Other program requirements	Total
Medical administration and miscellaneous operating expenses	+48,000		−60,000	−12,000
Medical and prosthetic research	+212,000	+1,988,000		+2,200,000
Medical care	+9,207,000	+16,521,000	+38,690,000	+64,418,000
Grants to the Republic of the Philippines		+425,000	−486,000	−61,000
Total	+9,467,000	+18,934,000	+38,144,000	+66,545,000

Of the increase requested for Agency medical activities in fiscal year 1968, $9,467,000 or 14.2% will be required for legislative, wage rate and within-grade payroll increases. $18,934,000 or 28.5% of the total increase relates to increased workloads required for administration of new laws, undertaking new medical and prosthetic research studies, activation of newly constructed medical facilities and annualization of nursing care bed costs. The remaining $38,144,000 or 57.3% of the total increase will be required for other program requirements mainly comprised of one less workday and one more calendar day; increased reimbursements to the Department of Data Management for data processing services, and to the Civil Service Commission for the Department's pro-rata share of costs for the operation of the Interagency Boards of Examiners; increased usage of prosthetic appliances, utilities, drugs and medical supplies; annualization of cost of new medical treatment services initiated during fiscal year 1967; initiation of additional new medical treatment services in FY 1968; improved staffing; and other specified items.

Amounts shown in the fiscal year 1967 column include supplemental appropriation requirements for the current fiscal year to pay that portion of the additional unbudgeted cost increases that cannot be absorbed within available funds. Listed on the following page by appropriation are gross current year costs of PL 89–504 salary rate increases, PL 89–516 translocation costs, PL 83–763 wage rate increases and PL 89–612 increases for increased benefits to Philippine Commonwealth Army veterans, etc.; that part which the Agency is absorbing; and net supplemental appropriation requirements:

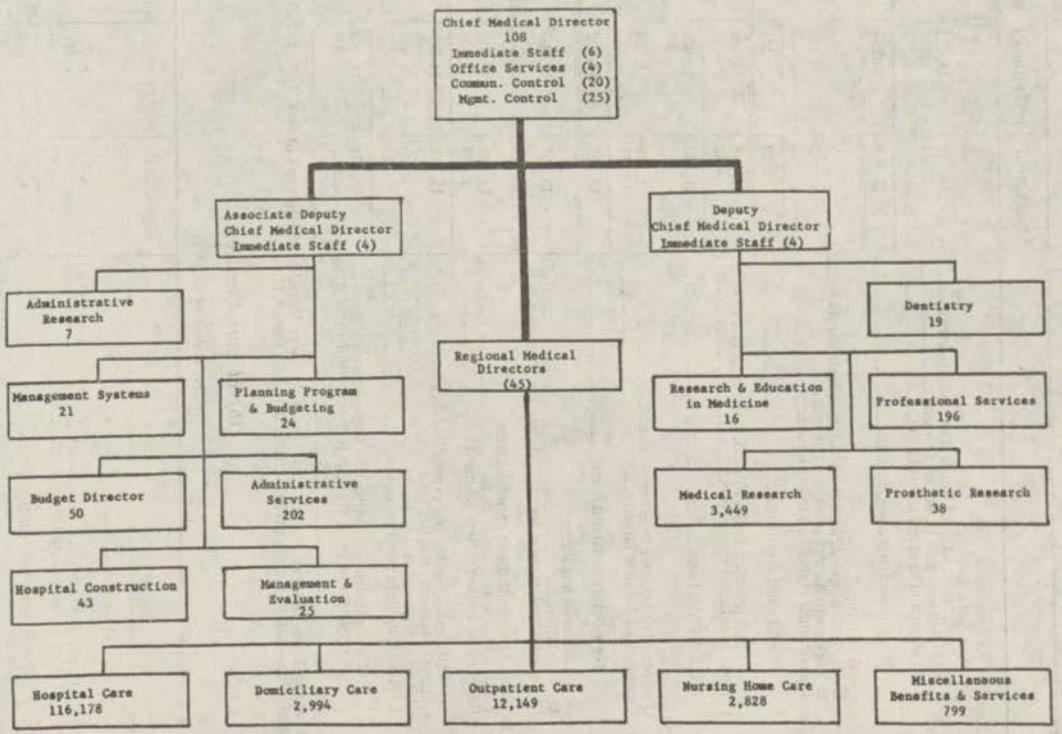
	MAMOE	Medical and prosthetic research	Medical care	Grants to the Republic of the Philippines	Total
Public Law 89–504, pay raise	$312,000	$829,000	$32,227,000		$33,368,000
Public Law 89–516, translocation	74,000	70,000	2,541,000		2,685,000
Public Law 83–763, wage rate increases			9,000,000		9,000,000
Public Law 89–612, Philippine Commonwealth Army veterans				$1,000,000	1,000,000
Gross supplemental requirement	386,000	899,000	43,768,000	1,000,000	46,053,000
Amount absorbed	74,000	270,000	16,330,000		16,674,000
Net supplemental requirement	312,000	629,000	27,438,000	1,000,000	29,379,000
Percent of gross supplemental requirement absorbed	19.2	30.0	37.3		36.2

Consistent with Bureau of the Budget policy, no amount is included in the FY 1968 Medical Care appropriation sum of $1,357,293,000 for the cost of wage rate increases that will be approved between July 1, 1967 and June 30, 1968. Supplemental appropriation requirements therefor will be transmitted separately in the 1968 fiscal year.

ORGANIZATION CHART

Estimated Average FTE Employment for Fiscal Year 1968

Total 139,146



Medical Administration and Miscellaneous Expenses

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Program by activities:			
	Operating costs, funded:			
	1. Medical, hospital, and domiciliary administration	10,211	11,034	10,999
	2. Postgraduate and inservice training	1,644	1,853	2,142
	3. Exchange of medical information			277
	Total operating costs, funded	11,855	12,887	13,418
	Capital outlay:			
	1. Medical, hospital, and domiciliary administration	27	36	24
	2. Postgraduate and inservice training	2	115	135
	3. Exchange of medical information			723
	Total capital outlay	29	151	882
	Total program costs, funded	11,884	13,038	14,300
	Change in selected resources [1]	−32	−60	
10	Total obligations	11,852	12,978	14,300
	Financing:			
16	Comparative transfer to other accounts	1,223	1,334	
25	Unobligated balance lapsing	421		
	New obligational authority	13,496	14,312	14,300
	New obligational authority:			
40	Appropriation	13,496	14,000	14,300
44	Proposed supplemental for civilian pay act increases		312	
	Relation of obligations to expenditures:			
10	Total obligations	11,852	12,978	14,300
70	Receipts and other offsets (items 11–17)	1,223	1,334	
71	Obligations affecting expenditures	13,075	14,312	14,300
72	Obligated balance, start of year	977	869	808
74	Obligated balance, end of year	−869	−808	−750
77	Adjustments in expired accounts	−48		
90	Expenditures excluding pay increase supplemental	13,134	14,073	14,346
91	Expenditures from civilian pay act supplemental		300	12

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1965, $238,000 (1966 adjustments, −$29,000); 1966, $177,000; 1967, $117,000; 1968, $117,000.

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	8,253	8,970	8,921
11.3	Positions other than permanent	168	192	192
11.5	Other personnel compensation	31	20	20
	Total personnel compensation	8,452	9,182	9,133
12.0	Personnel benefits	598	715	713
21.0	Travel and transportation of persons	1,465	1,645	1,959
22.0	Transportation of things	90	50	52
23.0	Rent, communications, and utilities	205	213	213
24.0	Printing and reproduction	178	168	175
25.1	Other services	817	844	1,045
26.0	Supplies and materials	50	70	128
31.0	Equipment	29	151	882
	Total costs, funded	11,884	13,038	14,300
94.0	Change in selected resources	−32	−60	
99.0	Total obligations	11,852	12,978	14,300

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	713	710	705
Full-time equivalent of other positions	14	22	22
Average number of all employees	676	721	716
Average GS grade	5.0	5.0	5.0
Average GS salary	$6,148	$6,303	$6,291
Average salary, grades established by 38 U.S.C. 73	$10,699	$11,049	$10,884

POSTGRADUATE AND IN-SERVICE TRAINING

In your No. 1 appropriations account, you have an extensive postgraduate and in-service training program. We want you to tell us what you are doing in this program, how it is going, how much work is involved. Who wanted to speak on the training program?

Dr. SKOUGE. We have maintained a large program where we are operating 166 or 167 hospitals with an average daily patient load that exceeds 106,000. Of course, we have a large variety of skills that are necessary for the support of our workload. Since many of our hospitals are not located in medical centers, but are remote, we have to provide training for these people so we can maintain a level of care that is essential in the Veterans' Administration.

We have four categories of funding. Tuition and registration, lecture fees, educational assignments requiring travel and training equipment and services. This year we plan to spend $468,000 for tuition and registration, which is a modest increase of about $17,000. Lecture fees, $315,000. This includes bringing people who are very competent in their field to our hospitals and giving lectures to our employees and, in addition to that, we have a program where we bring people to spend 2 or 3 days at our hospital in the capacity of a physician-in-residence. They spend all of the time during the 3 days they are in residence working with the doctors, seeing the patients, discussing the problems with the physicians and helping in the educational program.

Mr. EVINS. Doctor, this training is for advancement of your own board, doctors, nurses, technicians, and staff. This is to give them a refresher course, to keep them alert and updated.

Dr. SKOUGE. That is right. The technology of medicine is moving so rapidly that unless we have a substantial program of education going on all the time, our physicians begin to move backward instead of forward.

Mr. EVINS. These men all have their M.D.'s, the nurses all have RN degrees. The technicians are graduates. Do you have to constantly educate and reeducate them?

Dr. SKOUGE. We are doing things now that were unheard of 20 years ago. As a matter of fact, there has been a complete revolution in medicine since 1937. The year I started in medical school we had the first sulfa drugs and shortly thereafter penicillin came into being and the way we practice medicine today is completely different from what it was 30 years ago and it is completely different from what it was 20 years ago, so we have to maintain an active educational program if they are going to keep up.

Mr. EVINS. You find it more convenient to bring the lecturers into your hospitals instead of sending your personnel to a summer seminar course at the university where they have the classrooms, the facilities, and the instructors?

Dr. SKOUGE. We do both. As a matter of fact, we have a very active program where we send our physicians and paramedical personnel to medical centers, to meetings of one variety or another, but there is something about on-the-job training where you bring a man in, you present patients that the physicians have been working with to this educator and the problem is discussed. Somehow or another, this is a very effective method of teaching and, of course, is the method that is used in all of our medical schools.

Mr. EVINS. Do you repeat these courses at all of your 167 hospitals?

Dr. SKOUGE. No; we have a variety of courses offered at our hospitals, but usually the teaching hospitals are the places where, when we utilize our intra-VA program, where we send physicians from other hospitals for training.

TRAINING AT VA HOSPITALS AND AFFILIATED MEDICAL SCHOOLS

Mr. EVINS. Describe your teaching hospitals for the record.

Dr. SKOUGE. We have affiliations with nearly all the medical schools in the United States and I imagine we have about 100 of our hospitals affiliated with medical schools. Some of the affiliations where the hospitals are adjacent to the medical centers are superb affiliations. You can't really tell the difference between the university and the VA hospital because the relationship is so intimate.

Mr. EVINS. Is this instruction in a room in the hospital or is it at the university?

Dr. SKOUGE. Much of the instruction is given at the VA hospital and some is given at the university. Unfortunately, the space that we have for education is limited in our hospitals simply because we have not been charged with educational responsibilities by law and our facilities are not as adequate as they should be. This is being corrected, however.

Mr. EVINS. You are talking in general terms. Give us a specific example. Take Vanderbilt University and the VA hospital in Nashville. How does the training program work out there? Tell us how it operates.

Dr. SKOUGE. At Vanderbilt we have a completely integrated program where physicians who have finished medical school are given internships. Part of the time will be spent at our hospitals. They will be given specialty retraining in medicine, surgery, psychiatry, radiology, laboratory medicine, and any number of additional specialties.

These men will receive training not only at the VA hospital, but at the university because we do not have women, children, which is essential for the training——

Mr. EVINS. These are the medical students at the university who are given the benefit of training at the hospital. How about your VA employees? Tell us about the kind of training they get.

Dr. SKOUGE. These would be VA employees, those who are getting postgraduate training. Those not getting postgraduate training: namely, the students, will spend time in our hospitals where they will work in physical diagnosis as a sophomore; as a junior the will ac-

tually be assigned to some of our wards and work with our physicians, and sometimes as senior students they will be assigned to our hospitals.

Mr. EVINS. I understand about the students getting training, but you haven't given us enough detail about your nurses or your doctors, what advantage they receive from the universities. Tell us about their courses. How much do they take off? A week, a day, 6 weeks?

Dr. SKOUGE. This type of training goes on every single day——

Mr. EVINS. Is it a formal training or on-the-job training; is it observation?

Dr. SKOUGE. It would be formal training. It would be on-the-job training and it would be observation. Much of the teaching is done right at the bedside where a patient comes in with a specific problem and the problem is discussed and this is actually part of our teaching.

Dr. Wells, do you want to comment?

Dr. WELLS. Much of our teaching is what you might call consultative teaching. The patient is the really prime objective. The patient treatment is the prime objective. The people from the medical school assist our staff and teach our staff on a continuing basis in our hospital.

Mr. EVINS. Do you mean the students are teaching the already graduated M.D.'s?

Dr. WELLS. No, the staff. Say at Vanderbilt Medical School. They are in our hospital and they help to teach our staff as well as teach their own students at the hospital. So we have really a continuing educational program through consultative exchange on the basis of patient care.

Mr. EVINS. Aren't you giving more knowledge to the students than the students are giving to the VA doctors?

Dr. WELLS. Surely, with the undergraduate students, of which we have more than 9,000 in our hospitals throughout the country, they are getting a part of their third and fourth year principally of training in our hospitals.

Mr. EVINS. Throughout the United States at medical universities you have about 9,000 undergraduate medical students participating in training at VA hospitals.

Dr. WELLS. Yes, sir, that is correct.

Mr. WISE. Plus more than 3,000 postgraduates.

Dr. WELLS. The 3,000 are residents. We are talking about those just out of medical school and we have something over 3,000; we have 3,318 as of this year.

Mr. EVINS. I can see a great supplement of training to the university students, the advantages they would receive. But you haven't elaborated on the gains VA is receiving.

Dr. WELLS. The point here is that every graduate has to be back in contact with a teaching medical center. It has been demonstrated to everyone's satisfaction that a physician's training is essentially seriously obsolescent within a period of 5 years. If he is not back where there is an active research and educational effort being made, he is out of date beginning in about 5 years.

Our staff has the advantage of going over to the university or having the university people come into our hospitals and update their knowledge at all times and this is more on a continuing basis as a

consultative on-the-job type of training. It also takes place in certain formal ways too, with structured meetings from time to time, as needed.

Mr. EVINS. Give us an example of your formal structured meetings.

Dr. WELLS. Let's say that we have a new medical program in emphysema and chronic bronchitis. This is a very common program in our hospitals now. We may assemble people from multiple universities. They come to us and bring our staff up to the very latest types of treatment for that kind of patient. The same thing may happen in cardiac surgery or in neurologic diseases because we have a great many patients in those categories. So we try to gear this in such a way as always to be contributory to the patient care mission.

TUITION AND REGISTRATION EXPENSES

Mr. EVINS. Now, in 1966 for tuition and registration you had an appropriation of $398,000. For 1968 it is proposed to go up to $468,000.

Tell us about tuition and registration. How do you spend this amount of money? Confine your comments to this expenditure.

Dr. WELLS. The tuition and registration includes several categories. This is registration at nationally conducted courses. For example courses that are conducted by the American College of Physicians, the American College of the Surgeons, the American Hospital Association and so on. These courses are put on, on a tuition and registration basis. Our people are sent to them and their tuition and registration fees are paid.

Mr. EVINS. These are VA employees who go to universities and they charge them so much to register and so much tuition during the period they are in attendance.

Dr. WELLS. That is right. This is the way most of these courses are financed, or very many of them.

Mr. EVINS. How many VA employees did you send in 1966 in which you expended $398,000?

Dr. WELLS. Of the total group sent, as far as tuition and registration is concerned, it was 4,031.

Mr. EVINS. How many do you propose for 1968?

Dr. WELLS. For 1968, 4,727 is proposed under the tuition program.

I might mention this just to be complete: There are in this a certain number of our residents who also have tuition fees paid for them in the course of their residency training.

Mr. EVINS. In 1966 you had, of your staff, a total of 4,031. In 1967 you paid tuition and registration for 4,556 of your staff.

In 1968 you proposed 4,727, or 171 more for the next year.

Dr. WELLS. That is right.

Mr. EVINS. The 4,556 that you trained last year, are you going to retrain them again this year?

Dr. WELLS. Many of these will be new——

Mr. EVINS. You have 171 in addition.

Dr. WELLS. This is doctors, dentists and nurses. You will notice in no year does more than about a third of our full-time physicians have any educational detail. Much less than that proportion of nurses or

technologists get any training. So we have to have a cycle of about 1 year in 10 before we get around to all our people. We don't get one educational opportunity for each professional person a year by any means.

Mr. EVINS. Your average cost is shown in your budget as $99. This is tuition and registration.

Dr. WELLS. That is right.

Mr. JONAS. Is that the total cost?

Dr. WELLS. That is just tuition and registration. Travel is shown later in the table there.

Mr. EVINS. You spend $99 on registration and tuition for a number of physicians, dentists, doctors, and therapists that you send to the university.

LECTURE FEES

Now then, your lecture fees in 1966 were $223,000 and for 1968 you propose $315,000. Besides tuition, you pay lecture fees to people brought in to lecture at the hospitals?

Dr. WELLS. These are people brought in to lecture at the VA hospitals and a fair proportion of this is in the nonaffiliated hospitals too. That is, the peripheral. This is one of the means we try to use to keep our nonaffiliated hospitals upgraded.

Mr. EVINS. In 1966 you had 2,402 lectures. In 1968 you propose 3,356 lectures or an increase of 448 more lectures over 1967. The average cost again is $87 per lecture, is that correct?

Dr. WELLS. That is correct.

EDUCATIONAL ASSIGNMENTS REQUIRING TRAVEL

Mr. EVINS. Let's look at your third expense under this training program: Educational assignments requiring travel. In 1966 you spent nearly $1 million; $999,699. When you round that off, it is a large figure.

In 1968, $1,315,000. This is requiring travel. You jump from 8,397 to 10,038, or 1,641 more traveling. Where are they traveling?

Dr. WELLS. These people are sent to short courses. These are usually less than a week. They are also sent to the major medical meetings. These are selected meetings where there is an interchange of information. Incidentally, we feel we make a real contribution ourselves to the exchange of information because we produce, also, a lot of new medical information and at these meetings we make our contribution as well as receive from the rest of the medical community.

Mr. EVINS. Are they widespread all over the country?

Dr. WELLS. All over the country; yes, sir.

Mr. EVINS. You propose to spend $215,000 more in travel for these lectures in the next year?

Dr. WELLS. That is right.

TRAINING EQUIPMENT AND SERVICES

Mr. EVINS. The fourth item is equipment. Expenditures for equipment; $24,000 to $179,000 in 2 years. There is a marked increase in equipment.

What is the nature of the equipment?

Dr. WELLS. The increase is largely in the use of electronic devices for teaching. Closed circuit television and radio-consultation types of programs. It is for equipment.

Mr. EVINS. This is for television equipment that you propose to purchase and install at the lounge rooms at the hospital?

Dr. WELLS. No, it is for training rooms.

We have a fair amount of this in our hospitals connected in some instances with the medical schools or with other teaching elements.

Mr. EVINS. This is for equipment to be installed in your hospitals?

Dr. WELLS. That is right.

Mr. EVINS. The chart on 2–31 shows the cost of this equipment goes from $144,000 to $179,000 or a $35,000 increase.

Now, other items of expense in this particular training program are employee travel. I thought we had covered travel.

Mr. MONK. We covered travel.

Mr. EVINS. You have a chart on 2–25 that gives an additional breakdown or is this the same amount?

Mr. DRIVER. It is the same amount.

Mr. JONAS. Does this travel include subsistence?

Mr. MONK. Yes, sir. It is a per diem allowance.

Mr. EVINS. Doctor, we all recognize the benefits of education and training and in-service training and keeping updated. You think all this is necessary and required?

Dr. WELLS. I think it is very necessary to keep our quality of care.

SUMMARY OF OPERATIONS

Mr. EVINS. We shall place in the record page 2–23, the charts on 2–24 and 2–25, and your supporting language, 2–26 through 2–31.

(The pages follow:)

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

POSTGRADUATE AND INSERVICE TRAINING

Introduction

In his Health Message of March, 1966 the President expressed this nation's concern for the health of its people. He set as a goal, ". . . Good health for every citizen to the limits of our country's capacity to provide it."

The Veterans Administration is acutely concerned with the health and treatment of the veteran population—a significant portion of the total population. With the object of providing the most up-to-date and expert care possible to the veteran patient, the medical and supporting staff of the Veterans Administration is constantly eager to obtain and apply the latest and most advanced medical and related knowledge and techniques. The Postgraduate and Inservice Training program is the vehicle through which such information is obtained by staff members. Thus high quality medical care is maintained and further improved. The Postgraduate and Inservice Training program provides stimulation to VA personnel to utilize all of the information available in the scientific community toward the object of providing the best of medical care. The Veterans Administration must maintain an active and effective educational program. The type of staff needed in VA hospitals and clinics can be recruited and retained only if the opportunity for continuing education is made possible.

For fiscal year 1968 an appropriation of $2,277,000 is requested to cover the operations of the VA Postgraduate and Inservice Training program. This is an increase of $309,000 over the $1,968,000 estimated for this purpose in fiscal year 1967.

Funds requested under this section of the appropriation for the Postgraduate and Inservice Training program are *not* used to pay any salaries. The funds ap-

propriated for this program are used *solely* to pay expenses incidental to education and training of employees that are journalized and paid under other medical appropriations or programs of the Agency. These expenses include costs of tuition, travel, lecturer's fees, services and materials required for the conduct of training activities.

Postgraduate and Inservice Training activities of the Department of Medicine and Surgery, on a nation-wide basis, are administered by 15 employees located in the office of the Assistant Chief Medical Director for Research and Education in Medicine in the Washington, D.C. Central Office.

Comparison of type of expense and costs by object

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Type of expense:				
Tuition and registration	$398,909	$451,000	$468,000	+$17,000
Lecture fees	223,525	273,000	315,000	+42,000
Educational assignments requiring travel	999,699	1,100,000	1,315,000	+215,000
Training equipment and services	24,058	144,000	179,000	+35,000
Total	1,646,191	1,968,000	2,277,000	+309,000
Object:				
21 Employee travel	999,699	1,100,000	1,315,000	+215,000
22 Transportation of things	16,025	17,000	20,000	+3,000
23 Rent, communication, and utilities	1,064			
24 Printing and reproduction		1,000	8,000	+7,000
25 Other services:				
Miscellaneous contractual services (tuition)	398,909	451,000	468,000	+17,000
Contracts with individuals (lectures)	223,525	273,000	315,000	+42,000
Subtotal	622,434	724,000	783,000	+59,000
26 Supplies and materials:				
Office supplies	611			
Operating supplies	4,229	11,000	16,000	+5,000
Supplies	4,840	11,000	16,000	+5,000
31 Equipment: Medical, dental, scientific, and technical equipment	2,129	115,000	135,000	+20,000
Total costs	1,646,191	1,968,000	2,277,000	+309,000

Justification of estimates

It is axiomatic that in the dynamic health fields continuing education and training of appropriate personnel are essential elements of an outstanding treatment program. The Postgraduate and Inservice Training program, in its many forms, is the means by which continuing education is provided to VA staff members. Postgraduate and Inservice Training in the VA requires four types of payment or expense, namely: (1) tuition and registration, (2) lecture fees, (3) educational assignments requiring travel and (4) training equipment and services. These categories are described below with comparative year costs and workloads shown on the table following the descriptions.

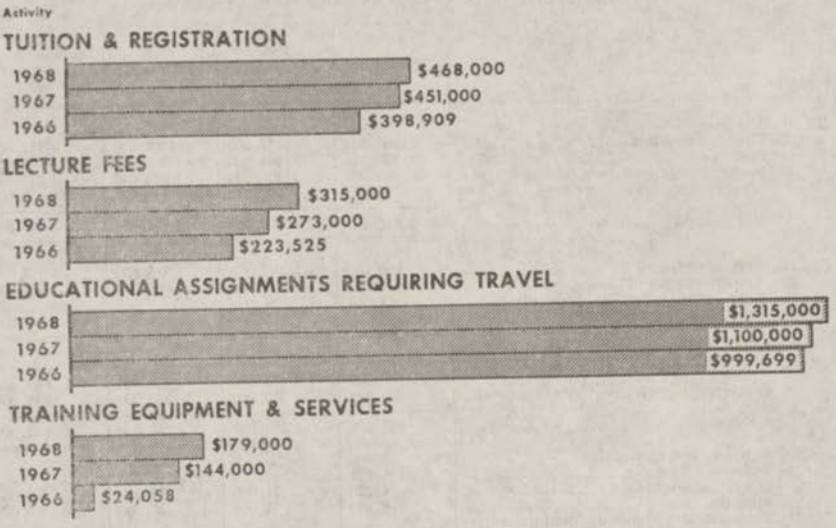
A total increase of $309,000 is requested to cover expenses in fiscal year 1968 for the above four categories of educational activities. This will provide required education and training for medical and administrative staff at all existing, new, and expanded VA hospitals and clinics.

Tuition and registration.—Extra-VA postgraduate educational activities in which Department of Medicine and Surgery personnel participate, vary in nature from courses, institutes and seminars offered by universities, medical schools and professional organizations to meetings of professional societies. Contact with professional leaders outside the VA medical system either through attendance at courses, seminars, etc., or by attendance at professional meetings of high quality is essential to providing current knowledge of progress in the dynamic health fields. Attendance and participation in these activities brings fresh outlooks and new approaches into VA hospitals and clinics far sooner and more effectively than any other means. Through such meetings the results of medical research work accomplished in the VA and elsewhere are exchanged

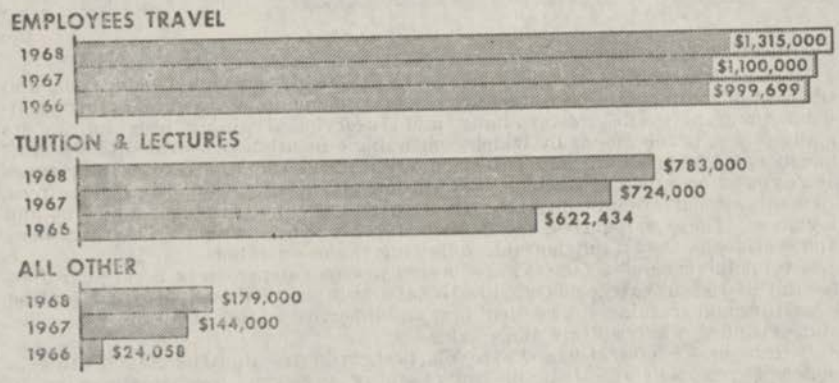
COMPARISON OF POSTGRADUATE AND INSERVICE TRAINING COSTS

FY 1966, FY 1967, and FY 1968

BY ACTIVITY



BY ITEMS OF EXPENSE



in the best interest of all who are ill, veteran or non-veteran. Also, through this mechanism, VA staff can impart new learning and skills to their fellow employees.

In many instances VA staff must receive short periods of formal academic training as required by specialty boards such as psychiatry, neurology, ophthalmology and radiology. This training is usually provided at medical schools and medical centers. In some instances employees are sent to non-VA hospitals for such training when the VA hospitals cannot offer the type of experience prescribed by Deans' Committees or specialty boards. Examples of the foregoing are training in child psychiatry, pathology of bones and tissues of extremities and pediatric orthopedics.

In fiscal year 1967, funds amounting to $451,000 will provide for payment of tuition and registration costs for 2,233 physicians, dentists and nurses, 1,412 therapists and technicians and 911 medical administrative personnel attending formal courses, meetings and other educational opportunities. An increase of $17,000 is requested for fiscal year 1968 over fiscal year 1967 to cover costs of tuition and registration for 84 more physicians, dentists and nurses, 53 more therapists and technicians and 34 more medical administrative employees.

Lecture fees.—Lecture presentations by non-VA specialists in medical, paramedical and administrative disciplines are offered at VA hospitals and clinics. These lectures are excellent and economical educational experiences which are brought to the staff by recognized experts in their fields, many of whom have considerable knowledge of the particular hospital's medical and administrative activities and problems. In fiscal year 1967 funds amounting to $253,000 will provide for 2,908 lectures to be made available to VA medical care staff members. An increase of $39,000 is requested for fiscal year 1968 over fiscal year 1967 to provide for an additional 448 lectures. This will provide an average of between one and two lectures per month at each VA hospital and clinic.

In addition to the conventional lectures the physician-in-residence program brings distinguished medical educators to non-affiliated or geographically isolated hospitals for periods of 3 days. The opportunities to attend lectures and participate in personal discussions of current medical problems provided by this program are inspiring educational experiences for the treatment staff members involved. In fiscal year 1967 a total of 47 visits are planned at a cost of $20,000. In order to provide this valuable and stimulating educational opportunity to 7 more stations, an increase of $3,000 is requested for fiscal year 1968.

Educational assignments requiring travel.—The extra-VA educational experiences described earlier in the Tuition and Registration section of this estimate which are provided to VA staff generally are offered at distances away from the hospitals, thus requiring payment of travel and per diem expenses.

Inservice training also generally involves travel costs and makes effective use of VA teaching and physical resources in the training of hospital and clinic personnel by means best suited to each station's needs. Inter-station details are of particular value to personnel assigned to smaller, remote or non-affiliated VA hospitals.

These personnel are sent for training to other VA stations with close academic affiliation, or to VA stations whose personnel and facilities are especially suited for instruction in a particular field. Intra-VA conferences, generally of two-day duration, bring VA hospital and clinic personnel together at key points for mutual study, exploration and dissemination of new developments in medicine and medical administration. Consecutive case presentations are made at some of these conferences which enables physicians to make comparisons of treatment measures, thus contributing significantly to improving the quality of treatment. Conferences are held on a nationwide basis in numerous professional areas such as psychiatry, spinal cord injury and pulmonary diseases. A number of the VA courses and meetings are of such educational merit as to attract considerable attendance by staff of other Federal agencies and representatives of health agencies and medical colleges throughout the United States. In order to meet demonstrable needs for highly specialized educational presentations within the VA, specially structured courses are designed and presented, some within the concept of a curriculum. For example, a course titled Basic Medical Statistics is presented as a prerequisite of courses in Experimental Design, Bio-Assay and Clinical Trials. With the implementation of new treatment modalities in Chronic Dialysis, Catheterization, Emphysema and Pulmonary Function as well as Gastroenterology and Metabolic Units the need for additional funds in support of educational travel becomes even more urgent since the proper conduct of these

treatment modalities is frequently dependent on detailing of physicians and technicians to training presented away from the hospitals at which they are serving.

In fiscal year 1967 funds amounting to $1,100,000 will provide needed travel support for 3,908 physicians, 2,519 therapists and technicians and 1,970 medical administrative personnel attending educational assignments. An increase of $215,000 is requested for fiscal year 1968 over fiscal year 1967 to support vitally needed educational travel costs of 810 more physicians, 493 more therapists and technicians and 338 more medical administrative employees.

Training equipment and services.—The VA is constantly alert to new educational methods which can be utilized toward the object of conducting a highly effective educational program. The knowledge thus obtained is utilized to provide the most up-to-date medical care available. Many of the university medical schools with which the VA hospitals are affiliated now have or are installing closed circuit television systems. The VA is taking advantage of the tremendous teaching benefits to be derived from this medium and are installing similar systems in our hospitals. As funds and facilities permit, it is planned to interconnect the two systems, thus providing complete interchange of information between the two institutions. The system being installed provides a complete sharing of all teaching facilities, uses the students' time to the best advantage, and provides for coverage by a maximum number of students. In addition, the use of video tape recordings with this system permits those students who might have been unable to attend the first showing to view it at a more convenient time.

In fiscal year 1967 funds amounting to $115,000 will permit installation of closed circuit educational television systems at four hospitals and support the recurring costs of communication interconnections between the involved medical centers and the VA hospitals and for the purchase of one video tape recorder at an installation already equipped with a closed circuit television system. The costs of these items individually are estimated as follows: closed circuit television system $20,000; recurring costs of communication interconnections $6,750; video tape recorded $8,000. An increase of $20,000 is requested for fiscal year 1968 to provide complete systems for four selected hospitals and the support of recurring communication interconnection costs for installed systems. By the end of fiscal year 1968 it is intended that educational television systems will be in use in 8 selected VA hospitals. By fiscal year 1973 it is planned to have 20 closed circuit television systems in use in as many Veterans Administration hospitals. These systems are to be installed in hospitals affiliated with medical schools which have or are planning to install teaching television systems thus permitting interconnection between the concerned institutions. These systems differ from those provided under the Exchange of Medical Information activity since the latter, in keeping with the intent of Public Law 89–785 (Veterans Hospitalization and Medical Services Modernization Amendments of 1966), are directed to the support of educational programs at Veterans Administration hospitals which are remote from major medical teaching centers.

An increase of $5,000 in fiscal year 1968 over fiscal year 1967 is requested for costs of supplies and materials mainly for new hospitals such as Miami and Gainesville, Florida. These funds will be utilized for purchase of needed teaching materials on a nationwide basis.

The presentation of medical exhibits strengthens education, research and patient care simultaneously. The documentation of information on diseases by pictorial means is important in the teaching of medicine. An increase of $3,000 is requested in this item for fiscal year 1968 over fiscal year 1967 to cover estimated increased shipment and presentation costs.

The printing and reproduction of certain courses developed within the Veterans Administration enables a large number of staff members throughout the system to benefit therefrom. It is anticipated that $1,000 will be utilized for this purpose in fiscal year 1967. It is planned that the number and variety of courses developed within the VA will increase measurably in fiscal year 1968. Therefore an increase of $7,000 is requested for this item in fiscal year 1968.

Comparative year costs and workloads for postgraduate and inservice training are reflected in the table appearing on the following page.

Comparative analysis of educational activities and costs

	1966 actual	1967 estimate	1968 estimate	Increase (+) decrease (−)
Tuition and registration:				
Number of staff (total)	4,031	4,556	4,727	+171
Physicians, dentists, nurses	1,956	2,233	2,317	+84
Therapists, technicians, etc	1,235	1,412	1,465	+53
Medical administrative employees	840	911	945	+34
Average cost	$99	$99	$99	
Total costs	$398,909	$451,000	$468,000	+$17,000
Lecture fees:				
Lectures for staff:				
Number of Lectures	2,402	2,908	3,356	+448
Average cost	$87	$87	$87	
Total cost	$208,000	$253,000	$292,000	+$39,000
Visits by medical authorities (physicians-in-residence):				
Number of visits	37	47	54	+7
Average cost	$420	$423	$423	
Total cost	$15,525	$20,000	$23,000	+$3,000
Total lecture fees	$223,525	$273,000	$315,000	+$42,000
Educational assignments requiring travel:				
Number of staff (total)	7,658	8,397	10,038	+1,641
Physicians, dentists, nurses	3,407	3,908	4,718	+810
Therapists, technicians, etc	2,306	2,519	3,012	+493
Medical administrative employees	1,945	1,970	2,308	+138
Average cost	$131	$131	$131	
Total cost	$999,699	$1,100,000	$1,315,000	+$215,000
Training equipment and services:				
Equipment	$2,129	$115,000	$135,000	+$20,000
Supplies and materials	4,840	11,000	16,000	+5,000
Shipment and presentation costs	17,089	17,000	20,000	+3,000
Printing and reproduction		1,000	8,000	+7,000
Total cost	24,058	144,000	179,000	+35,000
Total cost	1,646,191	1,968,000	2,277,000	+309,000

Exchange of Medical Information Program

Mr. Evins. Tell us about the exchange of medical information. You propose $1 million for this. It is a new item.

Dr. Wells. This is under the authorization by the new Public Law 89–785. The Congress authorized $3 million for each of the 4 years to improve the exchange of information between the VA hospitals and the surrounding communities and——

Mr. Evins. You have been exchanging information ever since the hospitals have been built. We have just gone over a lot of exchange information and training. You are constantly doing it orally and verbally. How is this different from the other types of exchanges of information.

Dr. Wells. I would say this, Mr. Chairman: The prime motive for this legislation was to really give a great improvement to our geographically isolated hospitals. Here is where we have had the greatest difficulty bringing in programs——

Mr. Evins. Are these programs brought into the isolated hospitals—so-called isolated, as you refer to them? We just discussed travel and you said you allowed the people in these areas to travel into the centers.

Dr. Wells. We have, of course, to a considerable degree, but this has actually not been anywhere near enough to keep these hospitals in the kind of shape that we would like. For example, last year when

the problem of closings came up, one of the main problems was these isolated, geographically disadvantaged hospitals.

Mr. EVINS. They are very modern and have top-rate medical care all over.

Dr. WELLS. This is to staff them and keep staff, because we lack educational advantages there. The upcoming physician wants to go where he has an educational advantage.

If, under this new legislation, we can bring the atmosphere of medical centers, the academic atmosphere, into the peripheral hospitals, then we certainly will have achieved——

Mr. EVINS. That is a better phrase "peripheral" hospitals. Don't refer to them as "disadvantaged." We have been making them "advantaged" for several years.

This is to bring people into the peripheral hospitals?

Dr. WELLS. It is to bring people and programs. In other words, we are anticipating an increase here in the use of television and television tapes in order to bring program work into these peripheral hospitals.

Mr. EVINS. You have a lot of general language, but you haven't specifically told us about anything.

Dr. WELLS. Incidentally, this particular program was a bit on the hasty side. None of this has been implemented yet so we have to gather some experience, but we propose to use a wide variety of mechanisms to bring education into the peripheral hospitals.

Now, these will include such things as extended educational leave which we ordinarily do not give to any of our hospitals. I am talking about a matter of 6 months or more for physicians to go and become completely retrained in certain special fields.

We would like to have an increase in the "physician in residence" program out to the peripheral hospital. To increase the use of lectures and consultants and, of course, to bring the television-taped kind of program to these peripheral hospitals, but when you bring these televised educational programs into a hospital, you almost have to make these things live by bringing in a lecturer, or a consultant with the things. Otherwise they lose their educational impact, Mr. Chairman.

Mr. SHIPLEY. How many new positions are in this program?

Dr. WELL. Under "Educational programs" we have no personnel.

Mr. EVINS. Most will be spent for supplies and travel. You start on page 2–34.

Mr. SHIPLEY. There are no new positions.

Dr. WELLS. No.

Mr. EVINS. Here is the breakdown for the new figure: $35,000 for travel; $8,000 for printing; $174,000 for miscellaneous contractual services. You don't say what that is.

Dr. WELLS. I can tell you what it is, Mr. Chairman. This is largely to get the services of experts and consultants in developing the teaching programs. Such things as the development of taped programs to go out to the periphery.

Mr. EVINS. You have an item of $134,000 for contracts with individuals. Who are the individuals you are proposing to contract with?

Dr. WELLS. People in the professions of medicine and surgery who will construct programs for us and develop teaching aids, developing

the teaching program texts, and so on. These are medical experts for the most part.

Mr. EVINS. Operating supplies, $60,000. Don't you have enough manuals already?

Dr. WELLS. This is in the TV and communications area. The electronics area.

Mr. EVINS. You have that listed separately for $723,000 for television.

Dr. WELLS. That is an unfortunate overlap because actually these two, taken together, account for the 25 peripheral stations which could be a part of our closed circuit TV teaching.

Mr. EVINS. This may be called a morale fund. You state here it is for your 25 remote stations. Prerecorded video tapes.

Mr. JONAS. Could we have a list of those 25?

Dr. WELLS. We don't have a list of them because actually there are many more than 25 where we would like to put these programs——

Mr. JONAS. Yes, but you were talking about 25. I thought you would know which ones you are talking about.

Dr. WELLS. We know which ones we are talking about and I would be glad to supply a list of 25 that we consider having the highest priority in our group of about 100 that we would like ultimately to get to. You see, we only got $1 million allocation for a $3 million program.

Mr. WISE. This law provided a 4-year authorization and this is an initial implementation of the 4-year program.

Mr. EVINS. We shall place in the record 2–35 and 2–37. This is justification language for the additional exchange of information, and your chart 2–34.

(The pages follow:)

EXCHANGE OF MEDICAL INFORMATION

Costs by object

	1968 estimate
21 Employee travel	$35,000
24 Printing and reproduction	8,000
25 Other services:	
Miscellaneous contractual services (course developement)	(40,000)
Contracts with individuals (lectures and other contractual services)	(134,000)
Subtotal	174,000
26 Supplies and materials: Operating supplies	60,000
31 Equipment: Educational Television equipment	723,000
Total costs	1,000,000

Justification of estimates

Exchange of Medical Information activity will bring to Veterans Administration hospitals which are remote from medical teaching centers, continuing educational programs which will greatly benefit the affected Veterans Administration hospital staffs. These programs will be made available to the local medical communities as well. These educational experiences will enable the staffs of those Veterans Administration hospitals not affiliated with medical schools to obtain the latest medical-scientific information which will in turn be utilized to provide the best possible medical care for the veteran patients hospitalized at these institutions. The implementation of these programs requires four types of payment or expense, namely: (1) costs of educational equipment and supplies, (2) lecture fees and other contractual services, (3) development and publication costs of educational materials and (4) administrative travel.

To start these programs, $1,000,000 is requested in fiscal year 1968 for the following described categories of expense. This will permit implementation

of the objectives of Public Law 89-785 (Veterans Hospitalization and Medical Services Modernization Amendments of 1966).

(a) *Educational equipment and supplies.*—Department of Medicine and Surgery personnel located at 25 remote Veterans Administration hospitals will participate in a continuing educational program utilizing closed circuit television as the medium through which they will receive the most advanced medical-scientific information. The television system will consist of three production centers located at three geographically dispersed Veterans Administration hospitals not yet selected. Each of the TV production centers will contain a complete television studio capable of taping live presentations, as well as utilizing various media such as prerecorded video tapes, film and slides. The programs will be taped and forwarded to the 25 stations equipped with television monitors and a tape playback machine. For fiscal year 1968 funds amounting to $783,000 are requested to provide for television cameras, monitors and other required equipment as well as supplies necessary to the conduct of this program.

(b) *Lecture fees and other contractual expenses.*—In order to further create and maintain an environment of academic medicine at Veterans Administration hospitals not affiliated with medical schools, an extensive lecture program will be conducted at these facilities. These educational experiences will be presented in conjunction with television presentations so that the material on the video tapes will serve as instructional material for the lecturers. Thus, the television programs and the lecturers will serve to complement each other. In addition to presenting lectures at each of 25 Veterans Administration hospitals, specialists will be present at hospitals during playback of video tapes to conduct question and answer sessions, thus further reinforcing the televised presentations. Finally, non-Veterans Administration experts in various medical-scientific disciplines will be supported to travel to the television production centers where they will tape educational presentations which subsequently will be viewed at the stations having television monitors and playback equipment. For fiscal year 1968 $40,000 is requested to support 114 lectures at a unit cost of $350 per lecture. On a pilot basis this will provide approximately four lectures for each of 25 Veterans Administration hospitals located remote from teaching medical centers and fees for fourteen lecturers traveling to the television production centers.

In order to produce educational televised presentations, it will be necessary to secure services of three television specialists at each of the three production centers plus one specialist to be located in Veterans Administration Central Office. These services will be paid for by reimbursement to other appropriations. For fiscal year 1968 $94,000 is requested for this purpose.

(c) *Publication costs of educational materials.*—Programmed Instruction is a particularly effective and economical teaching-learning tool when employed with a dispersed student body remote from formal centers of learning. Therefore in the interest of providing opportunities for continuing education in remote Veterans Administration hospitals, as well as in the medical communities at large, programmed instruction will be used as a modality to further implement the object of bringing the most advanced medical-scientific information to remote hospitals. This will be accomplished by authorizing and publishing within the Veterans Administration programmed texts and bibliographies in specialized medical-scientific subject matter areas and by contracting with non-federal organizations for production of programmed texts. For fiscal year 1968 $48,000 is requested to support contractual and publication costs of these activities.

(d) *Administrative travel.*—The establishment and continued conduct of the Exchange of Medical Information activity will require the intermittent travel of four Central Office employees to the three Veterans Administration television production centers and to the 25 Veterans Administration hospitals at which lectures and televised educational programs will be presented. In addition approximately 15 Veterans Administration employees who are expert in certain medical-scientific areas will travel from the Veterans Administration hospitals at which they are stationed to the television production centers for the purpose of televising educational presentations in their fields of specialization.

Coordination of developmental efforts of programmed courses with other governmental agencies will prevent duplication of effort and provide for exchange of programmed courses. This will result in considerable savings of time and funds. It will require a limited amount of travel by one Central Office employee.

A total of $35,000 for fiscal year 1968 is requested to support transportation and per diem costs of the travel described.

Medical and Prosthetic Research

Program and financing

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Program by activities:			
Operating costs, funded:			
1. Medical research	33,389	35,453	37,418
2. Prosthetic research	1,461	1,340	1,366
Total operating costs, funded	34,850	36,793	38,784
Capital outlay:			
1. Medical research	4,444	10,102	7,643
2. Prosthetic research	25	28	31
Total capital outlay	4,469	10,130	7,674
Total program costs, funded	39,320	46,923	46,458
Changes in selected resources [1]	1,353		
10 Total obligations	40,673	46,923	46,458
Financing:			
21 Unobligated balance available, start of year	−2,079	−2,665	
24 Unobligated balance available, end of year	2,665		
New obligational authority	41,258	44,258	46,458
New obligational authority:			
40 Appropriation	41,258	43,629	46,458
44 Proposed supplemental for civilian pay act increases		629	
Relation of obligations to expenditures:			
71 Total obligations (affecting expenditures)	40,673	46,923	46,458
72 Obligated balance, start of year	4,008	5,981	9,304
74 Obligated balance, end of year	−5,981	−9,304	−10,062
90 Expenditures excluding pay increase supplemental	38,699	42,995	45,676
91 Expenditures from civilian pay act supplemental		605	24

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders 1965, $2,094,000 (1966 adjustments −$14,000); 1966, $3,462,000; 1967, $3,462,000; 1968, $3,462,000.

Object classification

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Personnel compensation:			
11.1 Permanent positions	24,318	25,469	26,157
11.3 Positions other than permanent	1,722	1,748	1,840
11.5 Other personnel compensation	99	115	117
Total personnel compensation	26,139	27,332	28,114
12.0 Personnel benefits	1,843	2,009	2,050
21.0 Travel and transportation of persons	331	339	343
22.0 Transportation of things	68	81	81
23.0 Rent, communications, and utilities	208	319	747
24.0 Printing and reproduction	51	57	59
25.1 Other services	2,387	2,292	2,343
26.0 Supplies and materials	3,823	4,364	5,047
31.0 Equipment	4,236	9,698	6,924
32.0 Lands and structures	233	432	750
Total program costs, funded	39,320	46,923	46,458
94.0 Changes in selected resources	1,353		
99.0 Total obligations	40,673	46,923	46,458

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	3,197	3,245	3,337
Full-time equivalent of other positions	331	326	340
Average number of all employees	3,383	3,415	3,509
Average GS grade	5	5	5
Average GS salary	$6,148	$6,303	$6,291
Average salary, grades established by 38 U.S.C.	$10,699	$11,049	$10,884
Average salary of ungraded positions	$4,926	$5,140	$5,224

Mr. EVINS. Your second item in your appropriation account is medical and prosthetic research. No year appropriations. It provides for a program of medical research and a program of prosthetic testing equipment to support the medical care program. We have supported this over the years. We know a certain amount of it is necessary. What level is the proper level for prosthetic research?

Dr. WELLS. I wouldn't like to speak specifically for prothetic research but when you speak of a proper level for biomedical research, I think this is more or less asking how much is good. All good research, I think, is justified because it is in the interests of health and welfare of mankind.

Mr. EVINS. You state $46,458,000 is required for this amount and then we notice in your justification that you are being given $12,686,300 primarily from the National Institutes of Health. They apparently have more funds for research than they can use and they are making available to the VA an additional $12.6 million, which gives you almost $60 million for this type research.

Dr. WELLS. That is general research, included.

Mr. EVINS. That is general medical research.

How much did we appropriate for the VA's general medical research last year?

Mr. MONK. $43,629,000 inclusive of prosthetic research.

Mr. EVINS. $43 million last year. You want $46.4 million this year, plus $12,686,000, which is going to be transferred to you from the National Institutes of Health for your benefit. This is a sizable increase.

Mr. SHYTLE. Some of it comes from other areas. The biggest part is from the National Institutes of Health. The chart on 3-45 shows that.

Dr. SKOUGE. The $12 million additional comes from grants. Most of that comes from the affiliated universities and only a little over $1 million of that, the granted funds, are given directly to the Veterans' Administration. It does mean that our employees, our physicians and scientists who are involved in research, benefit from these grants, but they aren't all directly given to the Veterans' Administration.

Mr. EVINS. The VA makes grants too. How do these grants that you make coordinate with those that you make back to the VA? You are exchanging funds in your grant programs.

Mr. MONK. Not for medical research.

Mr. EVINS. You make contracts.

Mr. DRIVER. Primarily for prosthetic research.

Dr. SKOUGE. This is almost all in the prosthetic field, that is right.

Mr. DRIVER. In the medical research program it is practically all done by full-time people.

Mr. EVINS. VA is receiving the benefit of the $12.6 million grant for VA training.

Dr. SKOUGE. We are getting some benefit from it, that is certainly true.

GENERAL MEDICAL RESEARCH

Mr. EVINS. This general medical research includes the following: Improving diagnostic treatment methods for use in the care of veterans patients. Contributing to medical knowledge in proportion to the VA's obligation as a health service resource of the Nation; creating an environment of scientific progress essential to a modern, high quality program of patient care.

Promoting research in the basic sciences of medicine, and aiding in the recruitment, retention, and continued education of physicians and scientists of the Veterans' Administration.

The VA system constitutes one of the Nation's largest resources. The potential value of his is highlighted by the following: An organized system of patient care and research records; observations extending throughout the major lifetime of many individual patients; close working relationships with practically every medical school; a research-management organization experienced in diversified program operation and evaluation.

Give us some of your projects and some of your concrete results. This is a lot of general language. We know research is essential. We know you cooperate with the universities. We know you have to train your personnel but give us some concrete projects you are working on, and the results of some of your research. Tell us what you have accomplished. Tell us something we can point to with pride on the record.

Dr. WELLS. I would like to hand out these pamphlets.

Our program is described in here for the year, the program under question. It is shown on page 51.

You will notice in there that in the current year we have had 6,552 research projects.

Mr. EVINS. There is Dr. Wells shown right on the front page there. Go right ahead.

Dr. WELLS. A little advertising there.

Mr. DRIVER. We are going to get him on the cover next time.

Dr. WELLS. This shows our number of projects. It gives pretty much the range of projects we have in the Veterans' Administration.

You will note right off they are projects that are clinically oriented. At least 85 percent of all of our research is disease oriented, clinically oriented and geared to the benefit of our patients, so we feel we are carrying out a program that essentially is oriented to major social goals. A great part of our work, of course, is applicable to the general population, as well, so we make a contribution to the Nation as well as to——

Mr. EVINS. They get to the VA on page 51, but starting out in this very impressive publication, they list the National Institutes of Health; they list the Public Health Service; they list the National Aeronautics and Space Administration, and the research in the Army and all the services, the medical activities in the services, and I believe some private research; the Food and Drug Administration, the Federal Aviation Agency. All these research programs are discussed.

You mention here some of your research projects; research in aging; another one is satellite laboratory program. What is the VA doing in the satellite field?

SATELLITE RESEARCH LABORATORY PROGRAM

Dr. WELLS. This could be a little misleading. Our satellite laboratories are actually laboratories that are developed in order to bring into the VA the influence of very important and very knowledgeable skillful, medical experts.

Mr. EVINS. We are not expecting you to take any of the veterans from the hospitals and put them in space.

Dr. WELLS. There is no space in this. This is simply a word to designate a special kind of laboratory. For instance, out at Sepulveda we have a man like Dr. Linus Pauling, a Nobel Prize winner, who actually overseas the laboratory in our VA hospital which is conducting some very interesting work on aging, principally in the memory phenomena of the aging. We have a similar kind of laboratory in Baltimore under Dr. Strehler, and so on down the line. We have several of them at the present time. We think it is a way to interest people we couldn't possibly employ because they are beyond our reach, but they are in the academic sphere. We want to get them to help us in our programs to develop a more sophisticated type of research.

Mr. EVINS. You have a satellite VA laboratory in Boston and one in California.

Dr. WELLS. Yes, sir.

Mr. EVINS. How did you arrive at the name?

Dr. WELLS. It was just a name to indicate that this laboratory would become a satellite of the university. It would be an outpost of a particular kind of work going on at the university. For instance, at Cal-Tech, this is a satellite of the Cal-Tech laboratory of Dr. Linus Pauling.

Mr. EVINS. Specifically what type of basic research are they engaged in?

Dr. WELLS. This is for the most part cellular biology, very sophisticated types of research having to do with genetic phenomena related to aging and the genetic code; material of the nucleus having to do thus with aging.

We have emphasized in our satellite program thus far the aging phenomena. This has been the central theme.

Mr. EVINS. How long have your satellite laboratories been operating?

Dr. WELLS. I believe our first one was 1964. It is very new.

MAJOR MEDICAL RESEARCH FIELDS

Mr. EVINS. Besides research in aging, what other general projects have you in research?

Dr. WELLS. We have projects in the cardiovascular field, for example, very many, because heart diseases is one of the major problems with which we have to deal. So here we have a fairly large number of projects—688 out of the 6,500 to be exact were in the cardiovascular area. This has included such things as the testing

and evaluation of drugs for high blood pressure carried out, particularly in the Washington, D.C. hospital. We have gone into the field of arthritis and rheumatism because this affects a large proportion of our patients. We have had very nice results, for example, in the use of jetspray type of the introduction of the cortisone-type drugs into the small joints of the hands and we have accomplished quite a lot of relief of these people and this has attracted a great deal of attention.

We have programs involving the gastrointestinal system—again a very high proportion of our patients, almost 25 percent, are in this field. So we have studies on the management of gastric and duodenal ulcers and cancers of the gastrointestinal tract. This is a large kind of program.

Among the other things is diabetes, for example, at Dallas and several other places. At Dallas we have a very advanced program where our investigators have been able to demonstrate that there are changes in the small blood vessels and the capillaries that long precede any of the other appearances of diabetes. Occurrences of sugar in the urine or anything else. This allows us to at least project the possibility of treating a disease before it is manifest. We are doing this kind of thing.

There is a lot of work in the field of chronic bronchitis, emphysema and cancer of the lung. You have probably all heard of Dr. Oscar Auerbach in East Orange, N.J. He has worked with the American Cancer Society for a number of years on cancer of the lung and his experimentation in the smoking dog.

Mr. EVINS. I notice you have "experiments with dogs." In Houston, Tex., doctors are experimenting with dogs in transplants of hearts and lungs.

Dr. WELLS. This is a part of Dr. Michael de Bakey's program of transplantation experimentation.

Mr. EVINS. The doctor is one of the greatest heart surgeons and experimenters. Is this a part of the VA—is his work a part of the VA research?

Dr. WELLS. He does a great deal of his experimental work at the VA hospital.

Dr. Starzl of Denver is without doubt the world's authority on the transplantation of organs. He has transplanted more than a hundred kidneys and——

Mr. EVINS. How about the physician in Omaha who is experimenting in drinking excess amounts of beer?

Dr. WELLS. He is not doing it personally, but after the affair in Canada, as you will remember, it was determined that there was something about people who drank large amounts of beer, that caused changes in their myocardium. Dr. Sullivan at Omaha happened to hit upon the very serious fact that this apparently is related to the cobalt content of beer which the brewers add to improve the head on the beer. They are experimenting with this.

Mr. EVINS. How long has this beer investigation been going on?

Dr. WELLS. A little over a year.

Mr. EVINS. What have they discovered?

Dr. WELLS. They believe that, at least statistically, it would appear that drinking large amounts of beer containing cobalt may be that causative agent in this curious failure of the heart muscle.

Mr. EVINS. Is this a VA research project?

Dr. WELLS. It is just now, yes, sir.

Mr. JONAS. What do you mean by "just now"?

Dr. WELLS. It just started a little over a year ago. I consider this quite recent.

Mr. EVINS. Doctor, we think this is an impressive brochure that you have here. It shows research at Houston, Tex. Is this the NASA Laboratory you are picturing here or is this a VA hospital?

Dr. WELLS. No, this is VA.

AGING RESEARCH PROGRAMS

Mr. EVINS. What have you been able to discover in the way of your aging research? How can we live longer?

Dr. WELLS. I am afraid we don't have the answer to that just now. We have by far the largest study that has been mounted in this country in Boston, working out of the Boston outpatient clinic. The idea there was to take a very large group of people representing a wide spectrum of the socioeconomic scale, also age scale ranging from 25 to 75 years of age. There are 1,500 in the initial study. These people are being observed periodically for all kinds of normal, physiologic parameters. Many things are coming out in this. None of them, Mr. Chairman, are what I as yet would call conclusive, but they are things that are leads as to what is this aging phenomenon.

For example, they are beginning to find that this business of overweight and underweight is not really a very real proposition because the amount of actual body fat that a person has may not be shown on the scales, exactly, because there is a change in the relationship between stable protein of the tissue and fat.

Now, we are working on another thing. This matter of exercise in aging. We have a carefully devised project at the Bay Pines Hospital on this.

As you know, many eminent medical authorities have said that if one exercises or continues to exercise he ages slower. No one has ever really proved this at all. This is only an impression. We are trying to mount a program which will actually demonstrate whether there is a positive effect or exercise in reducing the aging process. This is the kind of thing we are after.

We have a dietary fat program, for instance, that has been going for several years at the domiciliary out in Los Angeles. Here we have been able, by working with the food producers, to get an acceptable diet that is very low in saturated fat, almost completely replaced by unsaturated fats. We hope through this mechanism over a period of some years to answer this proposition: Does the content of unsaturated fat really have an important bearing on the occurrence of arteriosclerotic heart disease? Here we see this advertised and talked about, but actually no one has the proof, so we are working on it.

Mr. EVINS. Every now and then we see a story in the paper about somebody who lives to be 107 or 110. Do you ever interview any of these people?

Dr. WELLS. Yes, sir. Our first efforts on this had to do with the Spanish-American War veterans study. As you probably know, we

were startled to find a very large number of the Spanish-American War veterans, average age 86, I believe. They are vigorous and active into this old age. Now, why?

Mr. EVINS. That is what we want to know. What do they say? We don't want the word of the researcher; we want the word of the man who has had the experience.

Dr. WELLS. The only man I heard who had a good statement on that, he said he didn't spend his strength in his youth by resisting temptation.

Mr. EVINS. I want to throw out a suggestion that you have some of your researchers contact our esteemed Vice President John Nance Garner, who has just celebrated his 98th birthday. He says he is going to pass a hundred.

Dr. WELLS. He probably will.

Mr. EVINS. Well, Doctor, I just wonder whether this research is producting results significant enough to justify spending all this money.

I would have to observe again about this brochure, that it does indicate that there may be duplication because there are so many agencies of Government engaged in research.

Dr. WELLS. There is a certain amount of what one might call duplication, but it is essential duplication because we have a great deal of intercommunication so we try as best we can to eliminate those things that would be direct repetition of exactly the same observation.

Of course, our research has an entirely different mission and motivation and it uses the resources of our hospitals, since it is an in-house program and not a grant program, as are the National Institutes of Health.

RESEARCH BENEFITS

Mr. DRIVER. Mr. Chairman, in terms of the dollar return, we were largely instrumental in our research program in the perfection of the administration of streptomycin in tuberculosis cases to the point where in the early fifties we operated 21 TB hospitals and we now have none. The tuberculosis question is covered in conjunction with other hospital beds scattered around the system.

I think it is interesting that we have received more benefits than we have paid out for all the research we have ever had.

Mr. EVINS. Tuberculosis was one of the large causes of death.

You have about conquered the problem, or at least slowed it down.

Dr. WELLS. Yes. This has had a tremendous impact on actually the cost of patient care.

Similar things have happended in psychiatry, for instance. Not many years ago—I am sorry, I can't tell you the exact time—it was predicted VA would have to have something of the order of 200,000 psychiatric beds.

We are holding at about 50,000. I do not think it would be unfair or indiscreet of me to say that this is largely the result of multiple psychiatric research programs, including environmental type of research, psychology research, and the use of the psychic energizers and tranquilizing drugs.

We have a very large program in the study of the psychotherapeutic drugs.

Mr. EVINS. Very good, Doctor. He knows his subject.

SUMMARY OF OPERATIONS AND EMPLOYMENT

There is the summary of employment in this field, a summary of costs of employment. It is up from $42,911,000, including the pay supplemental to $45 million, a $2,150,000 increase for next year. We will place in the record 3–7 through 3–9.

(The pages follow:)

MEDICAL RESEARCH

INTRODUCTION

An appropriation of $45,061,000 is requested for the operations of the VA medical research program in fiscal year 1968. This is an increase of $2,150,000 over the expected fiscal year 1967 appropriation level after considering a proposed supplemental of $619,000 to cover the cost of pay increases provided by Public Law 89–504.

Due to the availability of $2,643,966 from the fiscal year 1966 appropriation for operational use of fiscal year 1967, this new appropriation request contemplates a decrease in total costs in fiscal year 1968 of $493,966 below the current year level.

The mission of the VA Medical Research program is directly related to the provision of medical care to the veteran population. Veterans with chronic diseases requiring long-term hospital care constitute a rising load for VA hospitals. Consequently, VA research seeks to gain new knowledge which will extend the clinical capacity of the VA medical staff in the diagnosis and treatment in such major problem areas as mental illness, heart disease, cancer, cerebral vascular disease (stroke), againg, alcoholism, and chronic disabilities.

Within this framework, the predominant research objectives are:

1. Improving diagnostic and treatment methods for use in the care of veteran patients;
2. Contributing to medical knowledge in proportion to the VA's obligation as a health service resource of the Nation;
3. Creating an environment of scientific progress and continued self-improvement essential to a modern high-quality program of patient care;
4. Promoting research in the basic sciences of medicine that are essential to the completion of clinical objectives; and
5. Aiding in the recruitment, retention and continued education of physicians and scientists in the Veterans Administration.

The VA system of hospitals and clinics constitutes one of the Nation's largest resources for the accomplishment of biomedical research. The potential value of this resource is heightened by the following operational patterns:

1. A highly organized system of patient care and research records;
2. Continuity of observation extending throughout the major lifetime of many individual patients;
3. Close working relationships with practically every medical school in the Nation and many universities;
4. A research management organization experienced in diversified program operation and evaluation.

Because of ever increasing advances in medical science and the accompanying improvements in diagnostic and treatment procedures, the pattern of medical research efforts to combat illness and disease is constantly changing. It is difficult to accurately predict which program changes will occur or which of thousands of ongoing or proposed medical research projects might yield results important to the VA medical mission and to humanity in general.

This budget estimate depicts planned program activities during fiscal years 1967 and 1968. However, new developments requiring change in these plans are likely to occur at any time.

Summary of employment and costs by activity

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Employment (average FTE)	3,325	3,357	3,449	+92
Consultants (FTE) included above	(28)	(28)	(28)	
Average payroll costs	$8,303	$8,620	$8,622	+$2
Employment by subactivity (average FTE):				
Medicine	932	940	966	+26
Surgery	476	481	494	+13
Neurology, psychiatry, psychology, social work	528	533	548	+15
Physical medicine and rehabilitation and nursing	33	34	35	+1
Pathology	116	117	120	+3
Laboratory animal medicine, science, and technology	176	178	183	+5
Radioisotope	398	401	412	+11
Basic science	390	393	404	+11
Dental	35	36	37	+1
Research support centers	57	58	59	+1
Other research costs	184	186	191	+5
Total	3,325	3,357	3,449	+92
Costs by subactivity:				
Medicine	$10,743,175	$11,524,885	$12,294,000	+$769,115
Surgery	3,433,031	3,775,000	4,042,000	+267,000
Neurology, psychiatry, psychology, social work	5,614,093	6,033,000	6,404,000	+371,000
Physical medicine and rehabilitation and nursing	392,454	422,000	450,000	+28,000
Pathology	1,346,455	1,449,000	1,530,000	+81,000
Laboratory animal medicine, science, and technology	2,031,876	2,187,000	2,307,000	+120,000
Radioisotope	4,544,526	4,881,000	5,228,000	+347,000
Basic science	3,939,886	4,226,000	4,538,000	+312,000
Dental	496,957	535,000	566,000	+31,000
Research support centers	850,821	916,000	971,000	+55,000
Other research costs	3,700,663	3,811,000	3,885,000	+74,000
Minor alterations and improvement of facilities	233,244	432,000	750,000	+318,000
Equipment for construction	505,887	5,363,081	2,096,000	−3,267,081
Total costs	37,833,068	45,554,966	45,061,000	−493,966
Costs adjusted for other years, net	1,552,264			
Total obligations	39,385,332	45,554,966	45,061,000	−493,966
Unobligated balance brought forward	−2,046,298	−2,643,966		+2,643,966
Unobligated balance carried forward	2,643,966			
Less proposed supplemental		−619,000		+619,000
Appropriation or estimate	39,983,000	42,292,000	45,061,000	+2,769,000

ARTICLE BY DR. BENJAMIN B. WELLS

Mr. EVINS. I think since Dr. Wells and Dr. Engle take such great pride in this article here we should extract from the magazine the section relating to VA and put it in the record.

Mr. DRIVER. Thank you.

(The article follows:)

[From U.S. Medicine, Jan. 1, 1967]

VA MEDICAL PROGRAM IS CLINICALLY ORIENTED—A STORY OF GROWTH

(By Benjamin B. Wells, M.D., Assistant Chief Medical Director for Research and Education in Medicine, Veterans Administration)

In the eleven years which have passed since the Veterans Administration first received a direct appropriation from Congress specifically for medical research, the research program has undergone a transition as significant as the growth from infancy to adulthood.

In size it has grown from a hopeful handful of investigators to an organized team of scientists which in 1966 consisted of 5,780 investigators working on 6,552 projects. More important, it has developed in its capacity for fruitful productivity as reflected in the 2,750 scientific papers presented at national scientific and professional meetings and 3,417 scientific articles published in recognized national journalists in the last year alone.

The following description of some of our major programs in progress and some of our major accomplishments during the past year will make it apparent to the reader that a major portion of the program is clinically oriented.

CLINICALLY ORIENTED

Actually, clinical research related to disease—its treatment, amelioration, and better understanding—constitutes more than 85 per cent of the Veterans Administration's medical research effort. The balance of the program consists of essential supportive investigations of the basic research type considered to be scientifically meaningful and relevant to extending knowledge of human health and disease.

This predominant orientation of the investigative program towards clinical aspects of medicine was not deliberate, it was predestined. Medical research in the VA is a mission oriented program that is responsive to the needs of the veteran population.

Our research is accomplished largely by physicians whose first interest, and major objective, is the welfare of the patient. It was therefore inevitable that these physicians would participate in research on clinical problems confronting them at the bedsides of their patients. There can probably be no better direction of medical research than this—nor better motivation.

Many of the investigators work independently of their projects. Others choose to collaborate with staff members of their own hospital or the affiliated medical school to approach problems of common interest simultaneously from several aspects. Still others pool their observations of similar patients under similar treatment in different hospitals.

These researchers take full advantage of one of the greatest opportunities offered by the VA, its unparalleled resources for the study of clinical conditions: enormous numbers of clinical cases, uniform medical records maintained according to a standard of excellence—all within a single, highly organized, integrated hospital system.

Diseases which are rare in a single hospital, or in the experience of a single investigator, become relatively common when totalled throughout all the VA health facilities, which collectively constitute the largest medical care system in the world.

RESEARCH IN AGING

The establishment by the United States Government during 1966 of Medicare to assist the aging citizen in his medical needs attests to the general concern over the results of the scientific advances; the numbers of individuals who live beyond the sixth and seventh decades has been expanded markedly.

Census figures indicate that by 1970, 28 million Americans will have passed the age of 60, compared with 24 million in 1960. This has brought into focus the lag in solving the problems of chronic disease and deterioration that increase with advancing age. The problem that faces us now is to assure these larger numbers of elderly citizens healthy and purposeful lives in their later years.

The patient population of the Veterans Administration reflects the increased utilization of hospital and clinic by this older group. The average age of all veterans is now 47 years. In 1956, the average age of the veteran patient in VA and non-VA hospital facilities was 49.4 years; in 1965, it was 54.3 years. Thus, a major concern of VA medical authorities is the care and treatment of the older veteran.

This has been reflected in the dramatic rise in the numbers of VA hospitalizations for arteriosclerotic heart disease (hardening of the arteries of the heart), the most common cause of death in the United States. Hospitalization of such cases in the VA rose from just under 12,000 in 1957 to almost 17,000 in 1965. The average hospital stay of each of these VA patients in 1965 was 34.1 days.

Strokes and other brain damage accompanying aging rose from 6,810 in 1957 to 13,111—almost double—in 1965. The average VA hospital stay for this type of case was 84.4 days.

Patients with aging lung disease (emphysema and chronic bronchitis), excluding tuberculosis, numbered 10,460 in 1957. By 1965, this had more than doubled to 21,373 VA patients, each hospitalized an average of 38.9 days.

Predicated on the FY 1965 average inpatient day cost for general hospital care of $30.99, these three diseases of aging alone resulted in VA inpatient care costs of approximately 78 million dollars during 1965. Loss to the national economy through the loss of productivity of the affected individuals can be estimated at an almost equivalent amount. Completely immeasureable, however, is the impact on the afflicted veterans and their families in terms of the future that the Great Society holds out as a goal for every American.

EMPHASIS ON AGING

Emphasis therefore continues, as it has for the past several years, on solutions to the health problems of the aging veteran. These range from the nearly 300 individual projects, part of the 6,552 projects active during 1966; through large scale major studies by teams of professionals based in one locality; to the true cooperative study of specific therapeutic approaches to disease, involving pooling of experimental results obtained in a number of VA hospitals. There are 33 of the latter now underway in the VA, involving from 3 to 30 hospitals each. Four of these involve medical approaches to the prevention and treatment of aging of the blood vessels and heart; two involve the treatment of mental deterioration with aging; and two are studies of how the endocrine glands change with aging.

Three aging studies now underway are worthy of specific comment since they represent prototypes for research to which the Veterans Administration is uniquely suited.

NORMATIVE AGING STUDY

A long-term study of the aging process among healthy men has been undertaken by the Boston VA Outpatient Clinic. Known as the Normative Aging Study, it aims to delineate selected anatomic, biochemical, physiologic and psychosocial aspects of aging in 1,500 initially healthy males ranging in age from 25 to 65 years. The subjects volunteer to return for periodic examinations for the rest of their lives. The subjects include all socio-economic and occupational groups which are representative of the general population. This study is expected to provide descriptions of normal aging processes, prediction of later outcomes, and correlation of variables, cross-sectionally and longitudinally.

DOMICILIARY DIET FAT STUDY

In the VA Center at Los Angeles, a large scale study is underway in which 400 domiciliary members have had their diets altered so that the normal fat has been four-fifths replaced by unsaturated fats. This study is double blind, neither the patients nor their doctors know which patient is receiving the experimental diet and which the regular.

To set this up required unprecedented collaboration between the food industries and the investigators to develop foodstuffs such as milk, ice cream, sausage products and others that have been altered in fat content but not in taste or appearance; between the nutrition sections of the VA and the investigators, to train dietitians and kitchen workers in new techniques (special meat cutters dissect each side of beef as completely fat free as possible); and between records and data handling experts, to keep the continuous flow of information on each of the patients in organized and readily available form. This study should settle the problem of the value of unsaturated fat in preventing or ameliorating arteriosclerosis in the human arteries.

EXERCISE AND AGING STUDY

Despite the medical opinions of some of our most prominent physicians on the beneficial effects of regular exercise on retarding or relieving the process of hardening of the arteries with age, the difficulties of setting up a truly controlled study have prevented the acquisition of acceptable scientific evidence to prove

or disprove these opinions. Indeed there are a number of scientists who suggest, again without proof, that exercise may be harmful in this respect. At the VA center in Bay Pines, Florida, a large scale study in its early stages whereby a group of patients with proven arteriosclerosis is being tested extensively, divided into an exercising group and a non-exercising group, and followed for a period of years. The two groups will be retested periodically and carefully checked for development of further disease in an effort to see what difference exercise has made in their health.

The Bay Pines-Jacksonville-Tampa area is particularly suited to such a study because of the large population of elderly veterans in this area, and because of the geographic stability of this population. Older citizens who settle there rarely move away again; and this, of course, is crucial to carrying out such a study over a period of years.

SATELLITE LABORATORY PROGRAM

In an effort to focus more intensely on the mechanisms of aging—an understanding of which will ultimately provide the means for retarding or preventing aging-related disease and deterioration—the Veterans Administration Research Service, in 1964, conceived its Satellite Laboratory Program. Under this unique concept outstanding non-VA senior researchers are able to undertake investigations of the nature and causes of the aging processes which are related to their particular areas of interest. Laboratory facilities are provided at VA stations in close proximity to the organizations of the collaborating scientists.

By June 1966, seven satellite laboratories had been established; the calibre of the senior scientist collaborators is such that these laboratories represent a major effort in aging research in the nation.

These laboratories are situated at the VA hospitals in Bedford, Mass., Baltimore, Md., Downey, Ill., Buffalo, N.Y., and Sepulveda, Calif. The latter hospital is the site for three separate units.

The unit at the Bedford hospital is under the sponsorship of Doctor Marott Sinex, Chairman and Professor of Biochemistry at Boston University School of Medicine. This laboratory is concerned with changes in RNA and DNA, the substances that are the basis for inheritance. Under investigation there is one of the theories of aging—that it is a process "programmed" at birth by the genes inherited from ancestors.

At Baltimore VA Hospital, Doctor Bernard Strehler, Chief of the Biological Research Section of the Gerontological Institute at Baltimore City Hospitals is the sponsor of a laboratory concerned with basic cell biology. This unit is testing systematically three proposed mechanisms of aging: that mutation of cells is responsible for the changes called aging, and ultimately for determining length of life; that the process that controls growth and differentiation of the body parts (i.e. body height, number and length of fingers, etc.) has built into it the changes of aging; and that the accumulation of certain waste materials in the cells have a role in the aging process.

Doctor Arthur Veis of Northwestern University is the sponsor of a research group at Downey VA Hospital studying the lens of the eye as a model for the aging mechanism.

At the Buffalo VA Hospital, Doctor Noel Rose from the Department of Bacteriology and Immunology, of the State University of New York, heads up an investigation of the theory that aging is caused by changes in body protein, changes to which the body reacts by mobilizing its immense mechanisms by which it defends itself against "foreign" substances.

Doctor Albert Tyler, Chairman of the Department of Biology, California Institute of Technology is the sponsor of two of the three satellites at the Sepulveda hospital. These two laboratories are exploring aging from the developmental biology approach. They are separately headed by independent scientists pursuing different experimental areas.

One is concerned with the effects of manipulation of the embryo on the rate and nature of aging, and the effects of aging on the reproductive system. The other is studying the effects of one type of cell on another in the same tissue culture and on transplantation from one animal to another. The mechanisms whereby these interactions influence normal growth, aging, and abnormal growth (cancer) are the focus of the work. The third laboratory at Sepulveda is sponsored by Doctor Linus Pauling. The mechanisms of memory and their changes with age are the areas under investigation. The relationship of these mechanisms to normal sleep and to surgical anesthesia is also being studied.

RESEARCH IN INTERNAL MEDICINE

Research in internal medicine continues to be the largest segment of the Veterans Administration medical research program. Of the $40 million allocated for the total program, almost $11 million were utilized for research in this specialty in fiscal year 1966.

Over 2,500 individual research projects are included covering a wide range—from purely clinical studies on the incidence, natural history, and therapy of specific diseases, to investigations into the molecular and cellular changes associated with disease. Some of the problem areas and related investigations may be described only briefly in the following paragraphs.

CARDIOVASCULAR DISEASES

Since heart disease is the leading killer of adult males in the United States today, much of the VA's research program in this area reflects the urgency attached to uncovering mechanisms for better treatments for this group of diseases.

During FY 1966, 688 research projects were being conducted in the cardiovascular area. These can be more finely divided: 323 projects were concerned with the detection and prevention of heart and blood vessel disease; 254 projects, with new approaches to treatment of these diseases; and 111 projects with the clarification of mechanisms of heart and blood vessel disease.

A physician-investigator in VAH, Birmingham has found that analysis of the motion of the chest over the heart not only gives important information on what diseases of the heart, if any, may be present; but also, by computer analysis, can yield significant information on the moment-by-moment efficiency of the heart as a pump. Such information in the past has been gathered only by such elaborate procedures requiring heart catheterization.

A physician in VAH, Wahington, D.C., has been successful in detecting the degree of hardening of the arteries in patients by analyzing the shape of the pulse wave as it is transmitted through the arteries of the neck or the wrist. Since hardening of the arteries occurs at different ages in different individuals, this now enables physicians to pick out at an early age a high risk group of patients for intensive anti-arteriosclerosis treatment.

A physician in Coatesville VAH has found an abnormality of the electrocardiogram that appears to be peculiar to a certain group of mentally ill veterans. The effects of some of the potent drugs used in treating the mentally ill on the electrocardiogram is now under investigation by him.

EXPERIMENTS WITH DOGS

In Houston VAH, doctors are experimenting on dogs with complete transplantation of heart and lungs. Only when the problems and techniques have been effectively solved in animals can any such procedure be applied to patients.

In Minneapolis VAH, specific changes in the structure of the heart in patients with chronic alcoholism are being studied for clues to treatment of this type of heart disease and for a better understanding of the nutritional requirements of the heart.

In Omaha VAH, a physician has described a form of heart disease that is associated with drinking large amounts of beer daily. Details of the nature of the heart disease and its treatment are being investigated.

ARTHRITIS AND RHEUMATISM

Although not one of the major killers of our time, this disease poses an important sociological and economic problem. It leads to repeated and frequently prolonged hospitalization, and eventually cripples and deforms its victims. It is an important cause of hospitalization among the veteran population and, as a consequence, investigators at a number of VA hospitals are working on various facets of the rheumatoid arthritis problem.

The VA Arthritis and Rheumatic Diseases Study Group has completed its cooperative study assessing the value of intra-articular cortiocosteroid treatment of small joints by means of Hypospray jet injection, and submitted the results for publication. In this double blind study of patients with comparable bilateral active rheumatoid synovitis of the joints of both hands and wrists the results showed a clear comparative difference in favor of medication administered by this method over placebo.

In addition, members of the Study Group compiled their experience in the clinical use of Hypospray jet injection of small joints among some 200 patients with 800 jet injection administrations. Clinical results were highly favorable.

As with diabetics, the earlier one can detect an arthritic individual and institute therapy, the more apt one is to delay the ultimate crippling and disability. A long term study of this problem continues to accept patients who have peripheral joint complaints insufficient for a definite diagnosis of rheumatoid arthritis. Each accepted patient has a normal control matched by sex and age. Clinical and laboratory progress of each patient is observed yearly.

It is hoped that long-range observation of these patients with mild disease may furnish invaluable information about the pattern of the progress of early rheumatoid disease.

GASTROENTEROLOGY

Over 500 research projects in gastroenterology, individual and collaborative, are currently underway in VA Hospitals. Cooperative studies, each of which involve several hospitals are being carried on in areas such as cancer of the esophagus, treatment of various hernia conditions involving the gastrointestinal tract, treatment of peptic ulcer, and treatment of gastrointestinal hemorrhage.

The VA Gastric Ulcer Cooperative Study has compiled pertinent information on over 800 patients and a book is being written reporting the findings regarding management of this common disorder and the reliability of stomach X-ray examination and response to medical treatment in differentiating this benign disorder from stomach cancer.

A special Purpose Research Laboratory for the investigation of liver diseases has been recently established at the Washington, D.C. VA Hospital, and is directed by an outstanding specialist in this field.

RESEARCH IN NEUROLOGY

The research program in neurology is directed into all aspects of the broad field of neurology with the exception of neurological problems of childhood. Because of the gradually increasing number of veterans in the older age group, emphasis is being given to research in diseases which are more likely to occur in this group, however, research not necessarily related to aging continues to receive strong support. Neurological diseases occurring in younger age groups which hold special interest are epilepsy, multiple sclerosis, and spinal cord injury.

A major effort to learn more about the causes and to discover improved methods of treatment and prevention of stroke continues. Two important cooperative studies on drug lipids are in progress. In one, Premarin® or a similar appearing placebo has been used in the treatment of more than 600 stroke patients in a statistically designed clinical trial. In a somewhat similar study chlorophenoxyisobutyrate (CPIB), Atromid-S, is being investigated as a therapeutic agent.

Two University-VA centers for research in the field of cerebral vascular disease, under joint National Institute of Neurological Diseases and Blindness-Veterans Administration support, have been established. The Duke-VA Center for Cerebral Vascular Research at the Duke University Medical Center and the Durham VA Hospital is investigating the biologic and clinical aspects of cerebral vascular disease. The Boston University Aphasia Research Center has been developed at the Boston University Medical Center, the Boston VA Hospital, and the Joseph P. Kennedy Memorial Hospital, for a center-type of total language research.

The use and development of new techniques of stereotactic neurosurgery are being employed at selected VA hospitals for improved treatment of Parkinson's disease as well as other involuntary motor disorders. Studies are underway for wider clinical application of the therapeutic possibilities of these types of treatment in other diseases, such as intractable pain associated with strokes and cancer. Basic scientific research continues on methods for improved diagnosis as well as assessment of clinical improvement in certain motor disorders after various types of medical and surgical treatment.

AMYOTROPHIC LATERAL SCLEROSIS

The epidemiology of amyotrophic lateral sclerosis is to receive careful scrutiny by a group of neurologists and epidemiologists from medical schools, the National Institute of Neurological Diseases and Blindness, and the VA. A pilot study is being developed to review conceivably pertinent information in the

VA charts and military records of veterans who have died from amyotrophic lateral sclerosis in order to try to determine etiological factors that may be playing a part in the development of the disease.

EPILEPSY

A program to improve the understanding and treatment of epilepsy is being developed at the VA Hospital, Palo Alto, California. A University-VA long-term study of the problems of patients with epilepsy, using multidisciplinary approaches, is being considered. The carefully maintained chronological medical records of the military services and of the VA, being readily available to VA physicians studying these patients, will facilitate accurate documentation of past histories.

SPINAL CORD INJURY AND DISEASE

The area of spinal cord injury continues to be one of high priority in the VA neurological research program. Although much has been done in improving our knowledge of care of the bladder and bowel in a patient who has sustained a spinal cord injury, not only in regard to the prevention of infection and the avoidance of the hypertensive crisis that occur in patients with high spinal cord injury when proper bladder drainage is disrupted, there has, as yet, been no breakthrough in the ability to promote regeneration in the spinal cord once its pathways have been interrupted. Both neurochemical and neurophysiological approaches, individually and combined, are being used in an attempt to solve that basic problem.

RESEARCH IN PSYCHIATRY

Particularly significant work on the effects of endocrine and nervous system responses to stress is being done at the Developmental Neuroendocrinology Research Laboratory at the VA Hospital in San Fernando, California. Productive stress studies are also underway at the VA Center in Biloxi, Mississippi and the Psychosomatic Research Laboratory, VA Hospital, Houston, Texas.

Forty-five VA hospitals are engaged in research on alcoholism, a national problem which has been largely shunned by research organizations outside and government. The VA hospital at Topeka, Kansas, which has had such a program underway since 1946 is currently using a problem-solving approach in a group-training setting.

Variant approaches are being tried at other VA hospitals. The one at Houston features a special room where the alcoholic patient can go for intensive help when he feels he must have a drink. The Coral Gables hospital has conducted research on aversive electric shock conditioning in animals for several years and recently adopted the technique to human beings with marked success. At the Salt Lake City, Utah hospital, a three-pronged therapy is used—an orientation clinic to which physicians can refer their patients for initial examination and treatment, a preliminary series of group therapy meetings, and later intensive group therapy.

Two of the VA's psychiatric research projects have attracted considerable attention nationwide during the past year.

Doctor D. Ewen Cameron, director of the Psychiatry and Aging Research Laboratory of the Albany VA Hospital, has been testing a chemical to evaluate whether or not memory can be improved by a drug. His preliminary results indicated that memory was aided in all test subjects who had scored 60 or better on a memory quotient test before being placed on the drug. Most of the subjects used in the study were in the 50–65 age range. Improvement ranged from slight to dramatic—the better the memory quotient was at the beginning, the greater was the gain after administration of the drug. Doctor Cameron found that a relatively small gain in the memory quotient score shows up as a considerably greater gain in the subject's social behavior and ability to handle himself in day-to-day situations.

The drug tested, Cylert, is produced by Abbott Laboratories. The principal side effect noted was that the chemical may prove slightly over-stimulating to a patient in the same fashion as the psychiatric energizers. Although the drug appeared quite effective in increasing the memory quotient of a normal subject, it did not appear to help the senile or brain-damaged patient. Its future potential appears most likely as a preventive measure in persons just starting to show memory impairment.

A new dimension in treatment of psychiatric patients has evolved at the Tuscaloosa VA Hospital. Doctor James C. Folsom, a VA psychiatrist, years ago was stationed at the VA Topeka facility. While there he was exposed to Doctors Karl and Will Menninger's ideas on the importance of consistency of attitude of all concerned with the care of the mentally ill. Experimenting since 1952, Doctor Folsom has modified the original Menninger concept, leading to the formulation of five basic attitude "prescriptions".

Under this concept each psychiatric patient entering the Tuscaloosa hospital is prescribed one of these five attitudes to be used by all the hospital staff in dealings with the patient. This unique therapeutic approach has produced such effective and successful results that it has attracted inquires from other psychiatric treatment facilities throughout the country.

RESEARCH IN PSYCHOLOGY

The complexity of the psychological aspects of the causes of disease, treatment ment and rehabilitative procedures in a modern health program is reflected in the broad and diverse research activities conducted by VA psychologists during the past year.

Highly qualified investigators at the VA Hospitals in Salt Lake City, Phoenix, and West Haven, have developed sophisticated instrumentation and methodology for exploring brain-behavior relationships. Rapid advances are being made in relating behavior phenomena to structure and function of the brain utilizing the evoked potential techniques. When a sensory stimulus, such as a flash of light, tap to the skin, or a sound such as a click is delivered to a man or animal, it evokes in the brain a complex sequence of minute electrical changes called evoked potentials.

The character of these cerebral evoked potentials indicates that they represent activity in several different parts of the brain and are produced by different nerve pathways. These investigators have discovered that the resultant complex wave patterns are reliable measures of cortical activity and reflect individual differences. Such investigations hold great promise for the development of objective methods for examining the functioning of the central nervous system especially in patients who cannot or will not cooperate with the usual clincal methods of sensory examination. The psychology laboratories at VA Hospitals, Sepulveda, Pittsburgh (Leech Farm Road), and Kansas City, are complementing this work through studies in behavioral pharmacology, brain biochemistry behavior interaction and biochemical and physiological bases of learning and memory. The effects of specific brain lesions on behavior is being systematically pursued in other laboratories.

One VA psychologist at Bedford, Mass., discovered and has developed a novel electronic method, "feedback" electroencephalography, to study cortical activation and the psychological, neurophysiological, and neuropathological conditions which modify it. Among other things he is using this technique to explore automatic regulation of level of alertness without stress.

APHASIA STUDIES

Although the amount of research effort devoted to aphasia on a national level lags in relation to the magnitude of the problem, VA research psychologists are in the forefront of significant work being done in this area. For the past two years, a psychologist at the Boston VA Hospital has pursued experimental procedures for detecting brain hemisphere dominance by differential efficiency in recognizing auditory and visual linguistic stimuli presented to one side of the brain or the other. Concrete applications of this issue lie in determining the risk of producing aphasia by operating on the side of the brain affected by a removable lesion or the ability of the unimpaired half of the brain to recover speech lost by injury to the other side.

Other studies are producing evidence as to anatomic allocation of certain linguistic processes in the brain, making it possible to diagnose aphasic defects more reliably. Another research psychologist, at the Los Angeles VA Center, has developed an automated teaching system for testing and retraining of brain damaged patients who show disorders in the area of visual language functioning. Work is now in progress in the Los Angeles laboratory to determine if lengthening the delay period between speech sounds in words will eventuate in better performance by aphasics.

At the VA Hospital, West Haven, an investigator's years of careful study of normal and pathological language, resulted last year in the compilation of a

conceptual dictionary of over 26,000 entries for use in language analysis. This work, of major significance, is directed toward a deeper understanding of the adaptational processes of patients as we may know them through the patient's language and also directed toward understanding the patient's integration into small groups.

PIONEERING STUDIES

The pioneering efforts of VA research psychologists at the Los Angeles VA Center in the scientific study of suicide have received world-wide recognition and have resulted in greater understanding of this behavior and development of preventative programs, both in the veteran and non-veteran population. A promising new approach to the wide range of self-destructive behavior is currently being developed in this laboratory in a study of patients who seem to be embarked on a long, devious, indirect road to self-destruction. This study will include, for example, diabetic patients who appear and reappear in hospital wards having neglected their diet and/or insulin regime. Also considered are alcoholics, drug addicts, the accident prone, careless cardiacs, inappropriate risk takers and others. Important work on the meaning of death is also being done at the Los Angeles VA Outpatient Clinic.

Clinical and research psychologists continued investigative activities in the front line laboratories of patient wards. Their effort is directed toward more accurate definition and quantification of behavior, increased knowledge of traditional procedures for altering or modifying behavior, and investigation of programs designed for more effective and successful return of patients to the community.

A research psychologist at Palo Alto VA Hospital has developed a community lodge, outside of the hospital itself, for discharged patients. No professional person is required by lodge members except on a consulting basis and one lay leader is currently on duty to supervise the productive work activities in which lodge members participate. Compared with matched controls in usual post hospital programs, these men are more frequently employed, remain out of the hospital longer and are more satisfied with their lot in life.

RESEARCH IN SURVEY

Surgical research in the past year has shown a steady increase in the number of projects with 87 stations engaged in over 700 individual research protocols, including 214 new projects. This research was conducted by 650 investigators. There were 524 publications, a 20 per cent increase in the number of publications over the previous year. Interest continues heavily in gastrointestinal, heart surgery and arterial disease investigation.

The Veterans Administration continues to play a prominent role in organ transplantation research. New developments in methods of preventing rejection of transplanted organs are being pursued at VAH West Roxbury, VAH Denver, VAH Nashville, VAH Coral Gables, and several other stations. Recent developments in improved techniques to select donors have increased successful transplants by 20-30 per cent. The investigation of anti-lymphocyte serum to reduce the rejection phenomena is receiving intensive study and beginning trial.

Hyperbaric medicine is under investigation in six hospitals with one large hyperbaric tank being in active use at Buffalo where investigative efforts are being pursued in the field of shock and peripheral vascular disease. All stations with hyperbaric facilities (of which there are four) are banded together under a single protocol to treat patients with gas gangrene.

The new technique for treatment of prostatic hypertrophy by the use of profound cold is currently under investigation at four Veterans Administration hospitals. Initial results are most encouraging and indicate that the technique may be especially useful in treating older and debilitated patients. The use of cryosurgery has been extended to other types of cancer, especially of the mouth and tongue, with encouraging initial results. A possible increase in the patients' resistance to cancer following the freezing procedure is under investigation.

Transplantation of the heart in animals has been accomplished at the Palo Alto VAH with some long term survival in these animals. Extremely valuable physiologic information has been developed. This work has proven the feasibility and satisfactory function of a heart deprived of all nerve connections. Continued success in liver transportation in animals is bringing this nearer to clinical application.

Several surgical cooperative studies are producing important information. A highly successful study of the value of four different operations for the very common duodenal ulcer is producing data which may lead to a better means of selecting the best type of operation for patients. The cooperative study of surgery for bleeding esophagela varices is the largest in the world and is beginning to produce important evidence and indications for the operation. The evaluation has carried out several very large studies of which more are planned. This study prepared an exhibit recently for the American Medical Association convention in Chicago and was awarded the Billings Gold medal.

Three new cooperative projects are beginning. Coronary artery disease is being evaluated by coronary angiography and surgery is being prescribed partly on the basis of the findings of this procedure. Five hospitals are ready to embark on a project to assess the value of implanting the internal mammary artery in the left ventricular wall.

A fifteen station retrospective study of rehabilitation of the arteriosclerotic amputee has turned up evidence which makes a prospective study necessary. This prospective study has started. From these studies better rehabilitation of the amputee should be expected.

RESEARCH IN CANCER

The incidence of treated cancer in the Veterans Administration continues to increase. There were approximately 45,000 cancer cases last year. The Veterans Administration's efforts have been both in the basic research with a study of epidemiology and immunology of concer. There are six cooperative studies in cancer in the Veterans Administration involving evaluation of various treatment methods including drugs, surgery, and x-ray therapy. These six cooperative studies involve 84 groups of investigators.

Over 5,000 patients with inoperable cancer of the lung have been treated and observed. No drug has proved more effective than nitrogen mustard which is of very limited value. Thirty-seven new cancer chemotherapy compounds have been evaluated in over 3,000 cancer patients. A large series of studies of satisfactorily screened drugs have been assessed in patients with all types of tumors.

The value of various cancer drugs in conjunction with surgical removal of tumor of the lung, colon, rectum and stomach has to date shown no beneficial effect. The invaluable experience and capability has, however, been developed as a result of these studies, providing an instrument for continued evaluation as new agents and approaches to the treatment of cancer are produced.

Prostatic cancer treatment has been studied and over 2,000 patients treated and observed up to three years. Accepted treatment methods will have to be carefully reviewed as a result of this work.

RESEARCH IN INFECTIOUS AND PULMONARY DISEASES

Allergy, immunology and infectious diseases are intimately interrelated, and any system of classification of research in these fields tends to oversimplfy the complex interrelationships involved. VA research in this broad area is supported by about 5 per cent of the annual research budget and includes approximately 80 programs of individual research, three cooperative studies—in chemotherapy and chemoprophylaxis of tuberculosis and therapy of fungus diseases, and three special laboratories.

Tuberculosis continues as a significant but decreasing problem among veteran patients. The tuberculosis cooperative studies of the VA-Armed Forces continue to evaluate and improve chemotherapy. A study of a new drug, capreomycin, was completed during the past year. This antibiotic was shown to be a satisfactory substitute for streptomycin in treatment of tuberculosis. A report of the study has been submitted for publication. Other studies have shown that tuberculosis of the spine can often be treated effectively with drugs alone with less frequent need for surgical fusion. It has also been shown that minimal and non-cavity pulmonary tuberculosis requires less intensive drug treatment than that needed for more extensive disease.

A number of research laboratories continue the studies of other aspects of tuberculosis. Investigators at Baltimore, East Orange, Jefferson Barracks and Minneapolis are studying drug resistance mechanism of tubercle bacilli in relation to metabolic and nutritional requirements of the bacilli. Other investigations relate to the immunization to prevent tuberculosis, and chemotherapylaxis

to prevent reactivation of arrested diseases. Diagnostic tests have been improved and standardized on the basis of VA studies.

An extensive study of mycobacteria other than *M. tuberculosis* has been underway for the past decade in several research laboratories and for the past five years as part of the tuberculosis cooperative studies. The infections produced by these bacteria resemble tuberculosis but are often more severe and respond less well to treatment. Continued research, particularly at the Atlanta, Salt Lake City and San Fernando VA hospitals has resulted in better understanding of these bacteria and better diagnosis and treatment of the mycobacterial infections they cause.

FUNGOUS DISEASES

Fungi which produce human infections are being investigated in basic research laboratories at Atlanta, Brooklyn, Cleveland, Fresno, Houston, Jackson, Kansas City, Long Beach, Memphis, Oklahoma City and San Fernando. The clinical diseases caused by fungi are being studied on many hospital services and great advances in the knowledge of these diseases have been made within the past decade including better definition and recognition of the clinical manifestations of fungous diseases, improvement in treatment and better identification of the epidemiology and methods of prevention of infection.

Bacterial infections such as pneumonia, osteomyelitis, pyelonephritis and dysentery are being subjected to investigation at Albuquerque, Chicago (Research), Hines, Kansas City, Long Beach, Los Angeles, Madison, Minneapolis, Nashville, Philadelphia and Washington VA hospitals. Studies in immunity are basic to improvement of treatment of infections as well as to development of methods for prevention of infectious diseases. Studies of pathogenesis which are underway can lead to prevention of recurrent attacks of pyelonephritis, brucellosis and similar infections. The urinary problems of paraplegic patients are receiving special attention at the Long Beach hospital.

Virus infections have come under special study particularly at the New York, Hines and Memphis hospitals. Technics have been developed for isolation and maintenance of viruses in tissue culture. These technics are essential to the development of vaccines. Investigators at Bronx, Cincinnati and New York hospitals are studying further the relationship of viruses to cancer. One more important aspect of these studies is to establish that vaccines grown in tissue cultures can be produced without contamination with other viruses which could cause cancer.

Basic studies in immunobiology continue to seek the mechanisms by which the body recognizes and rejects foreign living tissue. Until these can be fully understood and prevented, transplantation of tissues and organs cannot be accomplished except under unusual circumstances. Successful treatment and prevention of disease such as rheumatoid arthritis will depend on understanding and controlling the immunologic factors that underlie the diseases.

Allergy, immunology and infectious disease research in the VA provides opportunity for strictly basic laboratory study of fundamental biologic mechanisms as well as applied investigation into day by day clinical problems in wards of VA hospitals with close interrelation of these two types of research approach.

LUNG DISEASES

The principal disease of lungs which afflicts veterans is chonic obstructive lung disease. This disease complex includes asthma, chronic bronchitis and pulmonary emphysema. The similarities and differences among these disease entities have been well documented by VA investigators and others both in the U.S. and Great Britain. The physiologic derangements which result have been clearly documented and numerous methods of measuring the incapacitating effects have been devised.

Attention has been focused recently by VA investigators on studies of the etiology and pathogenesis of chronic obstructive lung diseases. If the cause or causes can be determined, programs for prevention can be developed. This would be a much more effective approach than treatment of the disease once it has become established.

Many factors have been identified as probably related—such as air pollution, smoking which provides a specific pollution of the air in the lungs, recurrent

respiratory infections, allergic disorders, vascular changes and perhaps congenital predisposition. Several research laboratories are concentrating on testing these relationships. It has been found that exposure of animals to nitrous oxide absorbed on carbon particles can duplicate many of the changes seen in human lungs caused by emphysema. Similar changes can be produced by drugs and particles which obstruct the blood supply to the lungs.

SMOKING DOGS

Most recently it has been demonstrated that changes resembling emphysema can be produced in dogs that have been made to smoke cigarettes regularly. This work was accomplished by Doctor Oscar Auerbach in his laboratory at the VA Hospital in East Orange, New Jersey.

Radioisotope labeled serum albumen particles have been adapted to produce lung scan studies. This provides a most successful method of mapping many diseases of the lungs, especially those which involve the blood vessels. These studies are being compared with other diagnostic techniques in one large investigation to determine the best method of detecting early and occult pulmonary embolism.

Other investigators are studying the biochemical changes that take place in lungs with diseases, both acute and chronic, compared with the changes which result from aging without diseases.

Diagnostic technics receive considerable attention in VA pulmonary disease research laboratories. Cardiac catheterization, special X-ray studies, improvement of endoscopic methods and refinement of the tests of respiratory function receive critical study but many of these which have been developed in recent previous years are now routine service tests. The VA hospitals have received higher operating budgets to apply these procedures routinely. This has freed research money formerly committed to the support of these laboratories. This makes it possible to support new and different research programs. Currently, about 3 per cent of the VA research budget is used for pulmonary disease research.

The research summarized in the preceding paragraphs constitutes the major portion of our diversified program. But in addition to the foregoing the VA is conducting investigations in many other fields—in oral diseases, social work, pathology, in physical medicine and rehabilitation, clinical nursing, in audiology and speech pathology, and, of course, in basic sciences.

SMALLER PROGRAMS

These smaller programs, although lesser in size and scope due to funding limitations, have produced equally significant scientific results.

The work of Doctor Liberson at the Hines VA Hospital, for instance, has attracted international attention in the field of physical medicine and rehabilitation. Development of a tartar inhibiting toothpaste by Doctor Charles M. Belting at the Sepulveda VA Hospital provides promise of eliminating the primary cause of most gum disease. It is but one of the dental research program's outstanding accomplishments. The work of Doctor Leonard Skeggs, Cleveland VA Hospital, in developing the now famous "autoanalyzer" which has revolutionized laboratory procedures is yet another accomplishment which has received widespread acclaim.

The point I am trying to make is that all good research does not necessarily have to come out of a large program; there is no correlation between size and quality in research.

CONCLUSION

It can be readily realized that a medical research program, predominantly clinically oriented in its goals and completely intramural in its constitution, provides ideal conditions for the rapid translation of results of successful research efforts into established clinical practice within a unified hospital system. Veteran patients thus stand to gain immediate and direct benefit whenever improved patient care results from VA medical research.

But such health benefits are not restricted to veterans alone. The acquired knowledge is communicated to the medical community at large through presentations at professional meetings, publications in scientific and professional journals, and through articles in the lay press. These additions to the fund of medical knowledge thus become available for use in improving the health of all mankind.

DISTRIBUTION OF MEDICAL RESEARCH FUNDS

Mr. EVINS. On this chart on page 3–11, $12 million, 27 percent is research in medicine, 5 percent is equipment, 9 percent is research in surgery. Fourteen percent is research in neurology and psychiatry and social work. What is the nature of your social work research?

Dr. WELLS. This is a social work service type of research in which the various patient populations are sampled for the best procedures having to do with disposition, for example.

The kinds of patients who are multiple returnees to hospitals versus those who have single illnesses; many other social and economic problems that bear on the cause of disease. There are many economic social problems that actually we can say today are causative of diseases. At least they are causative of hospitalization. So we try to research these where we can find them.

Mr. EVINS. Are you making any great strides in your research in alcoholism studies?

Dr. WELLS. We think we are, principally in the matter of identifying the patient, recognizing that this is an illness rather than a social crime, and that these people can be assisted by good psychological and psychiatric care.

As far as downright physical measures are concerned, there are not many new breakthroughs in this. We are doing a lot of biochemical studies but they really are not productive as of now.

Mr. EVINS. You have 12 percent of your total research in radioisotopes and another 10 percent in what you call basic research.

Then you have 9 percent in other research. You do not identify what this is. Is it anything that develops?

Dr. WELLS. This is a wide variety of small projects.

Mr. PRYOR. Mr. Chairman, may I ask a question?

Mr. EVINS. Mr. Pryor.

Mr. PRYOR. When you initiate a research project, do you try to set a time limit, such as, on project A we are going to spend 1 year and on project B 10 years. If so, how is this determined?

Dr. WELLS. We have a regular project evaluation system, Mr. Pryor, in which every project is identified and written up at the field station. This first passes the research and education committee, at that station, which is made up of both VA and university people. Then this comes in to us and depending on its category it goes out to one of our 11 study committees that are made up of both VA and non-VA people.

If it passes this particular filter it comes in and is handled by our research and education council, which takes into account at that point the administrative necessities, cost, and so on.

The project is then set up for approval with a date limitation. At the present time we do not extend the limits beyond 3 years, because we review everything in 3 years. But many projects we do not extend beyond 1 or 2 years.

Mr. EVINS. In the cost of this medical research you indicate that an increase of $803,000 to $29,739,000 is required for payroll costs and 3,449 employees. It represents an increase of 92 in average employment over last year. In other words, the great bulk of the increase is for personnel costs.

Dr. WELLS. Yes, sir.

Mr. EVINS. Then you have $432,000 increase in travel and utilities. Why do you have to expend that amount of money? You have your facilities.

Dr. WELLS. That is a technical item, really, under our Supply Service. This is a change of funding of our equipment in which the equipment is being capitalized by the Supply Service and we are renting it from them. This is an experimental run to see whether this can be done more economically on this basis than through purchase by the individual station.

I may be corrected by the controller on that, but I believe that is the essential reason for this change.

Mr. EVINS. $428,000 is a lot of extra utility cost.

Dr. WELLS. A portion of this is equipment.

Mr. EVINS. It says for rents and communications and utilities. That is what your justification says.

Mr. WISE. This is not only the equipment rental, but also there are a number of new research buildings coming into being plus the new research space in new hospitals.

Mr. EVINS. Mr. Controller, do you accept everything they recommend to you or do you sort of bargain with them?

Mr. SHYTLE. We sort of bargain with them. Most of this is, as Mr. Wise said, for new research activities that are coming in. We have that spelled out in here on 3–17 and 3–18.

ADDITIONAL RESEARCH LABORATORY SPACE

Mr. EVINS. Let us take a look at some of these. Ann Arbor, Mich., it is third and eighth floors, you say? That does not tell us much.

Mr. DRIVER. Alterations to third and eighth floors.

Mr. EVINS. Is that research?

Mr. SHYTLE. Research, yes.

Mr. EVINS. Alteration of a research lab and you are modernizing the third and eighth floors?

Mr. SHYTLE. It is alteration of hospital space for research purposes. That is what that is intended to say.

Mr. EVINS. Animal Research Laboratory at Albuquerque, N. Mex. This is Project 5112. What do you propose to do with this?

Dr. WELLS. Two things. We want to increase the Animal Research Laboratory space there. We have to replace a laboratory destroyed by fire. We are trying as we can to greatly improve our laboratory animal spaces in line with the new animal legislation. For the most part our laboratories are up to standard, but there are places where we need to increase their equipment to bring them in line with the new animal laws.

Mr. JONAS. May I ask a question?

Mr. EVINS. Mr. Jonas.

Mr. JONAS. What is this additional research space at Durham of two items?

Are you referring there to activation of the new research laboratory, or is this in addition to that?

Dr. WELLS. There is a new wing that is being completed and will be completed within the next month or so.

Mr. JONAS. I know it is under construction now.

Dr. WELLS. Yes, sir.

Mr. JONAS. It is a complete research laboratory separate and apart from the Duke medical school and separate and apart from the VA hospital.

Dr. WELLS. It is connected to the VA hospital at all floors.

Mr. JONAS. Connected by what?

Dr. WELLS. Hallway connections all the way through.

Mr. DRIVER. It is a hospital addition for research purposes.

Mr. JONAS. That is the one under construction now. You have a separate research laboratory at Durham.

Dr. WELLS. There is a renovation of the nurses program for the stroke program that is jointly handled by us and the National Institutes of Health. It is right on the hospital grounds.

Mr. JONAS. I did not mean it was on other grounds; I thought it was a separate structure.

Dr. WELLS. It is.

Mr. JONAS. Is that a dormitory?

Dr. WELLS. It was a nurses' dormitory.

Mr. JONAS. What are you doing with it now?

Dr. WELLS. It is being renovated for laboratory space for neurologic research.

Mr. JONAS. That is what I was talking about. That is not connected with the hospital.

Dr. WELLS. No, sir.

Mr. JONAS. That is what I had in mind.

Dr. WELLS. Yes, sir.

Mr. JONAS. Is that what this space is for?

Dr. WELLS. Yes, sir; for those two projects.

RESEARCH EQUIPMENT

Mr. EVINS. This equipment you are leasing, do you find it more advantageous to lease it than to purchase it?

Dr. WELLS. We do not have sufficient experience with this yet. As I say, this is a supply fund experiment. We don't know.

Mr. MONK. What we are testing here is the possibility of charging the hospital rent on equipment rather than making a capital purchase at the hospital. We would buy the equipment out of a fund and then instead of giving the hospital money every year to buy new equipment or replace equipment, they would only get money to rent. The rent would go into the fund and we would use the rent money to buy new equipment that would be put out into the hospitals.

Mr. EVINS. Are you entering into long-term lease arrangements?

Mr. MONK. No. We purchase it initially in the fund. Then the fund charges the individual installation rental which then goes back into the fund to replace the equipment.

This would handle the capital expenditures for equipment for the total system on a more even basis if we could work it out.

Mr. EVINS. This new equipment you list of about 24 items across the country to be added to your research facilities, I suppose, Doctor, you had many more requests than you approved? You screened these down to the essential ones.

Dr. WELLS. Yes. We have outstanding at the present time just over $8 million of unapproved or unfunded requests that have gone through the entire approval system.

Mr. EVINS. Looking through your budget I find many items that you are putting in your various hospitals, and I can recognize that every hospital director would want this equipment and that equipment. Naturally, he wants the most modern equipment.

Is it necessary to duplicate the same equipment in every hospital? You have these centers of excellence. You have a multitude of all types of cases. We will get to this later.

Dr. WELLS. From the standpoint of research——

Mr. EVINS. Outside of research, do you have to put every new facility in every hospital?

Dr. WELLS. I do not think so.

Dr. SKOUGE. We do not really try to do this. There are certain basic pieces of equipment that every hospital has to have. There are other items that we will not place in certain hospitals because we do not have the skills there to use them.

As a consequence it would not be very economical for us to do so.

Mr. EVINS. It would not be economical, although the director of the hospital would like to have it?

Dr. SKOUGE. We are watching this as carefully as we can so we are not putting equipment into hospitals where it cannot be used.

Mr. WISE. The more expensive equipment requires Washington approval.

Mr. SHYTLE. The theory behind this rental test is that the hospital will then relieve itself of excess equipment more readily. If he is paying rent for the equipment he is certainly not going to keep unused pieces of equipment. This is a test to see how we come out in total or the whole equipment utilization program.

EXPLANATION OF COST CHANGES

Mr. EVINS. We will put in pages 3–15 through 3–18.

(The pages follow:)

MEDICAL RESEARCH

JUSTIFICATION OF ESTIMATES

The cost changes are explained as follows:

1. *Explanation of $803,000 increase for personnel compensation and benefits.*—A total of $29,739,000 is required for payroll costs under Object Class 10 for an average full-time equivalent employment of 3,449 employees in fiscal year 1968. This represents an increase of 92 in average employment and $803,000 over the 3,357 average employment and $28,936,000 in payroll costs planned in fiscal year 1967.

The increase in employment of 92 at a cost of $795,000 is required to staff new research facilities in space provided through major construction and alteration projects and to provide support in new medical research projects. Other increased payroll costs of $201,000 due to within grade increases and wage board adjustments and $4,000 is required for annulization of the pay raise (Public Law 89-504) against a decrease in payroll costs of $197,000 due to one less work day in fiscal year 1968.

2. *Explanation of $4,000 increase for travel and transportation of persons.*—Fiscal year 1968 requirements for employee travel under Object Class 21 will increase $4,000 over the fiscal year 1967 total at $297,000. These funds are required to cover the travel costs of new employees recruited in scarce categories of positions and for needs associated with new research projects to be undertaken.

3. *Explanation of $428,000 increase for rents, communications, and utilities.*—Costs in Object Class 23 will increase $428,000 to a total of $740,000 compared to $312,000 in fiscal year 1967. A test whereby rental charges are paid for equipment on hand was inaugurated in fiscal year 1967 at three VA hospitals with an increase in rental costs of $110,000 to the Medical Research program. The number of test stations will increase in fiscal year 1968 with a concurrent increase in rental costs.

4. *Explanation of $52,000 increase in other services.*—The costs of repairs to furniture and equipment, maintenance and repair services and other contractual services in Object Class 25 will increase from $1,438,000 in fiscal year 1967 to $1,490,000 in fiscal year 1968, an increase of $52,000. This increase is occasioned by the initiation of new research projects and an acceleration of effort in existing research projects.

5. *Explanation of $684,115 increase in supplies and materials.*—Costs in Object Class 26 in fiscal year 1967 are $4,327,885 compared to costs in fiscal year 1968 of $5,012,000. The increase of $684,115 is required to meet price increases in order to provide expendable supplies and materials for ongoing research projects and to fill needs for those items in additional research studies to be undertaken. Additional expendable supplies and materials are also required to provide initial support to effectively use new research space made available through alteration or construction projects.

6. *Explanation of $2,783,081 decrease in equipment.*—Requirements for Object Class 31 equipment will decrease from $9,670,081 in fiscal year 1967 to $6,887,000 in fiscal year 1968. Costs of equipment for existing facilities will increase $484,000 while those for initial equipment for construction projects will decrease $3,267,081, a net decrease of $2,783,081.

A total of $4,791,000 is required in fiscal year 1968, or $484,000 over fiscal year 1967 costs of $4,307,000, in order to provide initial and replacement equipment associated with existing research projects and with new studies to be undertaken. As additional amount is also needed to provide replacement equipment in order to effectively use new research space made available through major alteration or construction projects accomplished under the Construction of Hospital and Domiciliary Facilities appropriation or through minor alterations or improvements.

Subject to the availability of total fiscal years 1967 and 1968 Medical Research amounts reflected in this estimate, the Veterans' Administration proposes to earmark funds sufficient to result in applied costs of $5,363,081 in fiscal year 1967 and $2,096,000 in fiscal year 1968 specifically for initial equipment for new research space provided under the construction program. If delays, changes in scope, or substitutions of construction projects occur, the earmarked appropriation "no year" funds will be retained exclusively for the above stated purpose with any savings applied to equipment requirements for future projects.

Within the amount of $5,363,081 available in fiscal year 1967 for equipping newly constructed research facilities, there is included an unobligated balance of $2,481,061 remaining available from the fiscal year 1966 appropriation.

Fiscal year 1967 and fiscal year 1968 amounts of $5,363,081 and $2,096,000 for equipping newly constructed research facilities are comprised of the following:

Station	Construction of H. & D.F. appropriation project No.	Description
Fiscal year 1967 programing:		
Albuquerque, N. Mex.	5112	Animal research laboratory.
*Ann Arbor, Mich.	5189	Alter 3d and 8th floors.
*Atlanta, Ga.	5207	Replacement hospital.
*Birmingham, Ala.	5173	Research addition.
*Cincinnati, Ohio	5259	Alter building 5.
Denver, Colo.	5161	Special research laboratory.
*Durham, N.C	5151	Additional research space.
Do.	5162	Do.
East Orange, N.J.	5142	Special research laboratory.
Do.	5150	Senior investigation laboratory.
*Lake City, Fla.	5238	X-ray room, building 27.
Los Angeles, Calif.	5575	Research addition.
Memphis, Tenn.	5257	Replacement hospital.
Miami, Fla.	5212	Do.
Minneapolis, Minn.	5169	Additional research space.
Oteen, N.C.	5152	Replacement hospital.
*Palo Alto, Calif.	5542	Miscellaneous alterations.
Philadelphia, Pa.	5410	Research alterations.
*San Fernando, Calif.	5593	Convert nurses quarters.
San Francisco, Calif.	5507	Research addition.
*Seattle, Wash.	5182	Additional research space.
Syracuse, N.Y.	5507	Research extension.
West Haven, Conn.	5063	Convert building 2.
West Roxbury, Mass.	5279	Additional research space.
Fiscal year 1968 programing:		
Albany, N.Y.	5662	Research addition.
Boston, Mass.	5265	Research facilities.
Bronx, N.Y.	5634	Convert space to research.
Cincinnati, Ohio	5268	Research wing.
Gainesville, Fla.	5232	Relocation hospital.
Iowa City, Iowa	5159	Additional research space.
New York, N.Y.	5649	Convert ward to research.
St. Louis, Mo.	5205	Research additions.
San Juan, P.R.	5045	Replacement hospital.
Tucson, Ariz.	5139	Research alterations.

*Programed and funded in prior years; procurement not completed.

7. *Explanation of $318,000 increase in lands and structures.*—Object Class 32 requires a total of $750,000 in fiscal year 1968, an increase of $318,000 in costs over the $432,000 in fiscal year 1967. Recent Bureau of the Budget approval of an increase in the operating appropriation limitation for accomplishment of minor alteration and improvement projects from $5,000 to $25,000 will increase expenditures, and will permit needed conversions of available space to improve existing research areas or provide additional research areas.

Mr. EVINS. Here is the summary of employment. If you look on this chart 3–19, nearly every item is plus, plus, plus or an increase. I think you have only two reductions. Are you taking a look to keep these objects costs down. You have four research centers, Sepulveda, Hines, Little Rock and West Haven, is that correct?

Dr. WELLS. Yes, sir. These are the support centers.

Mr. EVINS. How do they differ in their research work from research going on in all your 167 hospitals?

Dr. WELLS. Their prime purpose is to give to the hospitals in their region very special kinds of support that we simply could not afford to have at each station.

For example, we have statistical support, the design of experimentation which requires biostatisticians. We have biophysical equipment, computer equipment, and many of the very expensive types of equipment and skills that we simply could not afford to have in individual

Mr. EVINS. If an unusual case develops anywhere in the VA hospital system, the doctors can call upon one of your special research centers to check it out and supply additional information.

Dr. WELLS. That is correct.

PROSTHETIC RESEARCH PROGRAM

Mr. EVINS. The prosthetic research, you are asking for an appropriation of $1,397,000 for 1968. This is an increase of $50,000 over last year, and $10,000 is for pay act increases of workers in the prosthetic research field.

Do you make your results available for the benefit of all disabled persons and medical science generally?

Dr. TIMM. This program is very directly related to the provision of medical care to the veteran population. It is as much developmental as it is original in scope. About half of the money that is proposed for prosthetic research is in contracts. We recognize a certain specific problem in the field of prosthetics or sensory aids, and contract with some well-established organization, often in a university but not necessarily so, to develop this particular project. One of the more striking, which just came to public notice this year, for example, was in the field of immediate application of artificial limbs to amputees. Of course, amputation of the lower extremeties is becoming more and more a problem in the Veterans' Administration because of its relation, No. 1, to combat disability, and secondly, to the medical causation which is related to aging.

We contracted with Dr. Burgess of Seattle, who had worked with Dr. Weiss in Poland, on the possibility of applying the artificial limb at the operating table.

This research has paid off very handsomely. The patient is fitted with a temporary prosthesis while still under the anasthetic. He is able to bear his weight the following day. Within 30 days very often they are returning to all kinds of activity. We have individuals who within 30 days have been back running their grocery stores. We have had patients who have been able to go out and play golf on their artificial limbs. This has all grown out of new ideas about muscle dynamics. So we got into the area.

Mr. EVINS. You have private manufacturers who have performed research in this field, who have developed the device, and are willing to sell it to the VA and to individual veterans. I suppose there are a good number of them on the market that are competitive and you can approve the ones that are the most proficient.

Dr. TIMM. Actually our research in this area is usually in the fields where these things have not been developed, such as in the utilization of specially devised canes for the blind, utilizing laser beams so that the mobility of the blind is greatly increased.

We are involved in development of electronic techniques, utilizing computers in some instances, but essentially being related to scanning devices which are able to go across a printed page and convert the light impulses from the machine to a tactical impulse. The blind person can then get these stimulations through his fingers and from them he can read any printed matter and he doesn't have to depend on specially printed braille books and papers. Some of the more sophisticated areas we are working in have not paid off yet.

Mr. EVINS Are you getting out of the prosthetic field?

Dr. TIMM. That is prosthetics and sensory aids, the same area.

Mr. EVINS. Are you telling the committee that private manufacturers have not manufactured and developed these prosthetic devices?

Dr. TIMM. Not to the point where they are usable.

Mr. EVINS. I thought you selected the one most proficient.

Dr. TIMM. We do after the item is established. There is a great deal that is not yet known in bioengineering.

Mr. EVINS. We had a demonstration here a few years ago of the various different types, and the VA recommended a particular type.

Dr. TIMM. A good many of those we developed.

Mr. EVINS. The VA developed them?

Dr. TIMM. Yes, sir.

Mr. DRIVER. Over the years since World War II particularly. The stimulation that has come to artificial limbs, particularly in new developments, has come principally from this program.

Mr. EVINS. They are light in weight.

Mr. DRIVER. They are pneumatic.

Dr. TIMM. Some work on a hydraulic principle instead of a mechanical principle.

Mr. EVINS. You have a good model developed and you can use it now?

Mr. DRIVER. It is not good enough.

Mr. EVINS. It is near perfect.

Mr. DRIVER. It can be improved. I would say when we get an artificial knee that works as good as a natural knee, we might be content.

Mr. EVINS. You state that your research in this field has become internationally recognized and acclaimed.

Mr. DRIVER. Yes, sir.

Mr. EVINS. The VA has made great advances in this area.

Mr. DRIVER. Yes, sir.

CONTRACTUAL PROSTHETIC RESEARCH

Mr. EVINS. Your chart on 3–31 shows your VA research and your contractual research for braces and artificial limbs. It is much more with the contractual people than the VA. This just confirms my earlier impression.

Mr. DRIVER. We are supporting this.

Mr. EVINS. Explain this chart on page 3–31, Dr. Timm.

Dr. TIMM. The contractual research is largely with universities and not with manufacturers. The one or two nonresearch contractors we have are actually commercial research enterprises that were developed at the behest of other Government agencies, such as the space agency. They happen to have, either heading them or as part of their organization, engineers who are particularly proficient in the field of biodynamics and bioengineering. The Mauch Laboratory, Hans Mauch was brought to this country by one of the other agencies.

Mr. EVINS. We were just giving the VA the credit and acclaim for all this accomplishment and achievement and the chart shows that the contractors are spending more money than the VA. You have more money than you can use, so you use what you want on research and give the rest to the contractors.

Dr. TIMM. No, sir. We work up the projects and then find somebody that is able to do it.

Actually, we do some of the research in our own laboratory in New York. As I mentioned in my opening remarks, Dr. Burgess' work was a contract. He is not a VA man. But this was largely done in a VA hospital. We conceive the problem and set it up, and then with the assistance of the National Academy of Sciences and other consultants within our organization we seek about for people that are able to carry this out. There are not very many people that are actually effective in this field.

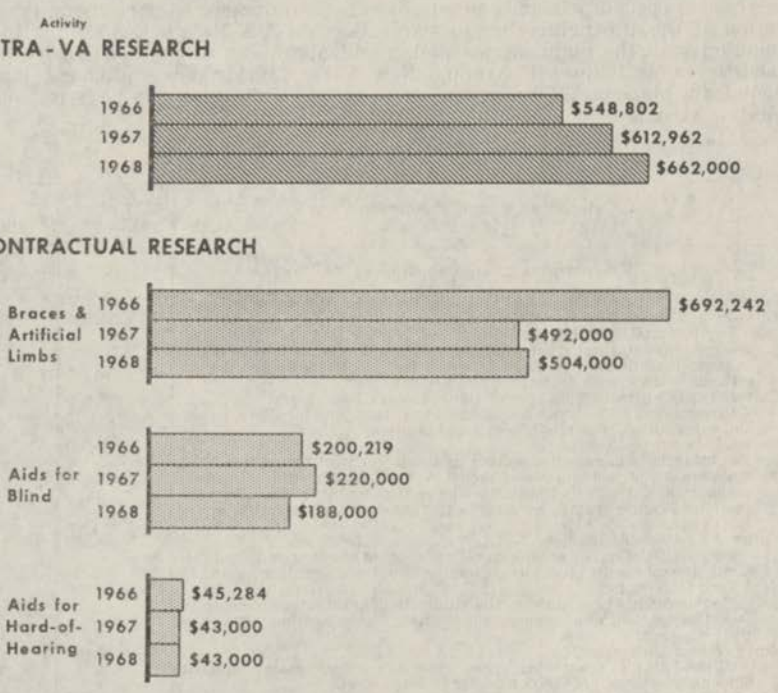
Mr. SHYTLE. That is spelled out on 3–53 through 3–57.

Mr. EVINS. Let us place in the record 3–31 and 3–53 and 3–54, your prosthetic research performed by contract, and down through 3–57.

(The pages follow:)

COMPARISON OF PROSTHETICS PROGRAM COSTS BY ACTIVITY

FY 1966, FY 1967, and FY 1968



PART 3. MEDICAL AND PROSTHETIC RESEARCH

PROSTHETIC RESEARCH

Justification of estimates

The planned net cost increase of $29,038 in fiscal year 1968 over anticipated fiscal year 1967 costs is explained by object as follows:

Object class 10 (payroll costs).—A total of $425,000 is requested for personnel compensation and benefits payable to an average full-time equivalent of

38 employees. This is an increase of $20,000 over fiscal year 1967 estimated costs of $405,000. Average salary increase of employees on duty in the program during fiscal year 1967 will require $4,000. An additional $1,000 is required for the annualization of the PL 89-504 pay raise. Two additional employees will be needed: one for evaluation of new aids for the blind at Hines VAH, and one for the VA Prosthetics Center. Cost for these two new employees will be $15,000.

Object class 24 (printing and reproduction costs).—A total of $18,000 is requested in fiscal year 1968 which is an increase of $2,000 over fiscal year 1967 expenditures for printing and reproduction purposes. The additional funds will provide for increasing costs of these services and permit increased dissemination of the results of VA research in the prosthetic field in order to expedite clinical use for the benefit of the disabled—both veteran and nonveteran. Delay in making known the successful results of research negates or minimizes the reason for investment in research with resultant disadvantage to the disabled who will benefit therefrom.

Object class 25 (other services).—A slight decrease from $854,000 in fiscal year 1967 to $853,000 in fiscal year 1968 will require some curtailment of projects on aids for the blind in order that VA may concentrate greater effort on development of the uses of auxiliary power for operation of artificial arms and hands.

Object class 26 (supplies and materials).—A decrease of $1,000 for office supplies and a minor increase of $38 for supplies and materials results in a net decrease of $962 for these items.

Object class 31 (equipment).—A total of $37,000 is required for fiscal year 1968, an increase of $9,000 over the $28,000 expected for fiscal year 1967. This increase is needed primarily to purchase new equipment as part of the modernization of the Bioengineering Research Service, VA Prosthetics Center in conjunction with the planned remodeling and upgrading of the entire government facilities at 252 Seventh Avenue, New York. Major new equipment planned includes a high-speed 70 mm camera to record simultaneously body motion and electric signals on acceleration and muscle activity.

Prosthetic research performed by contract

Category and proposed contractor	1967 estimate	1968 estimate
ARTIFICIAL LIMBS AND BRACES		
University of California (Berkeley) and San Francisco Biomechanics Laboratory	$85,000	$80,000
Fundamental research on locomotion; design and developmental research; fundamental studies of knee and hip; development of orthotic devices; investigation of prescription principles for lower extremity orthotic devices, with special attention to knee joints.		
University of California (Los Angeles Biotechnology Laboratory)	20,000	20,000
Investigation of control of artificial limbs, including auxiliary power and substitution for senses of touch and position.		
Mauch Laboratories, Inc	90,000	90,000
Substantially increased attention to development of hydraulic ankle; maintenance of test models of model A knee during clinical studies; exploration of simple hydraulic knee for control by hip motion, by very short below-knee stump, by cineplasty tunnel or muscle bulge, or by EMG signals.		
National Academy of Sciences	90,000	90,000
Correlation of nationwide cooperative program of research and of dissemination of results on devices emerging from the research program.		
New York University	60,000	55,000
Measurement of pressure on the stump from prosthesis; influence of socket design and of alinement, emphasizing bioengineering with prosthetics support.		
Northwestern University	85,000	85,000
Clinical studies of problem cases, expecially geriatrics; development of techniques or prototype devices for problem cases.		
John O. Esslinger, M.D	7,000	8,000
Fundamental studies toward skeletal attachment of prosthesis.		
Gilmatic	40,000	40,000
Development of improved items for the upper extremity armamentarium, particularly auxiliary power components; elbow locks; power transmission through forearm.		
Harvard University	6,000	6,000
Clinical studies of amputees managed by conventional methods.		
John Hopkins University	9,000	30,000
Systems analyses of upper extremity prosthetics including storage of body power and methods for use of auxiliary power.		
Total, artificial limbs and braces	492,000	504,000

Prosthetic research performed by contract—Continued

Category and proposed contractor	1967 estimate	1968 estimate
AIDS FOR THE BLINDED		
GUIDANCE DEVICES		
Bionic Instruments, Inc.	55,000	
Miniaturization by use of laser devices and sensitive detectors; integration into a cane, which will detect obstacles ahead and above, as well as holes and steep slopes.		
National Academy of Sciences	10,000	5,000
Provide advisory services on research on guidance devices.		
Radio Corporation of America		15,000
Alternative approach to laser cane.		
Subtotal, guidance devices	(65,000)	(20,000)
READING MACHINES AND OPTICAL AIDS		
Mauch Laboratories, Inc	110,000	110,000
Personal type reading machine of intermediate complexity requiring only moderate learning effort because of its "spell-speech" output—where each letter of a word is audibly produced by the machine in reasonably familiar form; refinement of character recognition bench model to make portable device to permit automatic recognition of a variety of type fonts. Construction of improved Mauch work synthesizers which assemble the individual letter sounds of Metfessel's "spell-speech" into words under the control of either perforated tapes or signals from print recognition devices. Construction of additional "Visotomers," small handheld portable devices producing optophonelike output sounds when moved across ink print and of "Visotactors" with tactile output in 1 or more columns.		
Haskins Laboratories, Inc.	35,000	48,000
Fundamental studies on synthesis, compiling, and "re-forming" of speech leading to ability to equip high-performance reading machines with speech-like outputs; generate test passages of re-formed speech for field tests with blind users; and provide information on audible outputs for other contractors.		
National Academy of Sciences	10,000	10,000
Provide advisory services on research program on reading devices for the blinded.		
Subtotal, reading machines and optical aids	(155,000)	(168,000)
Total, aids for the blinded	220,000	188,000
AIDS FOR THE HARD OF HEARING		
Northwestern University	30,000	30,000
Interaction of hearing aids (binaural or monaural) with various types of hearing loss, with special reference to nerve loss and to types of distortions in aids.		
Houston Speech and Hearing Center	13,000	13,000
Relationships of physical properties of hearing aids (and their changes during use), including distortions and transient response, to acceptance of aid and to user preference for aids; study of more effective clinical tests using objective, rapid scoring of behavioral tasks.		
Total, aids for the hard of hearing	43,000	43,000
Total, contractual research	755,000	735,000
Additional supporting miscellaneous contracts for intra-VA research	99,000	118,000
Total, object 25, other contractual services	854,000	853,000
Decrease 1968 over 1967		(1,000)

Mr. EVINS. New York University, Northwestern University, Dr. Eisinger, Harvard University, Johns Hopkins, Mauch Laboratories, National Academy of Sciences, Haskins Laboratory, National Academy of Sciences again, and Northwestern again. This shows the VA is not doing all this research they are getting credit for. They are contracting for it.

Dr. SCOUGE. I think many of the ideas come out of our system and we ask for assistance in developing these ideas.

Mr. EVINS. Let us look at appropriation account 3, which is medical care appropriation. This provides for your system of hospitals and

domiciliary care in rest homes. Medical administration—this introductory material on 2–9.

Mr. JONAS. May I ask a question?

Mr. EVINS. Mr. Jonas.

CUBAN REFUGEE PHYSICIANS ON VA ROLLS

Mr. JONAS. How many of your total medical personnel in hospitals—I don't want to use the word "foreigners," maybe they are citizens now—but the number of foreign nationals?

Dr. TIMM. I do not know the figure. They are nearly all citizens except a few from Cuba.

Mr. JONAS. How many are you using that are Cuban refugees?

Dr. TIMM. I do not have that figure. I can supply it.

(The information follows:)

CUBAN REFUGEE PHYSICIANS ON VA ROLLS

As of January 31, 1967, there were 134 Cuban refugee physicians on VA rolls ranging up through Chief grade.

Sixteen of these physicians are now U.S. citizens, leaving 118 still Cuban Nationals. 103 are lawfully admitted for permanent residency, and another ten have applied for this status. Only five of the total number, as of January 31, 1967, have not applied for permanent residency.

Mr. JONAS. Are they scattered pretty well all over your system?

Dr. TIMM. Yes, sir. The Cuban refugees are largely processed through our hospital at Coral Gables, Fla., but employed all over the country.

Mr. JONAS. I have had several veterans tell me that in some hospitals they cannot understand the doctors language. This makes communication difficult.

Dr. TIMM. I am sure there are physicians in the system that do not speak too well. However, they have all passed the special examination set up for the licensing of foreign physicians. It is true that there are places where our doctors could communicate better.

Mr. JONAS. What system do you use? You take State Department clearance on screening, but what professional examinations do you give?

Dr. TIMM. The requirement for excluding certain of the Cuban physicians, is that they must be licensed in a State in this country.

Mr. JONAS. Licensed in a State?

Dr. TIMM. Yes, sir.

Mr. JONAS. Any State?

Dr. TIMM. Yes, sir.

Mr. JONAS. You mean on a reciprocal basis or do they take examinations?

Dr. TIMM. They have to take an examination somewhere in some State in order to get a State license. Depending on what State that is, it might have reciprocity with a number of States or it might not have any.

If they take the initial examination in Minnesota, I do not believe they would have reciprocity with any other State. I think the same is probably true with Florida. If they took it in Missouri there would be 36 States which would reciprocate.

Mr. JONAS. Your only requirement is that the individual have a license to practice medicine in a State of the Union.

Dr. TIMM. Yes, sir; that is the basic requirement.

Mr. JONAS. You do not go behind those licensing arrangements of the States?

Dr. TIMM. No, sir; not for the basic requirement. We may look into other qualifications if we need the physician certified for some specific purpose.

Mr. JONAS. Most States have more than one examination for licensing purposes, don't they?

Dr. TIMM. No, sir; not in truth. This is a routine procedure. You pay your license fee at regular intervals in most States. I happen to have licenses in three States and that is all it amounts to.

Mr. JONAS. I meant a young man going into the profession takes more than one examination, does he not?

Dr. TIMM. He might. He might take the national board examination which would qualify him automatically for State license in a good many States. There are some States, notably Florida and Minnesota, I believe, that do not accept the national board examination.

FOREIGN NATIONALS IN VA SYSTEM

Mr. JONAS. Could you furnish for us the number of foreign nationals?

Dr. TIMM. Foreign born?

Mr. JONAS. No, foreign nationals.

Dr. TIMM. Yes, sir.

Mr. JONAS. That are in the medical system.

Dr. TIMM. Yes, sir.

Mr. JONAS. Not only physicians but in the entire medical personnel.

Dr. TIMM. That I do not know whether we can get or not. But we can identify the physicians.

(The information follows:)

FOREIGN (ALIEN) PHYSICIANS ON VA ROLLS

As of January 31, 1967, there were 275 physicians, not U.S. Citizens, on the VA rolls. Of this number, 118 are Cuban Nationals, and the remaining 157 are from other nations.

Mr. DRIVER. We are only using doctors and dentists.

Mr. JONAS. You are not using technicians?

Mr. DRIVER. I am not aware of any of those. We were asked specifically to bring in the others. You are not talking about foreign trained necessarily who are American citizens. You are talking principally about the Cuban situation, as I understand it.

Mr. JONAS. You have some doctors in the system that may be citizens now but are nationals of other countries than Cuba.

Mr. DRIVER. But they are nearly all U.S. citizens today.

Mr. JONAS. I do not know whether they are U.S. citizens or not.

Mr. DRIVER. If they are not U.S. citizens with the exception of Cuba which was made an exeption.

Mr. JONAS. Why is that?

Mr. DRIVER. Not a permanent appointment as a VA physician.

Dr. TIMM. We can contract with noncitizen physicians. This is a small number.

Mr. JONAS. How about from England?

Dr. TIMM. The same story. Likewise Canada.

Mr. JONAS. None?

Dr. TIMM. No, we have some under contract, but very few.

Mr. JONAS. What do you mean under contract?

Dr. TIMM. We contract with them for 3 years for certain specific services.

Mr. JONAS. In hospitals?

Dr. TIMM. Yes, sir.

Mr. MONK. But they do not have a permanent appointment?

Dr. TIMM. There are a few of them that have State licenses. These individuals could practice in our hospitals on a contract or temporary basis.

Mr. JONAS. Do you require State licensing as a condition for a contract?

Dr. TIMM. With everybody except some of the Cuban physicians.

Mr. JONAS. If you wanted to contract with an English doctor for 3 years, would you require him to have a State license?

Dr. TIMM. He would have to have a State license if he were going to practice on our patients.

Mr. JONAS. Even under contract?

Dr. TIMM. Yes, sir. We can use them in certain administrative situations or in laboratory activities that are not directly related to patient care. But so far as patient care is concerned, that is how it stands.

MEDICAL ADMINISTRATIVE COSTS

Mr. EVINS. Doctor, looking at your administration costs, the Office of Chief Medical Director, you have 108 and 108, research staff, 7 and 7, program and budgeting, 24 and 24. Professional services, 196 and 196 the same. The total goes down from 716 to 711. Much of it is management, budget, and administrative services. You need 711 people to administer the medical program.

Dr. SKOUGE. We feel this is definitely required in order to supervise and manage a program as extensive as ours. We have 155,000 employees full and part time.

ADMINISTRATIVE REORGANIZATION

Mr. EVINS. Doctor, you said you had a major reorganization of the medical department in 1966. Tell us about it. What was the nature of the reorganization?

Dr. SKOUGE. In the past year there was an agency reorganization with consolidation of supply. All of the supply activities of VA under D.M. & S. There was a consolidation of personnel. The personnel activities of the Department of Medicine and Surgery were placed under the direct supervision of the Administrator.

We felt that this reorganization avoided duplication and improved our operations.

Prior to this we centralize the regional medical directors. We had seven field stations or field offices. They were brought into the cen-

tral office. Instead of having seven, we presently have five regions around the United States employing 45 people in the Chief Medical Director's office. That is, nine per region. In the consolidation we reduced the total number of employment by 91 people with a saving of approximately $1.7 million. These regional medical directors presently are operating as an extension of the Chief Medical Director's office so that we can be more responsive to the needs of the field stations and give the hospital directors out there better communication with central office.

The regional medical directors are utilizing existing staff elements within central office, such as professional services, administrative services, and so on, to provide the necessary staff work so that we are fully aware of what is going on in our field stations and what the field station needs are.

Mr. EVINS. You had an extra level of regional medical directors; the hospital managers always wanted to contact Washington headquarter if they needed some equipment or direction. They wanted to go direct to Washington rather than having to go through Chicago, San Francisco, Atlanta, or Boston. Now the 166 hospitals have direct contact with the Chief Medical Director in Washington.

Dr. SKOUGE. That is correct.

Mr. EVINS. In your reorganization you brought these regional medical directors from the field into Washington?

Dr. SKOUGE. That is right.

Mr. EVINS. Did you tell us you eliminated some or reduced some?

Dr. SKOUGE. We had seven areas and it was reduced to five.

Mr. DRIVER. Each had a staff of about 40 and the total staff was reduced to 45 for all of them.

Mr. EVINS. How many areas do you still have?

Dr. SKOUGE. We have five. The United States is divided up into five regions with one regional medical director in charge of each region.

Mr. EVINS. Did you eliminate any regional medical directors?

Dr. SKOUGE. We eliminated two regional director positions, yes. We eliminated 91 employees in total, actually.

Mr. EVINS. You say that 91 employees were removed from the rolls, including two regional medical directors?

Dr. SKOUGE. That is right.

Mr. EVINS. They did not prefer to move into Washington?

Dr. SKOUGE. No, we just consolidated the Nation.

Instead of having it broken down into seven regions, we reduced it to five regions. As a consequence, we only required five regional medical directors.

Mr. EVINS. It really was not a major reorganization, was it?

Dr. SKOUGE. In the sense that, No. 1, we brought all of these people into central office. No. 2, it eliminated 91 positions.

Mr. EVINS. You say you have five regions and your directors are directing these regions out of Washington?

Dr. SKOUGE. Under the direct supervision of the Chief Medical Director.

Mr. EVINS. Do your hospital managers contact the regional medical director in Washington for some of the services or assistance they want?

Dr. SKOUGE. That is right.

They also contact the Chief Medical Director and the deputy. Having come recently from the field as a hospital director, I feel this arrangement should result in central office being much more responsive to the needs of the field station than they ever were before. This is a definite improvement, I think, in our organization.

Mr. JONAS. It took a good little prodding out of this committee to get that opinion held by your predecessors.

Dr. SKOUGE. I was not here at the time.

Mr. JONAS. I am glad to know that this is an improvement. We could not get that kind of agreement before.

Mr. EVINS. You are repeating the voice that Congress heard from the hospital directors. You feel their view was rather well sustained?

Dr. SKOUGE. I feel, having been a hospital director recently, I think more like a hospital director than a central office employee and I can assure you that we will do everything to be responsive to the needs of the hospital directors, because that is where the big job is being done in VA.

CHIEF MEDICAL DIRECTOR'S STAFF

Mr. EVINS. Chief Medical Director has 108 on his immediate staff. We are looking at the chart 1–7.

Regional medical directors are sort of suspended in midair there for advisory purposes.

Dr. SKOUGE. Communication and advisory and helping us in providing guidance and direction to the field.

Mr. EVINS. Do you think this regional medical advisory staff is too large?

Dr. SKOUGE. No. Actually, it consists of a director, his deputy, three clerks, and four other technical personnel, people skilled in fiscal, registrar, and that type of activity.

Mr. EVINS. Forty-five personnel in the Director's division but only about five directors.

Dr. SKOUGE. Five directors and five deputies, that is correct. For the Deputy and the Chief Medical Director to be responsive to 166 field station directors is an impossible task. We need this additional manpower so that we can actually take care of the needs.

Mr. EVINS. Your Chief Medical Director has 108, associate deputy has four in his division, and the Deputy Chief Medical Director also has four for organization purposes. It looks like there could be some further consolidation and streamlining there, Mr. Administrator.

Mr. DRIVER. We went over this very carefully in the course of the past year, especially in connection with this consolidation of personnel, supply and the controller's activity. It is our feeling to coordinate all of the various programs in this large program with its tremendous personnel staff, as the doctor indicated nearly 160,000 people, the great variety of programs that are supervised in the field, 166 hospitals, the outpatient clinics, these new programs in nursing

care and medical education, that we have got this thing down now to the point where it is not possible for fewer people to handle this sort of thing. The immediate staff in the Associate Chief Medical Director's office and Deputy Director's Office would principally be in the administrative and clerical area.

Mr. EVINS. In other words, the original directors direct your outpatient, domiciliary, and nursing care?

Mr. DRIVER. The whole works.

Mr. EVINS. The Associate Director and Deputy Chief Medical Director, you have 19 in dentistry, 16 in research and education, 196 in professional services, and 3,449 in medical research.

Mr. DRIVER. These are the people that the regional medical directors would go to with their problems in order to get assistance to give to the field stations on inquiry. They use this staff of the chief medical directors for this purpose.

Mr. EVINS. The Associate Deputy Chief Medical Director is concerned largely with management?

Mr. DRIVER. Yes, sir.

Mr. MONK. Nonprofessional.

Mr. EVINS. The Deputy Chief Medical Director is concerned with some research.

Mr. DRIVER. And professional activities.

Mr. EVINS. Your regional directors are concerned with operations?

Mr. MONK. That is right.

Mr. EVINS. How does operation differ from management?

Mr. MONK. If they have a management problem, the regional medical directors, that they need help on they go to the staff of the Associate Deputy Chief Medical Director for assistance on that problem. Then they pass it on down to the field station.

Mr. EVINS. In other words, if a hospital manager has a management problem, he calls in to the regional medical director who gets him some advice from the management field.

Mr. MONK. That is correct.

Dr. SKOUGE. We try to identify the problem and the Regional medical director will go to that office where he has the best chance of getting advice for the solution of the problem. As a matter of fact, the Associate Deputy and Chief Medical Director work very closely together with the Regional medical directors and the staff personnel. We have to with an organization of this size. But putting it out on a chart it looks more precise because you cannot chart it any other way. But there is very close communication.

Mr. WISE. Mr. Chairman, for example, if a hospital director wants a certain program, there is money involved, equipment, there may be construction, recruitment of professional personnel, so the regional medical director may have to touch base at four or five places to get one answer.

Mr. EVINS. The hospital director calls the regional medical director in Washington who checks it out with management and the division of professional services and then gives him the answer.

Mr. WISE. Yes, sir.

Mr. EVINS. One is concerned with management, then another is concerned with professional services and a third is the operation of the hospitals.

Mr. WISE. That is correct.

Mr. EVINS. That looks like it is a pretty good system.

Mr. JONAS. May I ask a question that is not exactly appropriate right here, perhaps?

Mr. EVINS. Mr. Jonas.

STAFF MEMBERS WHO ARE DOCTORS

Mr. JONAS. Are your hospital directors all doctors?

Mr. DRIVER. No, sir. Many of them are laymen.

There is a great variety.

Mr. JONAS. Are your registrars all doctors?

Mr. DRIVER. No, sir; they are all laymen. That is kind of the business end of the hospital—admissions and that sort of thing.

DETERMINING LEGAL ELIGIBILITY AND MEDICAL ELIGIBILITY FOR HOSPITAL CARE

Mr. JONAS. Do they know whether a man needs to be in a hospital?

Mr. DRIVER. A physician would examine the man to make that determination.

Mr. MONK. An admitting physician.

Mr. JONAS. That is not exactly the way it works, I don't believe.

Dr. SKOUGE. All of those elements that require professional attention are manned by physicians. The registrar's function is related to the coordination of the application, the paperwork, the assignment of patients. But every patient who is admitted to one of our facilities has to be examined by a physician to make a determination for the need of hospitalization.

Mr. JONAS. All that are rejected are not examined. The registrar rejects.

Dr. SKOUGE. If they are rejected by anyone other than a physician we would like to know about it.

Dr. TIMM. There are two aspects to this. There is medical eligibility and legal eligibility. The registrar's office does make the determination of the legal eligibility. Having determined that any applicant is legally eligible, that applicant is then referred to a physician, who determines his medical eligibility which is just another way of saying whether or not he needs hospitalization. If he is found to be both medically and legally eligible, he is admitted.

Dr. SKOUGE. Even the legally ineligible who apply at our door and if they are sick we involve our professional personnel, because we do not feel that we can send a sick man out and jeopardize his health, even though he is legally ineligible.

Mr. JONAS. Very few who are legally ineligible would apply.

Dr. SKOUGE. I think it averages about 5 percent.

Mr. WISE. These could be humanitarian cases or automobile accidents within the vicinity of the hospital.

Mr. DRIVER. There are many people in the country who feel that dependents of veterans are eligible for these benefits and they will apply.

Dr. SKOUGE. I did a study several years ago when I was in Denver and reviewed, 1,000 applications and found that the legal ineligibility rate was 5 percent. I would think this would be pretty much the case nationwide. Some of it was a surprise to me.

Mr. EVINS. A man has a heart attack in the vicinity of a VA hospital or is involved in an automobile accident. They rush him to the hospital close by and the doctors say he needs medical attention but we have to report it to the legal division.

Mr. DRIVER. No. They treat him first.

Mr. MONK. They treat him and if he is not eligible, he gets a bill.

Mr. EVINS. He comes in and finds out later he is legally ineligible.

Mr. DRIVER. We bill him for it.

SPEEDUP OF MEDICAL CARE OF PATIENTS

Mr. EVINS. How do you speed up the medical care and attention for your patients?

Dr. SKOUGE. If you compare the year 1964 with what we are planning to do in 1968, you will find that we are going to admit or discharge in our hospitals approximately 35,000 more patients than we did in 1964. Our turnover rate is going to increase from 46.4 percent to 50.6 percent. We are doing all of this in about 4,000 less beds; that is, our average daily census will be about 4,000 less than it was in 1964. Our waiting lists are down. We are actually producing more now than ever before. We never have been staffed to the extent that we really feel would be necessary to take care of all of the new programs being introduced. We have requested in the 1968 budget, funds to improve staffing. We feel that with the support this committee has given us over the years we have been able to get our patients into the hospitals more quickly, treat them, get them back into the community, and we think with the funding that we have requested this year, we will be able to do an even better job.

Mr. EVINS. Doctor, you make a good statement.

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT

Mr. Reporter, place this organization listing in the record here, 2–7. (The information follows:)

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

Positions by grade and average employment

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Permanent positions:				
Chief Medical Director	1	1	1	
Deputy Chief Medical Director	1	1	1	
GS–17	1	1	1	
GS–16	4	6	6	
GS–15	33	31	32	+1
GS–14	75	74	78	+4
GS–13	195	163	161	−2
GS–12	88	65	63	−2
GS–11	44	34	31	−3
GS–10	2	1	1	
GS–9	21	17	16	−1
GS–8	10	10	10	
GS–7	56	49	48	−1
GS–6	80	75	75	
GS–5	71	44	43	−1
GS–4	38	36	36	
GS–3	11	11	11	
Assistant Chief Medical Director	4	5	5	
Associate Deputy Chief Medical Director		1	1	
Medical Director	36	34	34	
Executive grade, physicians and dentists	30	30	30	
Chief grade, physicians and dentists	2	2	2	
Chief dietitian	1	1	1	
Chief pharmacist	1	1	1	
Director, Chaplain Service	1	1	1	
Director of nursing service	1	1	1	
Assistant director grade nurse	5	5	5	
Chief grade nurse	10	10	10	
Total permanent positions	822	710	705	−5
Deduct:				
Lapses	49	14	16	−2
Equivalent of terminal leave	13	5	5	
Portion of positions carried in above position schedule and costed to GOE by comparative transfer	131			
Add:				
Portion of positions carried in position schedule for GOE and costed to MAMOE by comparative transfer	20			
Positions abolished during year		3	5	+2
Other than permanent	14	22	22	
Average employment	663	716	711	−5

SUMMARY OF OPERATIONS, MEDICAL ADMINISTRATION

Mr. EVINS. Medical administration, insert pages 2–9 through 2–21. (The pages follow:)

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

Medical Administration

INTRODUCTION

This activity includes the Office of the Chief Medical Director and his Central Office departmental staff elements responsible for the development of objectives and the administration of policies and plans to insure complete medical, dental and hospital services for the care and treatment of veterans as prescribed by the Administrator, pursuant to statutory authority and regulations.

In addition to providing for needed administrative staff, this estimate includes consultants to the Administrator and the Chief Medical Director as well as the Special Medical Advisory Group. The members of this Special Medical Advisory Group meet four times a year with the Department of Medicine and Surgery to advise on medical and policy matters. They serve as liaison between the Veterans Administration and major segments of American medicine, such as the medical schools and the various professional associations of medical specialists. Central Office use of consultants is in connection with neuropsychiatry, social service, tuberculosis, dentistry and other specialties to advise and assist on policies and procedures. Consultants are also utilized by the staff elements to supplement the professional staff in those offices. They supervise specialty activities and submit reports on each hospital appraising the capabilities of the head of the particular specialty, the physical layout, the type of service being rendered, as well as criticisms and recommendations.

Administrative components of the Department of Medicine and Surgery were reorganized at the start of the current 1967 fiscal year in order to provide more effective assistance to the Chief Medical Director in respect to management, program development and operations procedures. Also effective at the start of fiscal year 1967 certain Agency-wide organizational changes provide for the consolidation of the personnel, fiscal and statistical functions in the immediate staff offices of the Administrator and consolidation of all supply activities in the Department of Medicine and Surgery. For comparative purposes, the estimate of employment and costs shown in this budget have been prepared to reflect the organizational changes for the fiscal years 1966, 1967 and 1968.

For fiscal year 1968 costs are estimated to be $11,023,000 for the operation of the VA Medical Administration program. This is a decrease of $47,000 from the comparatively adjusted cost of $11,070,000 estimated for this program in fiscal year 1967.

Medical Administration

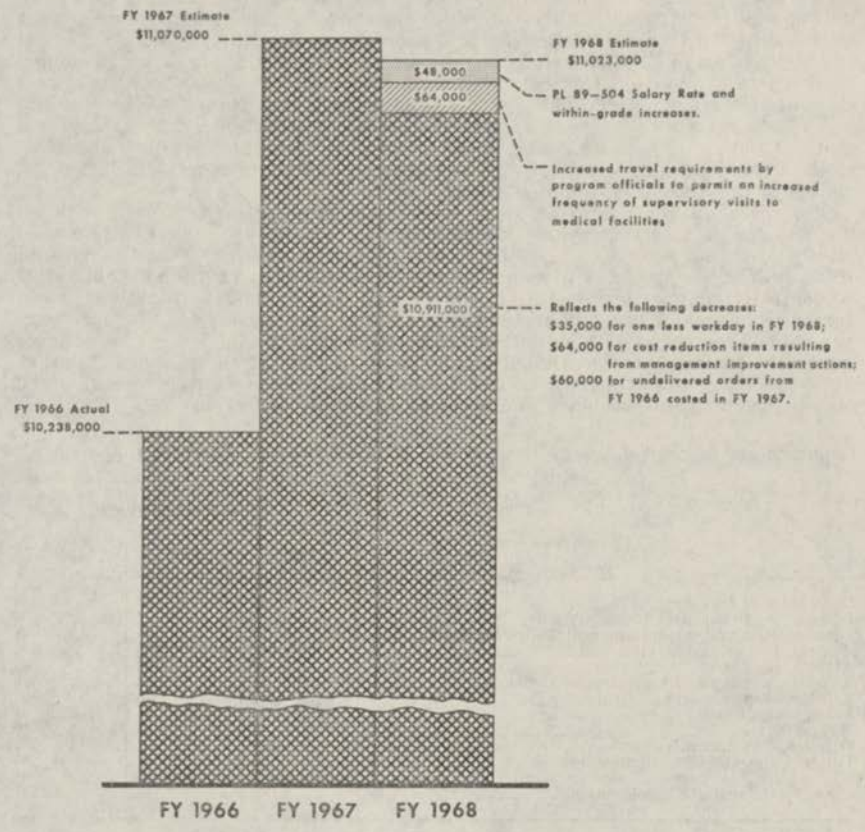
Summary of average FTE employment and costs by function

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Employment (average FTE)	663	716	711	−5
Consultants (FTE) included above	(3)	(4)	(4)	
Avegage payroll cost	$13,650	$13,823	$13,848	+$25
Employment by function (average FTE):				
Office of Chief Medical Director	94	108	108	
Administrative Research Staff	6	7	7	
Planning, Programing and Budgeting Staff	19	24	24	
ACMD—Professional services	184	196	196	
ACMD—Dentistry	17	19	19	
ACMD—Research and education	14	16	16	
ACMD—Management and evaluation	22	25	25	
Management systems service	16	21	21	
Budget service	47	50	50	
Administrative services	210	207	202	−5
Hospital construction service	43	43	43	
Total	663	716	711	−5
Cost by function:				
Office of Chief Medical Director	$1,529,371	$1,717,000	$1,725,000	+$8,000
Administrative Research Staff	90,100	104,000	103,000	−1,000
Planning, Programing and Budgeting Staff	266,509	326,000	325,000	−1,000
ACMD—Professional services	3,115,469	3,386,000	3,392,000	+6,000
ACMD—Dentistry	365,912	418,000	419,000	+1,000
ACMD—Research and education	193,764	226,000	226,000	
ACMD—Management and evaluation	313,796	346,000	347,000	+1,000
Management systems service	232,395	322,000	322,000	
Budget service	667,344	720,000	720,000	
Administrative services	2,746,906	2,904,000	2,843,000	−61,000
Hospital construction service	716,651	601,000	601,000	
Total	10,238,217	11,070,000	11,023,000	−47,000

Employment and cost changes by major object

Item	Average employment	Personnel services and benefits	Travel	Transportation of things	Rent, communication, and utility services	Printing and reproduction	Other contractual services	Supplies and materials	Equipment	Total
Fiscal year 1967 estimate	716	$9,897,000	$545,000	$33,000	$213,000	$167,000	$120,000	$59,000	$36,000	$11,070,000
DECREASES										
1. 1 less workday in fiscal year 1968		−35,000								−35,000
2. Cost reduction items resulting from management improvement actions	−5	−64,000								−64,000
3. Undelivered orders obligated in fiscal year 1966 and costed in fiscal year 1967				−1,000		−8,000	−32,000	−7,000	−12,000	−60,000
INCREASES										
1. Legislative pay increases and within-grade salary increases		48,000								48,000
2. Increased travel requirements by program officials to permit an increased frequency of supervisory visits to medical facilities			64,000							64,000
Net cost changes	−5	−51,000	64,000	−1,000		−8,000	−32,000	−7,000	−12,000	−47,000
Fiscal year 1968 estimate	711	9,846,000	609,000	32,000	213,000	159,000	88,000	52,000	24,000	11,023,000

DECREASE IN COST - FY 1968 FROM FY 1967
MEDICAL ADMINISTRATION



JUSTIFICATION OF ESTIMATES

This estimate provides for 711 average employment and $11,023,000 available under the Medical Administration activity head for fiscal year 1968. These are net decreases of 5 average employment and $47,000 below planned Medical Administration program levels for fiscal year 1967. Hiring of additional administrative staff in fiscal year 1968 is not contemplated in this estimate.

A major reorganization of the Medical Administration activities was accomplished at the beginning of the 1966 fiscal year, keynoted by the recentralization to Central Office of operational, supervisory and evaluation functions formerly performed by the Area Medical Offices. As a result of a year's experience with the new organization, a further redistribution of responsibilities within the office of the Chief Medical Director has been accomplished in order to provide more effective assistance in respect to management, program development and operations procedures, and to provide more active direction to the various Central Office staff elements.

More than 155,000 full-time and part-time employees will be engaged in the conduct of Agency medical programs in fiscal year 1968. The administrative staff of the Department of Medicine and Surgery for fiscal year 1968 is programmed at 711 employees, or less than 5/10 of 1 percent of the total employment in Agency medical programs.

Within the total planned employment of 711, an Operations Staff of 45 employees located in the immediate office of the Chief Medical Director, will direct the basic operation of VA medical programs. This group, divided into five skilled management teams (each headed by a Regional Medical Director), will undertake the broader management aspects of directing, supervising and evaluating field activities. Efforts of these relatively small general management teams, directed to overall efficiency and economy of operation of entire medical installations, will require extensive support of specialist supervisory personnel assigned to the various Central Office staff elements. These staff program specialists also must be available for performing such important functions as fire and safety inspections, inventory control checks, construction surveys, providing stations with all types of management assistance, wage board surveys, evaluations of professional specialists such as surgery, psychiatry, neurology, pathology, radiology and dentistry, to name a few.

The table on the following page sets forth employment by organizational element for the past, current and budget years. The lower average employment shown for fiscal year 1966 resulted from eliminating area offices at the close of fiscal year 1965, and delay in establishing new positions and hiring qualified staff to centrally conduct the operation, supervision, and evaluation functions transferred from area offices. This resulted in average employment for the 1966 fiscal year of 663 compared with an authorized position structure of 716. The estimate generally contemplates continued employment in 1968 at the planned June 30, 1967, level, except for a reduction of 5 supply employees resulting from planned improvement in the efficiency and economy of supply operations.

Organization of central office, Department of Medicine and Surgery, staff elements

Staff element	Average employment		
	1966	1967	1968
Chief Medical Director	94	108	108
Director, Administrative Research Staff	6	7	7
Director, Planning, Programing and Budgeting Staff	19	24	24
ACMD, Professional Services	184	196	196
ACMD, Dentistry	17	19	19
ACMD, Research and Education in Medicine	14	16	16
ACMD, Management and Evaluation	22	25	25
Management Systems Service	16	21	21
Budget Service	47	50	50
Director, Administrative Services	201	207	202
Director, Hospital Construction Service	43	43	43
Total, medical administration	663	716	711

The duties and staffing of the various Central Office components of the Department of Medicine and Surgery, as now planned to be effective during fiscal year 1967 and throughout fiscal year 1968, are described in the following paragraphs.

Chief Medical Director.—As Chief of the Department of Medicine and Surgery, is directly responsible to the Administrator of Veterans Affairs for the extent and quality of medical and hospital care afforded eligible veterans, as prescribed by the Administrator, pursuant to Title 38 U.S.C. and other statutory authority. In this endeavor, he is assisted by a Deputy Chief Medical Director and an Associate Deputy Chief Medical Director, five Regional Medical Directors responsible for broad management supervision and immediate direction of all field activities, technical staffs concerned with management and communication control, and the ten major staff elements described in the succeeding paragraphs. Total staffing programmed for the Office of the Chief Medical Director during fiscal year 1967 and throughout fiscal year 1968 number 108 employees as detailed below.

a. The immediate Office of the Chief Medical Director is programmed for 18 employees including the Chief Medical Director, the Deputy Chief Medical Director, the Associate Deputy Chief Medical Director, and an Executive Assistant, together with supporting administrative and clerical personnel. Also included are 4 employees providing general office space and supply requisitioning services for the department as a whole, and youth opportunity employment equivalent to 2 employees.

b. Five Regional Medical Directors function as an extension of the Chief Medical Director's office in carrying out responsibilities for supervising and

evaluating operation of Veterans Administration medical facilities. In total, these offices constitute an operations staff of 45 professional, specialist and clerical employees.

c. The Communications Control Staff consists of 20 specialized and clerical employees responsible for the operation of a mailroom, and general office and central file services for all Central Office components of the department.

d. The Management Control Staff is charged with the responsibility of preparing all necessary management information to be submitted to the office of the Chief Medical Director; evaluating Central Office program functions and staffing; providing data management and statistical liaison with the other Departments and Staff Offices, and conducting the publications control activities of the Department. A staff of 25 professional, specialist and clerical employees is required for this activity in both fiscal years 1967 and 1968.

Director for Administrative Research Staff.—This office administers the administrative research program for the Department, which includes any formal study undertaken to test a hypothesis related to the administrative phases of a medical environment. This is accomplished by a staff of 7 professional, specialist, and clerical employees who stimulate department-wide participation in the program, assist in the design of research studies, process research protocols and maintain surveillance over the progress of approved projects.

Director for Planning, Programming and Budgeting Staff.—This office is responsible for implementing the Department's Planning, Programming and Budgeting System. These efforts include the development and coordination of revisions to basic policies, assumptions, objectives and alternatives for the Department's Health Services Program; preparation of the Department's Program Memorandum including the programming and coordination of program changes; conducting or coordinating special studies and other analytic efforts to support projections of resource requirements; and provide guidance and assistance to all elements within the Department on the Planning-Programming-Budgeting System. A total staff of 24 professional, specialists and clerical employees is planned during fiscal year 1967 and through fiscal year 1968 to conduct these activities.

Assistant Chief Medical Director for Professional Services.—With the assistance of two deputies and a staff of professional specialists, consultants, and clerical personnel, is responsible for formulating policies and plans of department-wide application pertaining to professional services in all Veterans Administration medical facilities. All professional inquiries from outside sources relating to individual applicants and recipients of VA medical benefits are acted upon, including actions denoted by both complaint and complimentary mail. Conduct of effective supervision and evaluation of the professional medical specialty programs at all VA facilities also are the responsibilities of this office. The staff is concerned with 17 different patient care disciplines, services, or related paramedical activities listed below:

Chaplaincy Service.
Dietetic Service.
Domiciliary & Restoration Programs.
Medical & General Reference Library.
Medical Service.
Nursing Service.
Outpatient Services.
Pathology Service.
Pharmacy Service.
Physical Medicine & Rehabilitation Service.
Prosthetic & Sensory Aids Service.
Psychiatry, Neurology & Psychology Service.
Radiology Service.
Social Work Service.
Spinal Cord Injury Service.
Surgical Service.
Voluntary Services Staff.

A total staff of 196 employees is programmed for this office during fiscal years 1967 and 1968, which includes constultant utilization equivalent of 3 employees. Principal continuing wrokloads include programming of nursing home care benefits, new medical treatment modalities, methodologies for improved patient turnover and bed utilization, and effecting transition of the results of medical research to clinical operation.

Assistant Chief Medical Director for Dentistry.—With the assistance of a Deputy and a supportive staff develops policies, plans, and professional standards for a program of dental care for eligible veterans at all Veterans Administration medical and hospital facilities. He also is responsible for supervising and evaluating field dental programs and establishing fee schedules for hometown dental services. He collects and disseminates information of a professional nature dealing with dental clincal and scientific matters, and maintains liaison with dental activities in other Federal agencies and private dental organizations. A total staff of 19 employees including clerical personnel and constultant utilization equivalent to one employee is programmed for this office for both fiscal years 1967 and 1968.

Assistant Chief Medical Director for Research and Education in Medicine.—This office develops policies and plans pertaining to programs of research and education in medicine, and administers, supervises, and evaluates these activities department-wide. The Assistant Chief Medical Director, with his staff also directs a comprehensive educational program for effective dissemination of new medical and paramedical knowledge through postgraduate and inservice training. A total staff of 16 professional and clerical employees is planned during fiscal year 1967 and throughout fiscal year 1968 to conduct these activities.

Assistant Chief Medical Director for Management and Evaluation.—This office coordinates and interprets for the department all internal and external evaluation and inspection activities. The staff reviews, comments on and recommends to the Chief Medical Director, through the Associate Deputy Chief Medical Director, all matters of a legislative nature affecting medical programs and benefits. Other workloads undertaken include development of policies and plans for the operation and evaluation of the Department's cost reduction and overall management improvement programs. A staff of 25 specialist and clerical employees is required to accomplish these functions.

Director for Management Systems Service.—Develops and recommends Department-wide management systems and standards to provide for the effective utilization and allocation of required resources, both personnel and material. These duties embody the rendering of staff assistance in conduct of employee productivity, manpower utilization, work measurement and similar management system studies. Analyzes resource utilization in the light of technological, administrative, and working changes, and recommends resource adjustments as required. A total of 21 employees, including clerical personnel is programmed for this activity for both fiscal years 1967 and 1968.

Director for Budget Service.—The Budget Director and his staff are responsible to the Chief Medical Director through the Associate Deputy Chief Medical Director, for all budgetary matters of the department. This office prepares the departmental budget for the Chief Medical Director and assists him in its presentations to the Administrator, the Bureau of the Budget, and the Congress. Additional duties are to recommend apportionment of funds under control of the department, allot funds as approved after enactment of appropriation, and subsequently maintain the consolidated budgetary records of the department. Workloads also include collaboration with other department and Agency officials on cost reduction program efforts, personnel ceiling and average grade and salary controls, and the development of new accounting systems to accurately determine costs of medical treatment advances. To carry out these responsibilities effectively, a staff of 50 specialist and clerical employees is required during fiscal year 1967 and throughout fiscal year 1968.

Director for Administrative Services.—This official is responsible to the Chief Medical Director through the Associate Deputy Chief Medical Director for the efficient operations of administrative and logistical support services for all VA medical facilities. The staff is concerned with the development of policies, plans, operating procedures, operation, supervision, and evaluation of the Building Management, Engineering, Supply, Medical Administration and Veterans Canteen Services. A staff of 207 employees (exclusive of non-appropriated fund Veterans Canteen Service Personnel) will be employed throughout fiscal year 1967 to accomplish these functions. The number of employees is expected to be decreased by 5 to a total of 202 for fiscal year 1968 resulting from the continued application of improvement and simplification of supply service procedures. In the interest of greater efficiency and economy, the Supply, Building Management, and Engineering Services of the department provide agency-wide service for these essential activities.

Director for Hospital Construction.—The Director for Hospital Construction develops plans including assembling of space and equipment requirements,

mechanized and electronic systems for transportation and communications within medical facilities, etc., needed for master plans, and development of the criteria where it has not been provided. He reviews and coordinates architectural plans, prepares project submissions for VA and Bureau of the Budget approval, serves on site selection boards, conducts follow-up inspections and studies of hospitals following activations, and keeps current on advances in the field of hospital construction, especially in criteria and design. Increased workloads relate to the need for more site visits in connection with construction projects, particularly for VA nursing care facilities, and preparation of construction master plans. A staff of 43 specialist and clerical employees will be required to accomplish these functions.

Comparative analysis of average FTE employment and costs by object

		1966 actual		1967 estimate		1968 estimate		Increase (+) or decrease (−)	
		FTE employment	Cost	FTE employment	Cost	FTE employment	Cost	FTE employment	Cost
10	Personnel compensation and benefits:								
	Consultants	3	$90,731	4	$90,000	4	$90,000	------	----------
	Nurses	15	239,070	16	261,000	16	263,000	------	+$2,000
	Dentists	11	301,279	12	332,000	12	332,000	------	----------
	Physicians	63	1,629,338	62	1,658,000	62	1,656,000	------	−2,000
	Clinical and counseling psychiatrists	2	28,232	2	29,000	2	29,000	------	----------
	Other employees	569	6,761,371	620	7,527,000	615	7,476,000	−5	−51,000
	Total	663	9,050,021	716	9,897,000	711	9,846,000	−5	−51,000
21	Travel and transportation of persons:								
	Employee administrative travel	------	463,546	------	543,000	------	607,000	------	+64,000
	Other employee transportation	------	1,873	------	2,000	------	2,000	------	----------
	Subtotal	------	465,419	------	545,000	------	609,000	------	+64,000
22	Transportation of things:								
	Shipment of household goods	------	69,502	------	31,000	------	30,000	------	−1,000
	Other shipments	------	4,550	------	2,000	------	2,000	------	----------
	Subtotal	------	74,052	------	33,000	------	32,000	------	−1,000
23	Rent, communications, and utilities:								
	Communications:								
	Telephone	------	166,730	------	176,000	------	176,000	------	----------
	Teletype	------	----------	------	36,000	------	36,000	------	----------
	Equipment rental	------	1,100	------	1,000	------	1,000	------	----------
	Real property rentals	------	36,559	------	----------	------	----------	------	----------
	Subtotal	------	204,389	------	213,000	------	213,000	------	----------
24	Printing and reproduction	------	177,603	------	167,000	------	159,000	------	−8,000
25	Other services:								
	Repair of furniture and equipment	------	4,130	------	5,000	------	5,000	------	----------
	Contracts with individuals for personal services	------	24,820	------	55,000	------	55,000	------	----------
	Other contractual services	------	165,314	------	60,000	------	28,000	------	−32,000
	Subtotal	------	194,264	------	120,000	------	88,000	------	−32,000
26	Supplies and materials:								
	Office supplies	------	5,886	------	10,000	------	10,000	------	----------
	Books and periodicals	------	21,910	------	26,000	------	25,000	------	−1,000
	Other supplies	------	17,767	------	23,000	------	17,000	------	−6,000
	Subtotal	------	45,563	------	59,000	------	52,000	------	−7,000
31	Equipment	------	26,906	------	36,000	------	24,000	------	−12,000
	Total costs	------	10,238,217	------	11,070,000	------	11,023,000	------	−47,000

Mr. EVINS. Your assistant chief director for professional services has under him the chaplain services, domiciliary and restorations program, general reference library, nursing and medical service, outpatient services, pathology service, pharmacy service, physical medicine and rehabilitation service, psychiatry, neurology, and psychology services, radiology service, social work service, surgical service, and voluntary service. He is a little overworked. Dr. Timm, do you need some assistance in all this?

Dr. TIMM. I have quite a bit.

Mr. EVINS. Doctor, we wish you good luck always. I am reminded of the great Justice Brandeis who says, "With bigness comes inefficiency." We want you to be efficient. We want to help you. That is the purpose of these hearings.

MEDICAL CARE

Program and financing

[In thousands of dollars]

	1966 actual	1967 estimate	1968 estimate
Program by activities:			
Direct operating costs, funded:			
1. Maintenance and operation of VA facilities:			
(a) Neuropsychiatric hospitals	310,473	331,220	335,892
(b) General hospitals	621,981	662,192	699,136
(c) Nursing home care	7,090	17,264	23,143
(d) Domiciliary care	30,829	32,137	23,403
(e) Outpatient care	147,031	155,023	160,463
(f) Miscellaneous benefits and services	12,703	12,821	13,453
2. Contract care:			
(a) Hospitalization	17,495	18,062	18,616
(b) Nursing home	6,098	11,498	12,628
3. Grants for State home care:			
(a) Domiciliary	7,438	7,070	6,907
(b) Nursing home	1,196	1,887	2,388
Total direct operating costs, funded	1,162,333	1,249,174	1,305,029
Capital outlay:			
1. Maintenance and operation of VA facilities:			
(a) Neuropsychiatric hospitals	8,719	9,930	11,889
(b) General hospitals	24,326	31,370	37,654
(c) Nursing home care	127	46	56
(d) Domiciliary care	628	636	765
(e) Outpatient care	929	1,509	1,380
(f) Miscellaneous benefits and services	213	210	520
Total capital outlay	34,942	43,701	52,264
Total direct program costs, funded	1,197,276	1,292,875	1,357,293
Reimbursable program:			
1. Maintenance and operation of VA facilities:			
(b) General hospitals	6,104	6,357	6,357
(c) Outpatient care	760	791	791
Total reimbursable program costs	6,864	7,148	7,148
Total program costs, funded	1,204,139	1,300,023	1,364,441
Change in selected resources [1]	9,499	----------	----------
10 Total obligations	1,213,638	1,300,023	1,364,441
Financing:			
Receipts and reimbursements from:			
11 Administrative budget accounts	−5,069	−5,279	−5,279
14 Non-Federal sources (38 U.S.C. 611)	−1,795	−1,869	−1,869
25 Unobligated balance lapsing	2,632	----------	----------
New obligational authority	1,209,407	1,292,875	1,357,293

See footnote at end of table.

Program and financing—Continued

		1966 actual	1967 estimate	1968 estimate
	New obligational authority:			
40	Appropriation	1,209,412	1,265,437	1,357,293
41	Transferred to "Operating expenses, Public Buildings Service", General Services Administration (79 Stat. 531)	−5		
43	Appropriation (adjusted)	1,209,407	1,265,437	1,357,293
44	Proposed supplemental for civilian pay act increases		27,438	
	Relation of obligations to expenditures:			
10	Total obligations	1,213,638	1,300,023	1,364,441
70	Receipts and other offsets (items 11–17)	−6,864	−7,148	−7,148
71	Obligations affecting expenditures	1,206,775	1,292,875	1,357,293
72	Obligated balance, start of year	61,115	83,243	112,519
74	Obligated balance, end of year	−83,243	−112,519	−141,519
77	Adjustments in expired accounts	−2,315		
81	Balance not available, start of year		30	
82	Balance not available, end of year	−30		
90	Expenditures excluding pay increase supplemental	1,182,302	1,236,808	1,327,676
91	Expenditures from civilian pay act supplemental		26,821	617

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1965, $20,063 thousand (1966 adjustments, −$293 thousand); 1966, $29,269 thousand; 1967, $29,269 thousand; 1968, $29,269 thousand.

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	790,994	851,775	891,183
11.3	Positions other than permanent	59,636	53,093	51,922
11.5	Other personnel compensation	16,454	24,483	25,357
	Total personnel compensation	867,084	929,351	968,462
	Direct costs:			
	Personnel compensation	862,488	924,571	963,682
12.0	Personnel benefits	65,057	71,560	74,768
13.0	Benefits for former personnel	23	25	25
21.0	Travel and transportation of persons	10,366	10,430	10,652
	Employee travel	1,049	1,280	1,396
22.0	Transportation of things	2,861	2,147	2,273
23.0	Rent, communications, and utilities	21,129	22,510	24,367
24.0	Printing and reproduction	830	890	895
25.1	Other services	17,017	19,103	21,421
	Medical, nursing, and dental fees	11,369	12,026	12,583
	Community nursing homes	6,098	11,498	12,628
	Contract hospitalization, non-Federal	8,250	8,682	9,121
25.2	Services of other agencies	9,244	9,380	9,495
26.0	Supplies and materials	100,571	108,192	114,997
	Provisions	45,975	47,501	47,840
31.0	Equipment	25,516	29,674	34,735
32.0	Lands and structures	8,542	11,949	14,620
41.0	Grants, subsidies, and contributions	8,634	8,957	9,295
	Subtotal	1,205,019	1,300,375	1,364,793
95.0	Quarters and subsistence charges	−7,743	−7,500	−7,500
	Total direct costs	1,197,276	1,292,875	1,357,293
	Reimbursable costs:			
	Personnel compensation	4,596	4,780	4,780
12.0	Personnel benefits	349	369	369
23.0	Rent, communications, and utilities	1,046	1,089	1,089
25.1	Other services	116	121	121
26.0	Supplies and materials	524	546	546
	Provisions	233	243	243
	Total reimbursable costs	6,864	7,148	7,148
	Total costs, funded	1,204,139	1,300,023	1,364,441
94.0	Change in selected resources	9,499		
99.0	Total obligations	1,213,638	1,300,023	1,364,441

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	124,590	129,225	133,993
Full-time equivalent of other positions	8,583	7,128	6,871
Average number of all employees	129,777	131,856	136,373
Average GS grade	5.0	5.0	5.0
Average GS salary	$6,148	$6,303	$6,291
Average salary, grades established by 38 U.S.C. 73	$10,699	$11,049	$10,884
Average salary of ungraded positions	$4,926	$5,140	$5,224

Mr. EVINS. We will include in the record at this point pages 4–5, 4–7, the general statement on 4–9 through 15, on medical care.

(The pages follow:)

MEDICAL CARE

APPROPRIATION LANGUAGE

"For expenses necessary for the maintenance and operation of hospitals, nursing homes, and domiciliary facilities; for furnishing, as authorized by law, inpatient and outpatient care and treatment to beneficiaries of the Veterans Administration including care and treatment in facilities not under the jurisdiction of the Veterans Administration, and furnishing recreational facilities, supplies and equipment; maintenance and operation of farms and burial grounds; repairing, altering, improving or providing facilities in the several hopsitals and homes under the jurisdiction of the Veterans Administration, not otherwise provided for, either by contract, or by the hire of temporary employees and purchase of materials; uniforms or allowances therefor as authorized by law (5 U.S.C. 2131); and aid to State Homes as authorized by law (38 U.S.C. 641); $1,357,293,000, plus reimbursements: *Provided*, that allotments and transfers may be made from this appropriation to the Public Health Service of the Department of Health, Education, and Welfare, and the Army, Navy, and Air Force of the Department of Defense, for disbursements by them under the various headings of their applicable appropriations, of such amounts as are necessary for the care and treatment of beneficiaries of the Veterans Administration."

Positions by grade and average employment

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Permanent positions:				
GS–15	33	35	36	+1
GS–14	148	166	176	+10
GS–13	904	925	942	+17
GS–12	1,679	1,717	1,769	+52
GS–11	2,601	2,653	2,717	+64
GS–10	1,037	1,075	1,135	+60
GS–9	2,681	2,731	2,802	+71
GS–8	2,285	2,325	2,366	+41
GS–7	3,036	3,101	3,190	+89
GS–6	3,146	3,216	3,296	+80
GS–5	7,286	7,541	7,708	+167
GS–4	19,241	20,179	20,839	+660
GS–3	20,696	21,670	22,534	+864
GS–2	5,437	5,692	5,971	+279
GS–1	58	60	62	+2
Director grade	158	158	158	
Executive grade	176	176	176	
Chief grade physicians and dentists	3,070	3,228	3,330	+102
Senior grade physicians and dentists	1,719	1,821	2,050	+229
Assistant director grade nurse	1	1	1	
Intermediate grade physicians and dentists	565	604	664	+60
Chief grade nurse	60	65	70	+5
Full grade physicians and dentists	118	131	170	+39
Senior grade nurse	942	971	1,028	+57
Associate grade physicians and dentists	33	36	41	+5
Intermediate grade nurse	1,422	1,476	1,537	+61
Full grade nurse	3,330	3,420	3,637	+217
Associate grade nurse	7,859	7,995	9,052	+1,057
Junior grade nurse	1,831	1,945	2,233	+288
Ungraded	33,038	34,112	34,303	+191
Total permanent positions	124,590	129,225	133,993	+4,768
Deduct:				
Lapses	−7,262	−7,353	−6,522	+831
Equivalent of terminal leave	−1,408	−1,350	−1,425	−75
Add:				
Positions abolished	3,149	2,150	1,272	−878
Carried in other accounts	718	706	759	+53
Other than permanent	8,583	7,128	6,871	−257
Average employment	128,370	130,506	134,948	+4,442

GENERAL STATEMENT

This appropriation provides for expenses necessary for maintenance and operation of Veterans' Administration hospitals, nursing home care facilities, domiciliaries, and clinics, and care and treatment of eligible beneficiaries in contract hospitals, nursing homes and state homes.

Among the more significant changes in Medical Care program operating levels contemplated by this estimate for fiscal years 1967 and 1968 are the following:

1. Initial activation of the new 480-bed general hospital at Gainesville, Florida will occur during the latter part of fiscal year 1967. Continued activation of the new 500-bed general hospital at Charleston, South Carolina, and the completion of activation of the replacement general hospitals at Atlanta, Georgia; Oteen, North Carolina; Temple, Texas; Washington, District of Columbia; and Wood, Wisconsin, are also planned. During fiscal year 1968, the Agency will initially activate the new 1062-bed general hospital at Miami, Florida, the 720-bed replacement general hospital at San Juan, Puerto Rico, continue the activation of the Gainesville, Florida, general hospital and complete the activation of the Charleston, South Carolina, general hospital.

2. Continued implementation of the provisions of PL 88-450 which authorized the furnishing of nursing home care to eligible veterans in Veterans' Administration facilities and under contractual arrangement in non-VA facilities. The fiscal year 1967 estimate provides for the activation of 4,000 nursing care beds by the close of the fiscal year, with full operation of these beds planned in fiscal year 1968.

3. The fiscal year 1967 column of this submission contains funds to establish new medical services such as hemodialysis centers, open heart surgery centers, pulmonary emphysema units, etc., on a half-year's operation. The fiscal year 1968 column provides for the extension of these services to a full year's operation. In addition, it contains funds to activate more of these services at additional hospitals on a half-year's operation with the exception of several programs which are to be initiated on a one-quarter year's operation. (A complete explanation of the new medical service requirements and identification of stations selected to implement these programs appears in the "Justification of Estimates" section of this submission.)

4. The recognition of serious staffing deficiencies, primarily in nursing staff, and the need to expand the numbers of medical residents and professional and technical trainees. The mounting deficiencies situation prevailing in the staffing of Veterans' Administration Medical Care facilities is of utmost concern. The seriousness of this situation was not only confirmed but its extent expanded by the findings of a joint task force study completed recently. The fiscal year 1968 increment is the minimum needed to begin correcting this staffing problem.

5. Within the outpatient activity, three additional day treatment centers located at Newark, New Jersey; Dallas, Texas; and Wood, Wisconsin have been established in fiscal year 1967. Three more located at Atlanta, Georgia; Memphis, Tennessee; and St. Louis, Missouri, are planned for fiscal year 1968. A mental hygiene clinic is planned in fiscal year 1968 at Miami, Florida. Increased prosthetic requirements for newly disabled veterans of the Viet Nam conflict are provided in this estimate. These include artificial arms and legs, aids to the blind, wheelchairs, hydraulic crutches, etc.

6. Small patient load decreases entirely in the Federal contract hospitals are estimated in fiscal year 1968 from fiscal year 1967. New Veterans Administration beds becoming available in the concerned geographical areas will meet the needs of eligible beneficiaries residing in these areas.

7. Based on pilot studies conducted during fiscal year 1966, the restoration program has been extended from two to five Veterans Administration stations, namely the VA Hospitals at East Orange, New Jersey and Hines, Illinois, and the VA Centers at Dayton, Ohio; Los Angeles, California; and Wood, Wisconsin. The restoration program affords special restorative training to certain former hospital patients who have received maximum hospitalization benefits to better fit them for more purposeful and independent living. Emphasis is placed on the restoration of disabled veterans and on making more hospital beds available for those in need of hospitalization.

8. This estimate reflects continued emphasis on the President's Cost Reduction Program through more prudent use of resources and encouraging the development and use of new management and operational techniques. The Department has established a savings goal of approximately $3,000,000 to be realized in each of fiscal year 1967 and 1968. These savings are projected as reductions to the appropriation requests and are expected to be realized in the areas of improved organization, installation of labor savings devices, economical procurement, increased productivity and other management improvement actions.

Fiscal year 1968 appropriation requirements are presented in this estimate under the following major activities:

Neuropsychiatric hospitals

The 41 VA hospitals designated as neuropsychiatric primarily provide service in the diagnosis, care and treatment of patients with psychiatric and neurological disorders.

A daily average patient load of 50,204 including 4,709 medical, surgical or tuberculous patients is estimated for fiscal year 1968, which is a net decrease of 979 from fiscal year 1967. Construction and alteration work accounts for 107 of the decrease, with another 723 resulting from annualization of displacement of hospital load with VA nursing care load during fiscal year 1967. The remaining net decrease of 149 patient load results from lessening patient demand and need to relieve ward overcrowding at several hospitals, after considering minor increases of 43 at other locations.

General hospitals

The VA general hospitals provide service in the diagnosis, care and treatment of patients with medical, surgical, tuberculosis, psychiatric and neurological disorders. With the initial activation of the new 1062 bed Miami, Florida hospital, the VA will operate 126 general hospitals in fiscal year 1968. An average daily patient load of 56,112, including 6,252 psychiatric patients, is estimated for fiscal year 1968, which is a net increase of 1,003 over planned fiscal year 1967 levels, identified as follows:

1. An increase of 728 patient load results from full activation of Charleston, South Carolina; continued activation at Gainesville, Florida; and initial activation of San Juan, Puerto Rico, and Miami, Florida.

2. An increase of 75 patient load resulting from the opening of a new 240-bed NP building at Long Beach, California.

3. An increase of 704 patient load due to increased beneficiary demand at several hospitals, mainly Ann Arbor, Michigan; Bronx, New York; Dearborn, Michigan; Pittsburgh, Pennsylvania; Hines, Illinois; and Wilmington, Delaware.

4. A decrease of 377 patient load for continued phasing down at Columbia, South Carolina; Oteen, North Carolina; Memphis, Tennessee; and Coral Gables, Florida.

5. A decrease of 127 patient load resulting from annualization of the displacement of General hospital beds by nursing care beds during fiscal year 1967.

Domiciliaries

Sixteen VA domiciliaries and five restoration centers will provide domiciliary and restorative care to an estimated average of 13,444 eligible veterans in fiscal year 1968. This is a decrease of 56 over fiscal year 1967 resulting from decreases in demand at Wood, Wisconsin and displacement of domiciliary load with nursing care load at Biloxi, Mississippi.

Nursing home care

VA Nursing Care units will be activated to the legislative requirement of 4,000 beds by the close of fiscal year 1967 with a planned average operating bed level of 3,000 for fiscal year 1967. During fiscal year 1968 all 4,000 VA nursing beds will be extended to full occupancy with an average patient load of 3,720, an increase of 930 over fiscal year 1967.

In addition to operating a Nursing Home Care program in its own facilities, the VA will reimburse State and Community Nursing Homes for care and treatment provided eligible veterans. It is estimated the fiscal year 1968 State Nursing facilities will provide for an average daily beneficiary load of 1,926,

a 400 increase over fiscal year 1967. No change is estimated in fiscal year 1968 in the 3,000 average daily load planned in fiscal year 1967 in the Community Nursing load.

Contract hospitalization

The Veterans Administration utilizes other Federal and non-Federal hospitals on a contract basis to provide care and treatment to veteran beneficiaries in localities where there is a shortage of VA facilities. The fiscal year 1967 contract hospitalization load is planned at 2,439 and fiscal year 1968 estimated at 2,411 for a net decrease of 28 patient load. The entire decrease will be reflected in the Federal contract program since new VA beds will serve eligible beneficiaries in the concerned geographic areas.

Outpatient care

The Veterans Administration is authorized to provide outpatient medical and dental care and treatment to eligible beneficiaries in all of its hospitals and in clinics not physically located in the VA hospital. Where necessary, and/or more economical, the services of hometown physicians and dentists are utilized on a fee basis.

The estimate for Outpatient workloads in fiscal year 1968 projects an increase in medical visits of 142,100; dental examination cases completed of 1,500; and dental treatment cases completed of 4,500. These increases result from the establishment of three additional Day Treatment Centers, a new Mental Hygiene Clinic and increased workloads for both medical and dental visits due to the increased patient demand resulting from the Viet Nam conflict, the advancing age of the veteran population and increased workloads generated by the Community Nursing Home program.

Miscellaneous benefits and services

This activity includes those items of expense not directly connected with medical care and treatment such as beneficiary travel, care of the dead, operation of personnel quarters at medical facilities, and the cost of furnishing supply, engineering, housekeeping and other administrative support services to other VA departments on a non-reimbursable basis. Fiscal year 1968 increases are associated with beneficiary travel requirements for new medical services, activation of new or replacement VA hospitals and other workload adjustments, and the initiation of a research and development program in hospital construction which previously was funded from the Construction of Hospital and Domiciliary Facilities appropriation.

State homes

The Veterans Administration is authorized to reimburse each State for part of the cost of domiciliary care furnished to eligible beneficiaries in State Soldiers' Homes. In fiscal year 1967 a member load of 7,810 is estimated with fiscal year 1968 projected at 7,610. This net decrease of 200 State Home Member load is comprised of a transfer of 300 beneficiaries to State Nursing Care at Homes located in King, Wisconsin and Vineland, New Jersey, which is partially offset by 100 member load at the new Jackson, Louisiana State Home.

The rising costs of medical care, due primarily to increased salary payments and advances in medical knowledge which result in improved and more complex diagnostic and treatment procedures, pose many serious problems.

Achievement of high quality medical care in Agency hospitals and clinics results largely through the close affiliation maintained with America's medical schools and the conduct of active programs of research and education by the Department of Medicine and Surgery. This combination has produced an atmosphere which, to be sustained, demands that VA medical installations keep abreast of the progress being made in the vast and complex field of medical care. Failure to keep pace will jeopardize both the valuable affiliation ties with the medical schools, who are in the forefront of the advance, and the Agency's ability to recruit and retain the necessary caliber of physician that will assure that patients receive the best possible care and treatment.

Summary of workloads, positions, and employment changes

Activity	1966 actual	1967 estimate	Decreases			Increases				Increase (+) or decrease (−)	1968 estimate
			Reduced workload	Management improvement	Total decreases	Increased workload existing facilities	Improvement in quality of patient care	Increased usage util., drugs, etc.	Total increases		
Number of installations:											
Neuropsychiatric hospitals	41	41									41
General hospitals	124	115					1		1		126
Domiciliaries	18	18									18
Nursing home care—VA	38	63									63
Workloads: Operating beds:											
Neuropsychiatric hospitals	55,592	54,205	824		824	44			44	−780	53,425
General hospitals	61,419	61,647	335		335	420	772		1,192	+857	62,504
Domiciliaries	15,363	14,334	22		22					−22	14,312
Nursing home care—VA	1,475	3,000				1,000			1,000	+1,000	4,000
Total	133,849	133,186	1,181		1,181	1,464	772		2,236	+1,055	134,341
Average daily beneficiary load:											
Neuropsychiatric hospitals	52,081	51,183	1,022		1,022	43			43	−979	50,204
General hospitals	55,308	55,109	441		441	937	507		1,444	+1,003	56,112
Domiciliaries	13,366	13,500	56		56					−56	13,444
Contract hospitalization	2,493	2,439	60		60	32			32	−28	2,411
State homes	8,228	7,810	200		200					−200	7,610
Nursing home care—VA	1,245	2,790				930			930	+930	3,720
State home nursing	972	1,526				400			400	+400	1,926
Community nursing	1,637	3,000									3,000
Total	135,330	137,357	1,779		1,779	2,342	507		2,849	+1,070	138,427
Patients treated in VA: Nursing homes	3,125	5,500								+1,200	6,700
Patients treated in VA hospitals:											
Neuropsychiatric hospitals	128,547	127,000								−1,000	126,000
General hospitals	613,266	620,000								+22,000	642,000
Total	741,813	747,000								+21,000	768,000

Summary of workloads, positions, and employment changes—Continued

Activity	1966 actual	1967 estimate	Decreases			Increases				Increase (+) or decrease (−)	1968 estimate
			Reduced workload	Management improvement	Total decreases	Increased workload existing facilities	Improvement in quality of patient care	Increased usage util., drugs, etc.	Total increases		
Outpatient care:											
Medical visits:											
Staff	4,981,790	5,092,400				127,100	15,000		142,100	+142,100	5,234,500
Fee	1,199,888	1,200,600									1,200,600
Total	6,181,678	6,293,000				127,100	15,000		142,100	+142,100	6,435,100
Dental examination cases completed:											
Staff	55,067	62,000				1,500			1,500	+1,500	63,500
Fee	3,482	4,196									4,196
Total	58,549	66,196				1,500			1,500	+1,500	67,696
Dental treatment cases completed:											
Staff	46,919	48,500				4,500			4,500	+4,500	53,000
Fee	6,768	7,156									7,156
Total	53,687	55,656				4,500			4,500	+4,500	60,156
Full-time equivalent employment:											
Consultations and attendings	917	928					14		14	+14	942
Nurses	15,499	15,911	143		143	106	1,428		1,534	+1,391	17,302
Dentists	717	732	6		6	8	22		30	+24	756
Physicians	6,739	6,991	33		33	45	382		427	+394	7,385
Clinical and counseling psychiatrists	702	716	11		11	16	55		71	+60	776
Wage rate employment	33,713	33,947	45	270	315	176	322	24	522	+207	34,154
Purchase and hire	180	180									180
Other personnel	69,903	71,101	449	210	659	744	2,267		3,011	+2,352	73,453
Net total	128,370	130,506	687	480	1,167	1,095	4,490	24	5,609	+4,442	134,948

Mr. EVINS. You are asking for $1,357,293,000 for medical care in 1968, plus reimbursements, providing that transfers may be made from the Public Health Service; the Department of Health, Education, and Welfare; the Army; Navy; Air Force; and the Department of Defense.

How much do these total transfers amount to?

Mr. WISE. All transfers or reimbursements, $7,148,000. This is not only Federal, but from the canteen service, and some from insurance companies. There is a special analysis showing where the $7 million comes from.

Mr. EVINS. You have about four different accounts that are not appropriated accounts, is that correct?

Mr. WISE. The medical care appropriation is entirely appropriated. We have four nonappropriated accounts. The canteen is one that makes a rental payment to the medical care appropriation for occupying our facilities.

RENTAL, MAINTENANCE AND REPAIR OF QUARTERS FUND

Mr. EVINS. On page 2 you list four nonappropriated accounts. Rental maintenance; tell us about the Perry Point Hospital up in Maryland.

Mr. WISE. At the Perry Point Hospital in Maryland there are 129 housekeeping quarters units. The rental collected is about $122,000 a year. Practically all of the rental is required to be put back into the maintenance and repair of these housing units. These are very essential to the operation of the hospital, since it is in an isolated area. There are very small amounts up to $1,000 or $2,000 a year that are paid into the Treasury.

Mr. EVINS. Most property is used to maintain the homes.

Mr. WISE. Yes, sir; they are of quite ancient vintage; 50 or 60 years.

Mr. EVINS. Is this taken over from the Army?

Mr. WISE. Public Health, and I believe at one time there was a Hercules powder plant up there.

Mr. EVINS. You have no patients there, do you?

Mr. WISE. That is a rather large psychiatric hospital; around 1,300 patients.

Mr. EVINS. All the rental income is used to maintain it?

Mr. WISE. Yes, sir; to maintain the employee quarters.

CANTEEN SERVICE FUNDS

Mr. EVINS. The second nonappropriated account is canteen service. We appropriated about $4 million to that at one time. Since then it has been liquid, self-sustaining and self-supporting, is that right?

Mr. MONK. And paid back some money.

Mr. EVINS. Paid some of it into the Treasury. Do you make an annual payment into the Treasury from the canteen service?

Mr. BUCKNELL. Yes, sir.

Mr. EVINS. How much last year?

Mr. BUCKNELL. This year the payment to the Treasury is $106,000.

Mr. EVINS. How much was it last year?

Mr. BUCKNELL. Last year it was $896,000.

Mr. EVINS. You had a more profitable year last year?
Mr. BUCKNELL. Yes.

SUPPLY REVOLVING FUND

Mr. EVINS. Then the supply fund. Under a revolving fund, financed by reimbursements, this fund provides for certain supplies. Where are your three supply depots?
Mr. COOKE. Hines, Ill., Wilmington, Calif., and Somerville, N.J.
Mr. EVINS. These are able to operate without appropriation?
Mr. COOKE. Yes. They have never had appropriated funds.
Mr. EVINS. How is this accomplished?
Mr. COOKE. The supply fund procures the supplies and equipment that we carry in inventory. Both for these three warehouses and in storage at our hospitals.
Mr. EVINS. You have three warehouses and you have a lot of supplies in them. How do you purchase it without appropriated funds?
Mr. MONK. Initially when they set up this fund, we capitalized it by taking the supplies that were on hand——
Mr. EVINS. You had an initial appropriation?
Mr. MONK. We had an initial capitalization of about $50 million and as we sold this material to the appropriation accounts, we got the money back into the fund which we used to buy supplies.
Mr. EVINS. Do you make a profit when you sell these supplies?
Mr. MONK. We do not attempt to make a profit.
Mr. EVINS. You will have to make a profit or your capital funds will be exhausted.
Mr. MONK. We attempt to break even in the fund. We charge enough extra above cost to pay the expenses of handling the materials so that we break even in the fund each year, but we don't make any substantial profit, nor do we have any substantial loss.
Mr. EVINS. When did you get your first money?
Mr. MONK. We bought materials on hand out of the appropriated account which we capitalized.
Mr. SHYTLE. We are now down to about 42. The law says any excess will go to the general fund.
Mr. EVINS. Are you making any contributions to the general fund from this fund?
Mr. SHYTLE. Not this year, but over the years about $15 million has gone back.
Mr. EVINS. You buy as much of your supplies from these depots as is possible?
Mr. SHYTLE. That is right.
Mr. EVINS. What is your marketing center?
Mr. COOKE. That is an office in Chicago, Ill., sir, which is staffed with the people who actually buy—who actually do the contracting for these supplies.
Mr. EVINS. They decide what goes into the supply depots?
Mr. COOKE. Yes, sir.
Mr. EVINS. I think you are given an opportunity to show how you are making money in operating these supply depots, but you are not putting your best foot forward and telling us how you do it. We would like to know the secret of how you succeed.

Mr. COOKE. The law that established the supply fund told us we should not make a profit nor should we have a permanent loss. So we price the goods to the using appropriations of the VA with this objective, to neither make money or lose money. Over the period of 13 years that we have operated this fund, we have actually come——

Mr. EVINS. How much inventory do you have in your three supply depots?

Mr. COOKE. Approximately $36 million right now.

Mr. EVINS. What are your principal items? Everything from A to Z?

Mr. COOKE. No, sir; the principal items are canned foods and dry stores as distinct from perishable foods; drugs, bandages, surgical supplies, medical and dental supplies.

Mr. EVINS. Are these sales made to your hospitals all over the country?

Mr. COOKE. Yes, sir.

Mr. MONK. Of course, the advantage to this fund, Mr. Chairman, is the mass purchasing power we have where we buy for the needs for 166 hospitals through one central purchasing arrangement and then warehouse and distribute these purchases to the 166 individual hospitals as they are needed.

Mr. EVINS. It says, "Also provides service to other Government agencies when advantageous."

Mr. COOKE. Yes, sir. We are the contracting office for drugs for all nonmilitary agencies. We also procure for other agencies, primarily Public Health Service, food used in their hospitals.

Mr. EVINS. Public Health Service gets some of their drugs through your supply depot?

Mr. MONK. Yes, sir. The District of Columbia gets some.

Mr. EVINS. What does GSA get from you?

Mr. COOKE. We purchase some of the food they distribute to other agencies through their warehouse system.

Mr. EVINS. GSA operates the biggest supply depots and they distribute to VA?

Mr. COOKE. We purchase from them general supplies, administrative supplies, cleaning supplies. We do not have these in our warehouse.

Mr. EVINS. Don't you think you can get GSA to do this job for you?

Mr. COOKE. No, sir. We don't believe up to this time it has been demonstrated it would save us money.

Mr. EVINS. You are more expert in the procurement of medicine and drugs?

Mr. COOKE. Yes, sir.

Mr. MONK. And we are working, Mr. Chairman, with GSA constantly on dividing up those things which they feel they should buy for us and warehouse, and those things which they feel we are better equipped to buy for ourselves and for other agencies.

Mr. EVINS. Anyway, the supply depots are self-sustaining and self-liquidating and occasionally you make a little profit and turn it in to the Treasury?

Mr. COOKE. Yes, sir. Last year we made $109,000 profit.

Mr. EVINS. How about the general post fund?

Mr. WISE. That is income made up largely from public donations or, under law, from estates of veterans dying intestate in VA hospitals. Their estates accrue to the general post fund. The fund is used principally for religious or recreational welfare of veterans in our inpatient facilities.

Mr. MONK. That is where the oil royalties from Los Angeles went into the post fund.

Mr. JONAS. You don't buy any cigarettes through that fund any more?

Mr. DRIVER. No, sir.

Mr. EVINS. Why do the oil receipts have to go into the post fund? Why couldn't they go into the Treasury?

Mr. MONK. Because the man who got the lease on the oil voluntarily said that a certain percentage of this would go into the general post fund at the Los Angeles Hospital.

Mr. EVINS. Was this a VA employee?

Mr. MONK. No, sir.

Mr. DRIVER. 12.5 percent goes to the Treasury.

Mr. EVINS. The man who got this money for the Government, who is this man? He should be given recognition.

Mr. MONK. He was in the hospital when this arrangement was made.

Mr. EVINS. Did VA buy the land from the man?

Mr. MONK. No, sir; it was our land and he procured through the Department of the Interior a lease to drill for oil under this land.

Mr. EVINS. On the VA land?

Mr. MONK. And voluntarily he gave to the general post fund over and above the royalty that he agreed to pay the Government, a certain percentage to go in——

Mr. EVINS. Did VA make a lease with the unidentified gentleman to let him drill on the Government land?

Mr. MONK. The Department of the Interior made the lease because they are responsible for handling the oil royalties. We made the arrangements as to where he could put the oil well on our land, so it didn't interfere——

Mr. EVINS. When he made this arrangement, he said, "We are going to give a certain amount of it to the post fund?

Mr. MONK. That is correct, sir.

Mr. WISE. This was from his income, which is voluntary.

Mr. EVINS. How much does this amount to?

Mr. WISE. About $75,000 a year.

Mr. EVINS. That makes a pretty liquid post fund, doesn't it?

Mr. DRIVER. Yes, sir. I wish we had it at every hospital.

Mr. EVINS. Beyond this $75,000, how much does the agreement provide for going into the Treasury?

Mr. MONK. 12.5 percent is about $400,000 a year.

Mr. JONAS. Is this a permanent arrangement?

Mr. MONK. As long as he pumps oil.

Mr. JONAS. Is it a contract?

Mr. DRIVER. It is a lease.

Mr. JONAS. No, this royalty that goes to the post fund.

Mr. MONK. Yes; it is permanent.

Mr. DRIVER. As long as he is drilling.

Mr. EVINS. You just allowed him to drill one hole?

Mr. DRIVER. He has his fourth one right now. He is slant drilling out from under our property now, going out to sea.

Mr. MONK. Dr. Engle, who is our Chief Medical Director today, was the Director at Los Angeles when this arrangement was made.

Mr. EVINS. These nonappropriated accounts are liquid and are making a little money. Some of them are making pretty good money, and the Government is benefiting.

Mr. JONAS. I wasn't joking about that cigarette business. Have you stopped letting people donate cigarettes?

Mr. DRIVER. We do not permit free distribution in the hospitals. However, they are for sale in the canteen.

Mr. JONAS. But you do sell them?

Mr. DRIVER. Yes.

Mr. JONAS. You discontinued the practice of permitting service organizations and cigarette companies to donate them?

Mr. DRIVER. Yes, sir.

Mr. JONAS. How do you justify not accepting them as a gift and still make them available in the canteens for purchase?

Mr. DRIVER. We justify not distributing them as a gift on the grounds that we are convinced, along with the Surgeon General, that smoking is injurious to health and particularly for sick people, and, therefore, we are certainly not justified in encouraging—by giving it to them free.

Mr. EVINS. More money would be needed to rehabilitate them when they became ill again.

Mr. DRIVER. Because it is the individual's right, we feel we should provide the service if he wants to buy them himself.

MEDICAL CARE STAFFING INCREASE

Mr. EVINS. Who wants to talk about the 4,442 employees you want to add to the medical services?

Dr. SKOUGE. I will speak to that. Of these 4,000 personnel, 1,255, which will amount to $12 million, will go to staff new hospitals——

Mr. EVINS. Do you have a general statement that you want to make for Dr. Engle or yourself to put in the record?

Dr. SKOUGE. I do not have a formal statement.

Mr. EVINS. You go right ahead and explain this.

Dr. SKOUGE. What I had to say has already been said.

These 1,255 will go to staff new facilities. Then we feel, with the advancing technology, the aging population, the seriousness of the illnesses that we are trying to take care of, that we need more staffing, direct medical care staffing in our hospitals.

This past year we had a management firm called CASH (Commission for Administrative Services in Hospitals) located in California do a study for us in three of our large general medical and surgical hospitals; namely, Los Angeles, San Francisco, and Long Beach.

This organization services 150 community hospitals in California. At the conclusion of their study, they found that in the three areas where the studies were made; namely, dietetic, housekeeping, and nursing, they found our staffing in dietetics was adequate; in housekeeping, less than adequate; and in nursing service, inadequate.

Their standard is 4 hours of direct patient care by nursing service personnel per day. We were only providing 2.2 hours per day.

Our professional services in central office had made a study and had come to the conclusion that we were short approximately 6,000 employees in nursing service nationwide. CASH came up with a figure almost twice that. We feel that it is imperative we make some inroad in this staffing deficiency and we have in the budget 1,352 employees, most of whom will go to nursing service and this will amount to approximately $11 million.

In addition to this, we feel that it is imperative that we establish a number of new medical services and continue activation of new medical services that were established last year.

NEW MEDICAL SERVICES

We have in our budget a total of $16 million which will furnish 1,767 employees in the new medical services. These new medical services, as you will recall from last year, involved not only our G.M. & S. hospitals, but our psychiatric hospitals. Since half of our inpatient load is in the field of mental illness, it is imperative that we do something about it. In our NP hospitals—we have 41—they are really too large and unless we can improve our methods of treatment, we are going to have in the future perhaps more patients in these hospitals than we presently have.

A few years ago it was determined that when we build general medical and surgical hospitals, we will place psychiatric beds in these hospitals and attempt to reduce the size of our NP hospitals, number one, and number two, put these beds in hospitals adjacent to medical centers in particular where we can recruit the necessary skills so that we can get these patients out of the hospital and make them productive citizens again.

So this has made an impact and presently we have over 6,000 NP beds in our general medical and surgical hospitals.

We feel if we can treat patients with mental illness on an ambulatory basis rather than keeping them in a hospital making them independent rather than totally dependent, we can make significant inroads in the care of the mentally ill. As a consequence, we have established such things as day treatment centers and this year we plan to have three additional centers, making a total of 37 in the system.

Mental hygiene clinics; we have been gradually expanding these and this year, with the addition of one more, we will have 69.

These patients in our psychiatric hospitals get physical illnesses as well as mental illnesses and we are trying to establish medical beds and

some surgical beds in our psychiatric hospitals. In addition to that, we are trying to improve our foster home program. Our goal is to provide better care for the mentally ill. It is a major part of our responsibility and if we can implement our outpatient programs and our outplacement programs, I think we will be doing a real service not only to the veteran, but to the Nation.

In our general medical and surgical hospitals, we are introducing a number of additional programs, some of which were discussed last year, but I think warrant additional discussion.

Dialysis units—the artificial kidney. We hope to have at the end of this year 28 programs in operation. Our long-range plan is to have 42.

Now, this is a program where, without question, if we do not provide treatment to the veteran he will die. We can save his life. If we can prolong his life for, I don't know how many years, it is entirely possible that we can solve the problem of organ transplantation—a reject phenomenon—and provide some of these people with chronic kidney disease a good kidney and they may go on to reach a normal lifespan and be productive.

Mr. EVINS. How many of these dialyses units do you have established?

Dr. SKOUGE. We have 13 that are completed. We have a total of 28 that we are going to have completely in operation by July 1, but many of these are really in operation right now.

Mr. EVINS. July 1—of this fiscal year?

Dr. SKOUGE. Seventeen more in the fiscal year, 1967, 15 more. Excuse me.

Mr. EVINS. So you are up to about 20 units?

Dr. TIMM. We have 24 now operating.

Mr. EVINS. By July 1, how many will you have?

Mr. MONK. Twenty-eight.

Mr. EVINS. You have been funded for this and there is no money in this budget for these units, nor additional units next year?

Mr. MONK. No additional units in this budget for next year.

Dr. SKOUGE. For additional staffing there is.

Mr. WISE. All of those started this year were funded for 6 months only, therefore, our 1968 request does require an equal amount of increase in order to run them for a full year.

Mr. EVINS. Proceed, Doctor.

Dr. SKOUGE. Intensive care units and coronary care units. I think these are vitally important to our system.

I recall after World War II there was a need for postoperative recovery rooms. Very few of our hospitals had these. These were units established to concentrate patients who were recovering from anethesia following surgery. It was found that if we had these units in operation the postoperative mortality rate would be reduced. If we could keep all of them together in one small area, we could concentrate our nursing skills, our physicians skills, and our equipment.

MEDICAL STAFFING COMPARISONS

Mr. EVINS. You have stated that you made some studies and you have studied certain other studies and all of them said that your

staffing was not comparable with private hospitals. Is this about the summation of the conclusions of the study?

Dr. SKOUGE. I think that there is no question about it. In our general medical and surgical hospitals, in particular we have less staffing than we have in community hospitals and certainly in our university hospitals.

Mr. EVINS. Dr. Wells, is that your view?

Dr. WELLS. Yes, sir. Our staffing ratios are way below those of the community hospitals which, as it was said yesterday, run around 2.5 per one patient. University hospitals run 3.5 to 4.5 per patient. They are much higher.

Mr. EVINS. Private community hospitals have about 2.5 doctors, nurses, and attendants per patient.

Dr. WELLS. This is their entire employees.

Mr. EVINS. Total employment runs about 2.5 per patient?

Dr. WELLS. That is right.

Mr. EVINS. University hospitals——

Dr. WELLS. Will run from 3.5 to as high as 4.5.

Mr. EVINS. What has been the experience of the VA per patient?

Dr. WELLS. Our ratio runs about 1.32 to 1.33 or 1.34.

Dr. SKOUGE. In fiscal year 1968 it is our hope we will get up to about 1.37.

Mr. EVINS. But you have a greater volume of patients.

Mr. DRIVER. This doesn't help matters though, Mr. Chairman. This accentuates the problem.

What we would like to do is improve the staffing ratio because we feel this will enable us to get the patient in, treat him, rehabilitate him, and get him out faster and I think we have proven this over the years.

Mr. EVINS. You testified yesterday that your total hospital recommendations were for about 10,000 new personnel and staffing.

Mr. DRIVER. That is what we received.

Mr. EVINS. You have received these requests all over your system. You reviewed it and you are recommending about 4,500.

Dr. SKOUGE. 4,400.

Mr. EVINS. Instead of the 10,000.

Mr. SHYTLE. Which represents a recruitment capability.

Mr. DRIVER. We would have recommended more, but we didn't feel we could get them on board.

Mr. EVINS. What has been your experience in increasing personnel hiring heretofore? You have had some vacancies not filled.

Mr. DRIVER. That is why we cut down this request. We were going to try to come closer to what we asked for, certainly. We would like to meet this figure. We think we can.

Mr. JONAS. Can you break that down, please?

You are going to bring how many new hospitals into the system after July 1, 1967, and during fiscal year 1968? Two or three?

Mr. WISE. There will be two additional in 1968. However, we are activating about four this year that are still expanding.

Mr. JONAS. What will it take to staff the two new ones? I want to know if you are annualizing this staffing requirement for a full year when you won't have them on board a full year.

Mr. DRIVER. No, sir.

Mr. JONAS. That will depend on when you are going to bring them on the line.

Mr. DRIVER. Coral Gables, as it is operating, we would have to decide there how many more people we would need for the new hospital. This is outlined in the budget specifically.

Mr. MONK. It is on 4–35, Mr. Jonas.

Mr. WISE. For 1968 we will have two completely new hospitals at Miami and San Juan. We have asked for 645 average employment at Miami, 130 at San Juan. In addition, we have hospitals that are activating late in this year that will continue. Some of them now have patients, but are not completely activated. We are asking for 59 more employees at Charleston, S.C.; 433 for Gainesville, Fla., which is not yet activated, but will be before the first of July; 93 for Palo Alto, Calif., with new buildings coming in there, and that is the extent of our increases for new construction.

Mr. JONAS. How do you get a minus in Memphis and a minus in Oteen?

Mr. MONK. We are cutting back on patient load just a little bit there.

Mr. JONAS. Since you say "average employment," you have answered my question. You are not asking for that many new jobs——

Mr. DRIVER. Just to meet this average total.

Mr. SHYTLE. This budget is constructed on an average.

Mr. JONAS. I know that. That is what confused me yesterday. The budget says you are asking for an increase of 4,900.

Mr. MONK. That is right.

Mr. JONAS. That was jobs, in the budget. Not your budget, I mean the President's budget.

Mr. MONK. That is right.

Mr. JONAS. 4,900 new jobs. You said you are asking for 4,400 for average employment.

Mr. MONK. That is right.

Mr. EVINS. Dr. Skouge, in your studies you have alluded to the overall ratio, employees to patient. Do you have certain facilities where you have more than this ratio?

Dr. SKOUGE. I think in general we find where there are affiliated hospitals, we have many new programs, such as coronary care, hemodialysis, and so on; the ratio was higher there.

Mr. EVINS. While we are discussing this matter of the ratio of staffing of various facilities of doctors, nurses, and attendants in relation to patients, I am reminded of a personal experience which may be illustrative.

Some time ago our former House physician made an appointment for me at one of our Washington area Government medical facilities for a minor dental problem.

After making the appointment, I drove out to the facility and reported to the information desk. There I was greeted by a courteous and helpful enlisted man who recorded my name and other pertinent information.

I was then referred to the office of the officer of the day, where I had a pleasant chat with his charming secretary, who graciously

received me. This receptionist, after some visiting, then escorted me into the offices of the officer of the day where I had a pleasant and extended visit with the senior officer of the day.

We discussed current issues and current events very pleasantly and for some time. Following this ad hoc symposium, he buzzed for the junior officer of the day, and this officer, a lieutenant, accompanied me on a long walk down the corridors, and we had a pleasant chat en route.

He presented me to two receptionists at another station, a young lady and a young man, who took my name and other additional information.

We chatted and I was advised to sit and wait, and that I would be summoned for my dental work. I read a magazine a while and waited some time. Then I was called into the room of a captain, a pleasant dental officer and fine gentleman. We had a brief visit and he made a preliminary examination.

He then called an associate upstairs who subsequently appeared on the scene for consultation. He suggested that additional equipment was needed—and we chatted while this additional equipment was brought into the clinic.

I was then given dental treatment. A tooth was filled. I received excellent treatment.

Within about 10 days the filling cracked and I went to a private dentist and had it replaced. In all I think I was contacted by some three dentists and eight assistants in connection with this matter. This experience was an eye opener in regard to this matter of the ratio of staffing to patients.

Gentlemen, let us suspend at this time until 10 o'clock tomorrow.

THURSDAY, FEBRUARY 16, 1967.

COMPARATIVE COST OF HOSPITALIZATION

Mr. EVINS. The committee will come to order. I believe on yesterday, as we concluded our hearings, Dr. Skouge had been testifying regarding the ratio of staffing to patients in hospitals. Generally, he pointed out that the numbers for VA are less than in municipal and other types of private hospitals. I was interested in the table further on in your justifications where your costs per patient, however, Dr. Skouge, are going up. It is getting higher and higher compared with the Army, the Navy, Public Health, all kinds. We thought your costs were generally more reasonable, but your per day costs are getting in the high brackets now.

Dr. SKOUGE. Of course, medical care today is becoming more and more expensive. Costs for salaries are escalating.

Mr. EVINS. Are you going to let these other hospitals outstrip you in efficiency?

Dr. SKOUGE. I don't know that they are outstripping us in efficiency. We are dealing with a completely different type of beneficiary than are the Armed Forces. The aging population, for example, when

they become ill cost a lot of money to restore to health. The young man responds very quickly. Of course, we know that in terms of costs, about 83 percent of our entire budget goes for personnel and 17 percent for other things. Over the years I think the health personnel in general have been paid at a lesser rate than most other people in industry. Of course, nowadays, health personnel are demanding more money, particularly nursing personnel, technical personnel and the costs for medical care are going up at a rate equal to the increase in salaries.

Mr. EVINS. 4–198, I think is the table I am looking for.

Mr. MONK. It gives the Army, the Navy, the Air Force.

Mr. EVINS. That is right. The Veterans' Administration, per diem, average daily cost in hospitals, is $32.46.

Mr. DRIVER. It is lower than all but the Navy.

Mr. EVINS. Air Force is $36, Navy is $26, Army class one is $30, and Army class two is $34.

What is the difference between class 1 and class 2?

Mr. DRIVER. As you notice at the top, they give an example of a separate hospital like at Walter Reed, which would be a full-blown hospital. The class 1 is a post-type Army hospital.

Mr. EVINS. Walter Reed, hasn't that about the highest rating?

Mr. DRIVER. I think, in terms of the number of services available, Walter Reed would be the kind in the military that would compare with a typical VA hospital.

Mr. EVINS. Next to Walter Reed, the Veterans' Administration cost is second highest.

Mr. DRIVER. No, sir. It is lower than the Public Health Service, the Air Force, and the Army.

Mr. EVINS. You are looking at the bottom. How do you reconcile the top chart with the lower?

Mr. DRIVER. We are talking about general hospitals at the bottom. At the top they are lumping everything in, all kinds of medical care. But if you want to look at Federal hospitals——

Mr. EVINS. That is the bottom chart.

Mr. DRIVER. That is right.

Mr. MONK. The figures are the same except for that class one in the Army.

Mr. EVINS. Let's put this chart in the record at this point while we are talking about staffing.

(The page follows:)

Fiscal year 1966 per diem rates in Federal hospitals

	NP	General
Veterans' Administration	16.87	32.46
Air Force		36.85
Navy		26.98
Army:		
Class I (Post—Fort Meade, etc.)		30.66
Class II (Separate—Walter Reed, Valley Forge, etc.)		34.21
Public Health Service:		
Fort Worth (NP hospital)	15.87	
Lexington (NP hospital)	12.87	
General hospitals		33.86

Per diem rates in VA hospitals—Actual

	1960	1961	1962	1963	1964	1965	1966
NP hospitals	$12.33	$13.40	$14.08	$14.61	$15.25	$16.05	$16.87
General hospitals	23.87	25.82	27.09	28.33	29.43	30.99	32.46
All hospitals	18.44	19.93	20.87	21.56	22.43	23.75	24.90

Per diem rates in Federal general hospitals

Agency	1960	1961	1962	1963	1964	1965	1966
Army—class II	$25.68	$27.99	$29.21	$29.88	$30.29	$33.94	$34.21
Navy	22.11	23.50	22.54	22.74	25.20	26.54	26.98
Air Force	31.62	32.37	32.06	29.01	32.39	35.28	36.85
Public Health Service	24.08	27.22	27.10	27.81	30.08	32.30	33.86
Veterans' Administration	23.87	25.82	27.09	28.33	29.43	30.99	32.46

Mr. WISE. I think the chart that is even more significant is over on page 4–116. I think it demonstrates the job the VA is doing. There has been an increase in cost from 1958 through 1966, where the per diem costs have increased largely attributable to pay raises from $16.84 up to $24.90. You will note the cost-per-patient treatment, the job VA is trying to do is treat more patients at lesser cost. The cost per patient treated has remained much more stable.

Mr. EVINS. The per diem cost has increased by $8.06 or 47.8 percent. It has gone up 47 percent. The cost per patient treated has increased by only $188 or 16.7 percent during the same period.

Dr. SKOUGE. This really reflects our efforts toward getting more patients through our hospital beds, admitting and discharging more patients with less beds. I think that this is a noble objective that everybody should strive for.

Mr. EVINS. Well, we want to have good top-rated medical care and service; we all appreciate that, but at the same time if you can run these efficiently without waste, it is good administration, good business.

Mr. JONAS. Would the chairman yield? If you look at this chart on 4–116 it appears that the daily cost is going up and the cost per patient is going up.

Mr. MONK. That is true, both of them are.

Mr. JONAS. Every year since 1958.

Mr. MONK. That is true, both salaries and material costs go up, but the cost per patient treated has gone up less rapidly than the per diem cost.

Mr. JONAS. It has gone up from $1,128 to $1,316.

Mr. MONK. Yes; and that was the 16.7 percent increase, whereas the per diem has gone up 47.8 percent.

Mr. EVINS. Let's include the chart at the bottom of page 4–116 at this point.

(The page follows:)

HOSPITAL CARE

Veterans' Administration hospitals—Introduction

Average operating beds:	
In process of activation	694
Insufficient demand for type of beds in service area	636
Space for beds undergoing construction or maintenance activity	408
Difficulty in recruiting key personnel, beds required	175
Other reasons, conversion to nonward care services, provision of space for cardiovascular laboratory and hemodialysis units, etc	84
Total	1,997

Shown below is a comparative analysis of the total VA hospital costs, patient per diem cost and the cost per patient treated in VA Hospitals from fiscal year 1958 through fiscal year 1966. It should be noted that although the per diem cost has increased by $8.06 or 47.8%, the cost per patient treated has increased by only $188 or 16.7% during the same period.

Fiscal year	Total costs	Per diem cost	Cost per patient treated
1958	$685,753,898	$16.84	$1,128
1959	722,175,557	17.82	1,168
1960	751,867,457	18.44	1,180
1961	810,091,015	19.93	1,219
1962	844,796,608	20.87	1,227
1963	867,116,281	21.56	1,216
1964	904,509,472	22.43	1,225
1965	946,399,293	23.75	1,297
1966	976,066,125	24.90	1,316

Mr. EVINS. Now, back to 4–26. We want to get into the justifications for these increases. You say you point out the increases and decreases. We will talk about those, but Mr. Jonas has a question at this time.

EFFECT OF LEGISLATION ON BUDGET ESTIMATES

Mr. JONAS. I am interrupting this particular examination because I have to leave at 11 o'clock. I want to get straight on the effect of the legislation passed during the closing days of last session. All of those increases are reflected in the present budget we are now considering.

Mr. MONK. No, sir.

Mr. EVINS. What is left out?

Mr. MONK. We will be up here for a supplemental, Mr. Jonas.

Mr. JONAS. For 1967?

Mr. DRIVER. Yes, sir. Also for 1968.

Mr. JONAS. But the increases applicable to 1968 are included in this budget.

Mr. MONK. Yes.

Mr. JONAS. But the increases that will have to be taken care of during the remainder of 1967 will be considered in the supplemental?

Mr. DRIVER. That is right, sir.

Mr. JONAS. What about the $84 million for the increase in pensions?

Mr. DRIVER. The moneys associated——

Mr. JONAS. That bill didn't pass, but it has been introduced again.

Mr. DRIVER. It has been recommended and introduced.

Mr. JONAS. It has been recommended again.

Mr. DRIVER. Yes, sir.

Mr. JONAS. Anything in the budget for that?

Mr. DRIVER. It is in the President's budget, but not in the VA portion. We will have to come back up here again with a separate request for that, but it is in the totals of the President's budget.

Mr. JONAS. That is right, based on prospective legislation.

Mr. DRIVER. Yes, sir.

Mr. JONAS. But there is nothing in this budget for that?

Mr. DRIVER. No, sir.

Mr. JONAS. Now, is it contemplated that you will be back?

Mr. DRIVER. If and when the legislation is enacted.

Mr. JONAS. I thought it was suggested that that would be financed out of the contingency fund.

Mr. DRIVER. It will be, in terms of totals of the President's budget, but the authorization for the Veterans' Administration to use the moneys will have to come before the committee again. But the President's budget includes all of the moneys recommended in those pieces of legislation.

Mr. JONAS. In that legislation, if that becomes law, there will be another supplemental for the $84 million?

Mr. DRIVER. And there are some other items in there too. It isn't just the pensions. There are several things recommended; we would come up for each one of them.

Mr. JONAS. But if we authorize this specific item to which Mr. Monk referred, you would have contingency funds to take care of it?

Mr. DRIVER. In the totals; but we still have to come back to the Congress for appropriation action to spend the money.

Mr. JONAS. I don't understand that. How much is in the contingency fund request?

Mr. DRIVER. $800 million is in the total of the fund. It says in the back it is there for pieces of legislation to be submitted later. This is one of those pieces tied to that total.

Mr. JONAS. But the money would have to be appropriated?

Mr. DRIVER. Yes, sir.

Mr. JONAS. By each agency that proposes to use any part of the $800 million?

Mr. DRIVER. Yes, sir; that is right, sir.

Mr. JONAS. I think this straightens that out.

DECREASE IN FUNDING REQUIREMENTS

Mr. EVINS. In putting new equipment in you also indicate there have been some decreases; have you been able to show any reductions for items that you have eliminated? In putting in these new facilities, has it brought about improved efficiency? We see your increases, but I don't understand your decreases.

You talk about some decreases that you made. Tell us how you arrived at these decreases.

Mr. WISE. Yes, sir. On page 4–27 the first item in decreases is $6,429,000 for decreased workload in existing facilities. These are generally explained, Mr. Chairman, on the following two pages, but let me highlight a couple of examples.

Mr. EVINS. Tell us how you arrived at these proposed decreases.

Mr. WISE. For example, in NP hospitals a number of the hospitals are having construction projects which are decreasing the bed capacities. There we price out the cost of the actual operating beds lost. These we apply, as we have for a number of years, as decreases to the appropriation. And in all programs, for example, new agreements on contract hospital use, these are negotiated with other Federal agencies. Wherever there is a decrease, we take this into account to show the total pricing of workload decreases in the system.

Mr. EVINS. At some of your NP hospitals you are putting in a wing for general hospital care or nursing care. How can that be considered a decrease?

Mr. WISE. These are to give a full record of what happened. We show the full decreases that drop out of the general or psychiatric hospitals programs, but where these are lateral transfers such as to the nursing bed activity, then they are shown as increases in the receiving program.

Mr. EVINS. They are shown as decreases as far as number of beds, operating NP beds, but are really not decreases in costs?

Mr. WISE. No, sir. The net budget amount may be the same, but we want to identify fully what decreases in manpower and in workloads or costs are.

Mr. EVINS. But actually in results, you get a buildup. This results in a buildup.

Mr. WISE. In some cases.

Mr. DRIVER. Used for some other purpose.

Mr. MONK. If we had no decreases, Mr. Chairman, we would be in here for an increase of $77,862,000 rather than $64,418,000.

INCREASES IN MEDICAL CARE FUND REQUIREMENTS

Mr. EVINS. All right. Let's look at these increases. First, put page 4–31 in the record.

(The page follows:)

MEDICAL CARE

JUSTIFICATION OF ESTIMATES

Increases

1. *Explanation of request for increase of $9,207,000 for legislative pay raises, within grade and otehr payroll increases.*—An increase of $9,207,000 for legislated

salary changes and other payroll costs will be experienced in fiscal year 1968 for the following reasons:

(*a*) An increase of $1,044,000 is required to extend the payment of higher fringe benefits enacted by PL 89-504, Federal Employees Act of 1966, for those benefit provisions that were effective July 31, 1966. In fiscal year 1967 these benefits were paid for only 240 workdays compared to the 261 paid workdays for which payment will be required in fiscal year 1968.

(*b*) An increase of $4,567,000 will be required to provide an average increment of $35 per employee for the cost of within-grade salary advances. This increment is computed in accordance with criteria established by the Bureau of the Budget and takes into account the Agency's practice of not filling vacant positions to the extent feasible. The minimal longevity step increase for the average salary level of Medical Care appropriation employees is $178 which evidences the considerably higher increment that would be paid if the Agency had no employee turnover in these programs.

(*c*) An increase of $38,000 is required to annualize Social Security payments which were increased from 4.20% to 4.40% effective January 1, 1967 as enacted by PL 89-97, Social Security Amendments of 1965.

(*d*) An increase of $3,317,000 in wage board costs in fiscal year 1968 over fiscal year 1967 consists entirely of the annualization of the estimated wage board increases expected to accrue during the period July 1, 1966 to June 30, 1967. The increase of $3,317,000 in fiscal year 1968 is shown in accordance with the new wage board policy contained in Bureau of the Budget Circular No. A-11, Revised, dated July 13, 1966.

(*e*) An increase of $241,000 is required for increased Bureau of Employees Compensation Payments. The Secretary, Department of Labor has advised that pursuant to Public Law 86-767 the Department of Medicine and Surgery's share of benefit payments from the Employees Compensation Fund will be $1,930,000 in fiscal year 1968 as compared to $1,689,000 in fiscal year 1967.

Absorption by the Agency of any portion of these increases in fiscal year 1968 would result in a lesser number of personnel available to provide care and treatment to patients.

Mr. EVINS. Explain the increase of $9,207,000. I guess this is extra pay, pay increase. You have number of increases here. Why is this increase of $9,207,000 necessary?

Mr. MONK. This is the increase required for the legislative pay increase. We didn't have the last raise in effect for a full year in fiscal year 1967. This also includes in-grade salary increase, plus wage board increases that are brought about because of the action of law. All of these pay increases total $9,207,000.

Mr. EVINS. $4,500,000 is required to provide an average increment of $35 per employee for the cost of in-grade salary increases, $38,000 is required to annualize social security payments, $3,317,000 is required for wage board costs, and $241,000 is required for increased Bureau of Employees Compensation payments. Are you proposing to absorb any of this cost?

Mr. MONK. Yes, sir. But not in this budget.

Mr. EVINS. Not in these we have enumerated here?

Mr. MONK. Not in 1968; no, sir. In 1967 we are absorbing more than one-third of the pay increase.

Mr. EVINS. You say absorption of any portion of these increases enumerated would result in a lesser number of personnel to perform treatment and carry on the work of caring for patients.

Mr. MONK. Yes.

INCREASED WORKLOAD

Mr. EVINS. Place in the record pages 4–32, 4–33, and 4–34.
(The pages follow:)

JUSTIFICATION OF ESTIMATES

Increases

2. *Explanation of increases of $10,729,000 in fiscal year 1968 for increased workloads in existing facilities.*—The increases are identified as follows:

1968 over 1967

Activity	Beds	ADBL	Average employment	Cost
NP hospitals	44	43	9	$90,000
General hospitals	420	937	141	1,598,000
Contract hospitals		32		316,000
Nursing care—VA	1,000	930	708	5,809,000
Nursing care—Non-VA		400		496,000
Outpatient			237	2,312,000
Miscellaneous benefits and services				108,000
Total	1,464	2,342	1,095	10,729,000

Neuropsychiatric Hospitals: The requested increase in Neuropsychiatric hospitals of 43 patient load, 9 average employment and $90,000 in fiscal year 1968 over fiscal year 1967 results from increased patient demand at Lebanon, Pennsylvania; Sepulveda, California; and Fort Lyon, Colorado.

General Hospital: Increases of 937 patient load, 141 employment and $1,598,000 in fiscal year 1968 over fiscal year 1967 results from the following:

(1) Increased patient demand of 862 at several stations including Ann Arbor, Michigan; Bronx, New York; Dearborn, Michigan; Pittsburgh, Pennsylvania; Des Moines, Iowa; Hines, Illinois, and Wilmington, Delaware.

(2) An increased load of 75 at Long Beach, California due to the opening of a 240 bed Neuropsychiatric building during the latter part of fiscal year 1967.

Contract Hospitalization: The increase of 32 patient load and $316,000 in fiscal year 1968 over fiscal year 1967 is composed of 19 patient load at Tripler, Hawaii; 7 at Staten Island, New York; and 6 at various other locations.

Nursing Home Care-VA: Within the increase of 930 load, 708 employment and $5,809,000 in fiscal year 1968 over the fiscal year 1967, there is an annualization of displacement patient load of 850, of which 723 is in Neuropsychiatric hospitals and 127 in General hospitals. This will enable the Veterans' Administration nursing program to attain its full activation level of 4,000 average operating beds and 3,720 average patient load during fiscal year 1968.

Nursing Care-Non-VA: The increases of 400 patient load and $496,000 in fiscal year 1968 over fiscal year 1967 are constituted solely within the State Home Nursing Care program as no increases are projected for fiscal year 1968 in the Community Nursing Program. Of the 400 patient load increase, 300 are planned for transfer from the State Home Member Program.

Outpatient: The increase in fiscal year 1968 over fiscal year 1967 of 142,100 medical visits, 237 average employment and $2,312,000 will provide for:

(1) Increase of 15 average employment and $180,000 to establish a three additional Day Treatment Centers at Memphis, Tennessee; St. Louis, Missouri; and Atlanta, Georgia, bringing the total of such centers in operation by the close of fiscal year 1968 to 37.

(2) Increase of 4 average employment and $63,000 to establish Mental Hygiene Clinic at Miami, Florida.

(3) Increase of 218 average employment and $2,069,000 to meet increases of 90,000 medical staff visits, dental workload of about 6,000 cases and other requirements as follows:

(*a*) Increased requirements of 203 average employment and $1,775,000 to meet the Department of Veterans Benefits projection of an increase in demand for compensation and pension examinations of about 4% or 14,000 visits over fiscal year 1967 due to the advancing age of the World War II and Korean veterans; to meet a continuing increase in demand, as demonstrated over the past three years, for treatment of service connected conditions, examinations to determine need for hospital care, post hospital care treatment and the trial visit program; and to meet increased staffing needs in the areas of Social Service, Medical Administration and Public Health Nursing resulting from the heavy workload being generated by the Community Nursing Home program.

(*b*) Increase in dental staffing of 15 average employment and $105,000 to meet workload increases associated with the advancing age of the veteran population.

(*c*) Increased requirements of $189,000 for repairs to prosthetic appliances, and for the purchase of new prosthetics such as aids to the blind, light weight stainless steel wheelchairs, hydraulic crutch and several major functional improvements in artificial arms and legs for Vietnamese causalties and an aging veteran population.

Miscellaneous Benefits and Services: An increase of $108,000 is projected in fiscal year 1968 over fiscal year 1967 to allow for additional requirements of beneficiary travel due to increased workloads at hospitals and clinics involving eligible beneficiaries.

Mr. JONAS. Mr. Chairman, second paragraph on 4–31. There must be a typographical error. I can't believe there are 21 more workdays in 1968 than in 1967.

Mr. WISE. This might be a typographical error.

Mr. JONAS. It should be 260 instead of 240?

Mr. WISE. Yes.

Mr. JONAS. I thought there was one less.

Mr. WISE. In 1968 there would be 1 less workday.

Mr. JONAS. That still wouldn't be right.

Mr. WISE. No, sir; but it is right for this item because fringe benefits provided by the pay bill in 1967 did not become effective here until July 31. Excuse me, this was for 240 workdays that this item was paid in fiscal year 1967.

Mr. JONAS. It didn't go into effect until a month after the fiscal year began.

Mr. WISE. Yes, sir.

Mr. JONAS. So there really is 1 less workday in 1968?

Mr. WISE. Yes.

Mr. JONAS. That is what I thought.

Mr. EVINS. Here is an explanation of the $10,729,000 increases, 4–32. NP hospitals, I don't understand why you have given just the limited number of 44 beds.

Mr. WISE. This is part of our practice of identifying both the decreases, which were covered in an earlier section, and wherever there is an increased demand, such as where there is new contruction becoming available; that is, small construction projects that may add beds for a hospital——

Mr. EVINS. You mean you are going to wind up with a 44-NP hospital bed increase and increases of 420 beds in general hospitals and 1,000 beds in nursing care service?

Mr. MONK. That is right.

Mr. EVINS. You are going to wind up with a 1,464-bed increase 1968 over 1967.

Mr. DRIVER. Right.

Mr. EVINS. This results in employment and other costs of $10,729,000.

Mr. DRIVER. And will treat an average of 2,342 patients in those beds.

Mr. EVINS. Explain the increase of $10,729,000 for workload in existing facilities.

Mr. MONK. This is a continuation of the explanation of the summary chart at the top of the previous page.

Mr. DRIVER. That is the same $10 million.

INCREASE FOR IMPROVED QUALITY OF MEDICAL CARE

Mr. EVINS. Explain No. 3 at the middle of page 4–34; increase of 4,490 average employees, $40,428,000 for improvement of quality of medical care.

Mr. DRIVER. This is the number that Dr. Skouge addresed himself to yesterday in terms of the increase for the new medical services and the increase for staffing improvement. You notice they are identified 1,767 for operations of new medical services, 1,352 for enrichment of existing staffing, primarily in the nursing service, and the new hospitals which are identified on page 4–35.

Mr. EVINS. Charleston, S.C., you are going to add 58 beds to an already existing——

Mr. DRIVER. Charleston, S.C., that is right. That has been activated and this will be the continuation of it.

Mr. EVINS. Gainesville, Fla., is a brandnew one?

Mr. DRIVER. Right.

Mr. EVINS. 308 beds?

Mr. DRIVER. Right. Miami, Fla.——

Mr. EVINS. 544. San Juan, P.R., 84.

Mr. DRIVER. Just being activated.

Mr. EVINS. These two minus figures are reductions?

Mr. DRIVER. That is right.

Mr. EVINS. You are going to reduce 102 beds in Memphis, Tenn., and 120 in Oteen, N.C.?

Mr. DRIVER. That is right.

Mr. EVINS. Boy, they are really going after Tennessee and North Carolina, aren't they?

Mr. JONAS. We are going down the hill.

Mr. EVINS. Those are rather glaring minuses and increases there. We understand the explanation, Mr. Administrator.

Mr. JONAS. May I ask one question before you leave these two pages? Let that sink in and then I will ask it.

Mr. EVINS. Go ahead.

Mr. JONAS. Is it correctly understood then that the item on page 4–34, explanation for the increase requested of $40 million and 4,490 people does not apply to opening of new hospitals, but for increased or improved quality of medical care in existing hospitals?

Mr. DRIVER. Well, there is 1,255 average employment resulting from the activation of new construction in that total and the remainder of it is as you indicated.

Mr. JONAS. I thought we had those covered elsewhere.

Mr. DRIVER. No, sir.

Mr. WISE. No, sir. The earlier pages are only the workload increases in existing facilities, but where there are major new hospitals they are included under this caption of the 4,490 employment and $40 million.

Mr. JONAS. Break down that $40 million and the 4,490.

Mr. WISE. Yes, sir.

Mr. JONAS. How much of that is applicable to new hospitals and how much to existing?

Mr. WISE. That really stretches over the next 50 pages.

Mr. JONAS. OK.

Mr. MONK. We can do what you are asking. For new hospitals now, net, 1,255 average employment, $12,221,000.

Mr. JONAS. And the rest would be for existing hospitals?

Mr. MONK. Yes, sir.

Mr. JONAS. I understand. Thank you.

Mr. EVIN:. $12,221,000 is for the new and $40,428,000 is the total.

Mr. DRIVER. The difference between those two figures would be for the existing.

Mr. EVINS. There is a good example as to why these justification exercises are needed to get all the facts on the record. If you look at the charts, you don't get all the information. Place pages 4–34 through 4–36 in the record.

(The pages follow:)

3. *Explanation of request for increases of 4,490 average employment and $40,428,000 in fiscal year 1968 for improvement in quality of patient care.*—The increased staffing and monetary amounts requested under this section of the estimate cover (a) 1,255 average employment and $12,221,000 for the adjustment in workloads resulting from the activation of newly constructed hospitals including requirements for residents, interns and other trainees, and air conditioning, (b) 54 average employment and $386,000 for housekeeping and engineering support of newly constructed facilities other than hospitals such as research, laundry, etc., (c) 1,767 average employment and $15,923,000 for operation of new medical services initiated in fiscal year 1967, and additional new medical services to be activated in fiscal year 1968, (d) 1,352 average employment and $10,978,000 for staffing improvement for existing facilities, primarily in Nursing Service, and increased requirements of medical residents professional and technical trainees, (e) 52 average employment and $672,000 for requirements for automatic data processing services and (f) 10 average employment and $248,000 for increased Administrative Research and Development activities.

(*a*) New Hospitals: In fiscal year 1968 new hospital activations identified in the table on the following page, will require a net increase of 1,255 average employment and $12,221,000 for the following purpose:

	Beds	ADBL	Average employment	Cost
Charleston, S.C	58	59	59	$558,000
Gainesville, Fla	308	265	433	4,109,000
Miami, Fla	544	341	645	6,015,000
San Juan, P.R	84	63	130	1,729,000
Palo Alto (Menlo Park) [1]			93	869,000
Memphis, Tenn	−102	−94	−33	−357,000
Osteen N.C	−120	−127	−72	−702,000
Total	772	507	1,255	12,221,000

[1] Modernization—Two 240 bed replacement NP Buildings.

(1) The full activation of the VA Hospital, Charleston, South Carolina (498 beds).

(2) The phasing in of VA Hospitals, Gainesville, Florida (480 beds), including requirements for residents, interns and other professional trainees.

(3) The initial activation of VA Hospitals, Miami, Florida (1,062 beds) and San Juan, Puerto Rico (720 beds), including minimal requirements for residents and interns and operation of new air conditioning system at San Juan. This system will become operational the latter half of fiscal year 1968, therefore, annualization of costs will be required in fiscal year 1969.

(4) The activation of two 240 bed NP buildings at Palo Alto, California, (Menlo Park), which replace outmoded facilities of similar capacity.

(5) The phasing down at Oteen, North Carolina (120 beds) in conjunction with full activation of Charleston, South Carolina and at Memphis, Tennessee (102 beds) due to the activation of the smaller replacement hospital at Memphis, Tennessee.

The requirements for San Juan, Puerto Rico and Palo Alto, California provide for initial cost of furnishings such as drapes, cubicle curtains, etc., and other related activation expenses.

(*b*) Other New Facilities: In fiscal year 1968 other new facilities, identified in the table below by location and type of space, will be activated. These facilities will require increased funding of 54 average employment and $386,000 in fiscal year 1968 to cover engineering and housekeeping support for personnel, supplies, utilities and related operating expenses.

Location	Type of space	FTE	Cost
Albany, N.Y.	Research	1.7	$14,600
Boston, Mass.	do	7.4	66,500
Bronx, N.Y.	do	1.8	9,000
Chicago, Ill. (research)	do	4.0	20,000
Chicago, Ill. (West Side)	do	3.6	30,400
Chillicothe, Ohio	Water treatment plant	2.5	19,900
Cincinnati, Ohio	Research	5.0	43,200
Hines, Ill.	do	4.0	20,000
Lake City, Fla.	Research and laundry	12.5	69,600
Madison, Wis.	Research and clinical laboratory	4.9	36,400
Nashville, Tenn.	Laundry	1.0	11,900
Palo Alto, Calif. (Menlo Park)	New dining hall	3.2	31,000
Palo Alto, Calif. (Palo Alto)	Research		1,500
Tucson, Ariz.	do	2.4	12,000
Total		54.0	386,000

NEW MEDICAL SERVICES

Mr. EVINS. New medical services. Some are annualization; others are new activities. It shows you the number of hospital beds and the average employment.

Dr. SKOUGE. The number of hospitals in which we will place or have placed these new medical programs.

Mr. EVINS. Right, not beds, but numbers of hospitals.

Mr. SHYTLE. That is the summary of new medical services.

Mr. EVINS. 4–38 or 37.

Mr. SHYTLE. 4–37 and 4–38.

Mr. EVINS. Place both of them, pages 4–37 and 4–38, in the record.

(The pages follow:)

JUSIFICATION OF ESTIMATES

Increases

3. *Explanation of request for increase of 4,490 average employment and $40,428,000 in fiscal year 1968 for improvement in quality of patient care.*—

(c) New Medical Services:

Item	Number of hospitals	Average employees	Cost
Medical and surgical bed sections in new program hospitals	9	160	[1] $1,443,000
Do [2]	3	48	[2] 435,000
Psychiatric medically infirm programs	26	223	[1] 1,747,000
Do [4]	9	48	[2] 373,000
Open heart surgery [3]	9	24	[2] 360,000
Pulmonary emphysema units	52	68	[1] 751,000
Do [4]	15	28	[2] 232,000
Hemodialysis units	17	157	[1] 1,556,000
Blind rehabilitation centers	2	17	[1] 163,000
Do [2]	1	13	[2] 114,000
Speech pathology units	20	10	[1] 145,000
Do [4]	17	5	[2] 73,000
Foster home care	8	12	[1] 110,000
Do [2]	8	13	[2] 143,000
Supervoltage therapy units [2]	8	7	[2] 82,000
Day hospital treatment program	4	24	[1] 233,000
Prosthetic treatment centers	2	2	[1] 31,000
Do [2]	3	5	[2] 39,000
Pulmonary function laboratories	81	108	[1] $840,000
Do [2]	4	6	[2] 58,000
Intensive care units	20	154	[1] 1,046,000
Intensive care/coronary care units [4]	60	432	[2] 3,386,000
Realignment of medical reference laboratories	11	11	[1] 131,000
Clinical radioisotope services	62	87	[1] 1,281,000
Do [2]	3	4	[2] 105,000
Cardiac catheterization laboratories	43	86	[1] 895,000
Do [2]	5	15	[2] 151,000
Total, annualization 1967 programs		1,119	10,372,000
Total, new program activities		648	5,551,000
Grant total		1,767	[5] 15,923,000

[1] Annualization.
[2] New activations on one-half year funding.
[3] New activations.
[4] New activations on one-fourth year funding.
[5] The above total includes only operating funs; all funds required for equipment ($5,711,000) are included within the estimate for capital outlay requirements.

Mr. EVINS. More information on page 4–39.

Mr. SHYTLE. From here on for the next 40 or 50 pages it goes into the detail of these new medical services by type of medical service.

Mr. EVINS. Better take up each type, tell us what progress you have made. These are activation of new hospitals and maintenance of existing ones. We will get into the new construction phase a little later.

MEDICAL AND SURGICAL BEDS IN NP HOSPITALS

Dr. SKOUGE. In M.S. & N. beds for new medical services we are planning nine for fiscal year 1967. As you recall, yesterday I pointed out how the patients in our psychiatric hospitals acquire physical ailments as well as mental ailments and that we are attempting to provide a more complete medical service for those people in our mental hospitals to avoid transferring them to other hospitals for simple medical and surgical problems. This is what we are trying to accomplish here with the medical and surgical programs. Our total activations

through 1968 will be 22 of which we have three services planned for fiscal year 1968.

Mr. DRIVER. Go into open heart surgery and all of the others.

Mr. WISE. We can provide this for the record.

Mr. DRIVER. Go into it now.

Mr. EVINS. Why don't you take this item of medical and surgical bed sections in NP hospitals? We fill follow this index on 4–39, medical and surgical bed section in NP hospitals.

Dr. SKOUGE. This is what I was referring to just a moment ago, where we will have totally equipped and activated through fiscal year 1968, 22 medical and surgical bed sections in our psychiatric hospitals. We have a total of 41 such hospitals. Of course, this is an attempt to provide better care to our mentally ill patients in the psychiatric hospitals. Do you want me to go right ahead?

Mr. EVINS. Well, you have 41 NP hospitals.

Dr. SKOUGE. Right.

Mr. EVINS. At the end of this year you will have this equipment in about 22 of them?

Dr. SKOUGE. Twenty-two.

PSYCHIATRIC MEDICALLY INFIRM PROGRAMS

Dr. SKOUGE. Now, the psychiatric and medically infirm, these are patients hospitalized for many years, getting older; they have neurological problems; they require intensive custodial care, a lot of nursing attention, and at any one time we have about 10,000 of these in our psychiatric hospitals.

We have never been able to discharge them. They require more help.

Mr. EVINS. You really have had a situation where you had NP patients that needed other types of care, and in addition you could service veterans in need of general medical care.

Dr. SKOUGE. Exactly. So we are planning to activate in fiscal year 1968 nine additional PMI programs.

Mr. EVINS. Fine. Take the next one.

Dr. SKOUGE. Open heart surgery.

Mr. EVINS. Psychiatric medically infirm program, page 4–43.

Dr. SKOUGE. This is what I was referring to in contrast with the medical and surgical bed. These are patients requiring intensive nursing care; they don't necessarily require medical or surgical care, but we need to improve the staffing because some of them are totally disabled and it requires almost one employee to take care of one patient.

Mr. EVINS. Mr. Reporter, place in the record pages 4–40, 4–41, 4–42, 4–43, and this chart on 4–44.

(The pages follow:)

3. *Explanation of request for increases of 4,490 average employment and $40,428,000 in (fiscal year) 1968 for improvement in quality of patient care.—*

(1) Medical and surgical bed sections in neuropsychiatric hospitals

Introduction.—The establishment of medical and surgical beds in psychiatric hospitals is one of the target objectives of the approved Long Range Plan for the Psychiatric Treatment Program. Its goal is to give appropriate medical and surgical care and treatment to those psychiatric patients for whom medical and surgical treatment is required to avoid requirement for

their transfer to a general hospital and to correct those medical and surgical conditions which have an impact in the rehabilitation of the psychiatric patients. In addition, it will enable veterans in the surrounding community to obtain short-term medical and surgical treatment with minimal disruption and separation of the patient from work and family.

Potential patient load.—Nationwide studies have shown that seven percent of neuropsychiatric hospital beds are required to provide adequate medical and surgical treatment and care to psychiatric patients. The plan also contemplates the development of additional medical and surgical beds to serve veteran patients (non-psychiatric) admitted directly from the community. The estimate of the number of beds in this latter category is based on total projections of future veteran bed requirements as outlined in the Long Range Plan of Construction.

Upon full implementation of the plan there will be some reduction in the total number of patients classified as psychiatric as a result of loss of beds designated as psychiatric. However, this is in keeping with VA's concept of identifying beds and the patients in them on the basis of the major treatment afforded.

It is expected that this program will extend beyond 1970 with the establishment of approximately 10,000 M&S beds in presently predominantly psychiatric hospitals with a concurrent reduction in the number of psychiatric beds as related to this program.

Staffing requirements.—The present staff ratios in our older psychiatric hospitals provide 36 to 40 treatment staff per 100 patients, compared with the average of 90 treatment staff per 100 patients required for medical and surgical bed sections. Forty-eight additional staff per 100 patients will meet the requirement to provide adequate medical and surgical care. The basis for staffing results from recommendations of the Psychiatry, Neurology and Psychology Advisory Committee and approved by the Chief Medical Director. The type of personnel required are predominantly nurses and nurses aids with some support from Professional Service and Ancillary Service.

Medical and surgical beds planned.—During the period fiscal year 1965–67 approximately 1,900 medical and surgical beds have been programmed at nineteen neuropsychiatric hospitals. Another 210 medical and surgical beds have been planned for fiscal year 1968 at three additional neuropsychiatric hospitals. Considering the 3,100 medical and surgical beds in the neuropsychiatric hospitals prior to fiscal year 1965 and the 2,100 programmed, approximately 5,200 medical and surgical beds have been activated or planned for activation out of a potential demand for 10,000 medical and surgical beds in the 41 Veterans Administration neuropsychiatric hospitals.

Space.—Designation of 70 such beds will be distributed as 40 medical and 30 surgical except in the larger hospitals where the number of patients will require larger M&S units, and where 140-beds will be allocated. The specific number of beds is based upon the known percentage needed for the care of NP patients in a 1000-bed hospital. Thus, 7 percent of a 1000-bed hospital is 70-beds, with the larger number of beds (40) for medical diseases where the demand is greater.

Alterations and renovations will have to be made in many hospitals designated for M&S beds. Detailed planning for these requirements is conducted within the long range plan for construction and modernization.

Funds requested.—The recurring increase of 208 average employment and $1,878,000 is required for (1) 160 average employment and $1,443,000 to extend fiscal year 1967 activations and (2) 48 average employment and $435,000 to activate medical and surgical beds at three additional psychiatric hospitals. The table on the following page identifies station location and funding requirements.

Support data for medical and surgical bed units in neuropsychiatric hospitals

	Extension of fiscal year 1967 programs		New programs in fiscal year 1968			
	Average employment	Recurring cost	Average employment	Recurring cost	Nonrecurring cost	Total
Bedford, Mass	32	$287,400				
Biloxi, Miss. (Gulfport)			16	$145,000	$125,000	$270,000
Brecksville, Ohio	16	144,400				
Brockton, Mass	16	144,500				
Chillicothe, Ohio			16	145,000	125,000	270,000
Coatesville, Pa	16	144,400				
Danville, Ill	16	144,400				
Montrose, N.Y			16	145,000	125,000	270,000
Pittsburgh, Pa	16	144,400				
St. Cloud, Minn	16	144,400				
Tomah, Wis	16	144,400				
Tuscaloosa, Ala	16	144,700				
Total	160	1,443,000	48	435,000	375,000	810,000

(2) *Care of psychiatric medically infirm patients*

Introduction.—In VA's predominantly psychiatric hospitals, observations have been made with increasing frequency that there has accumulated a group of patients whose requirement for medical care is not completely recognized because the majority of these patients are now classified as psychiatric. In view of the advanced age of many psychiatric patients the requirement present today already is large. These patients have been classified as "Psychiatric Medically Infirm" or PMI.

Potential workload.—The criteria utilized in identifying the medically infirm patient were based on a questionnaire devised and coordinated, in collaboration with the professional services concerned. The emphasis was not only limited to the diagnoses and treatment but, more specifically, on patient behavior and *nursing care needs.*

This same questionnaire and accompanying instructions was revised and modified to more clearly and specifically identify this group of patients called PMI and the questionnaire was circulated to all neuropsychiatric hospitals. The results of this study have been valuable in identifying the problem with respect to this category of patients. It is estimated that the PMI population will remain in the area of 10,000 with a progressive rise starting in 1970. A new survey to identify the current number of PMI patients will be accomplished during fiscal year 1967.

Staffing.—The goal of staffing improvement for this type of patient is to increase the level of employment to 70 treatment staff per 100 patients compared to the present staffing levels of 36 to 40 treatment staff per 100 patients in most of the neuropsychiatric hospitals. The staffing improvements needed for these patients relates primarily to nursing care. However, other direct patient care areas such as dental and ancillary services are required.

Fund requested.—The recurring increase of 271 average employment and $2,120,000 is required for (1) 223 average employment and $1,747,000 for the extension of fiscal year 1967 approved amounts and (2) 48 average employment and $373,000 to provide adequate staffing for an additional 300 PMI patients at nine locations. The table on the following page identifies station location and funding requirements.

Support data for psychiatric medically infirm

	Extension of fiscal year 1967 programs		New programs in fiscal year 1968	
	Average Employees	Recurring cost	Average Employees	Recurring cost
American Lake, Wash	10	$80,000		
Augusta, Ga	18	137,900		
Battle Creek, Mich	6	43,600		
Biloxi, Miss. (Gulfport)	3	26,600		
Canandaigua, N.Y	12	95,900		
Chillicothe, Ohio	16	122,600		
Coatesville, Pa			7.3	$56,500
Danville, Ill	14	106,600		
Downey, Ill	7	53,300	6.0	46,700
Fort Lyons, Colo	3	26,600		
Jefferson Barracks, Mo	3	26,600	.7	5,050
Knoxville, Iowa	15	117,500		
Lebanon, Pa	3	26,700		
Los Angeles, Calif	10	82,100		
Marion, Ind	7	53,300		
Montrose, N.Y	7	53,300		
Murfreesboro, Tenn	14	106,600		
Northhampton, Mass			5.7	44,200
Northport, N.Y	7	53,300	2.3	17,700
North Little Rock, Ark	7	53,300	8.9	69,400
Roseburg, Oreg	7	53,300		
Salem, Va	7	58,600		
Sepulveda, Calif			2.5	18,950
Sheridan, Wyo	7	53,300		
St. Cloud, Minn	7	53,300	6.6	51,500
Togus, Maine	3	26,700		
Tomah, Wis			8.0	63,000
Tuscaloosa, Ala	13	106,600		
Tuskegee, Ala	12	93,200		
Waco, Tex	5	36,200		
Total	223	1,747,000	48.0	373,000

Mr. EVINS. What does that show?

Mr. DRIVER. These are the locations where this will be done.

Mr. EVINS. We just talked about NP.

Mr. DRIVER. That is right.

OPEN HEART SURGERY

Mr. EVINS. Talk about open heart surgery.

Dr. SKOUGE. We plan to activate in fiscal year 1968 nine additional open heart surgery centers, which will give us a total of 22.

Mr. EVINS. Nine centers and you will have 22 at the end of the year?

Dr. SKOUGE. Right.

Now, in this particular program, just a very short time ago there wasn't any open heart surgery. VA has moved ahead and in 1966 we operated on approximately 1,000 patients, their hearts. We estimate that there is a workload every year in our system that would really require doing surgery on 2,000 patients a year. Now, this is lifesaving type of surgery, patients with valvular deformities of their hearts.

Mr. EVINS. Out of a thousand patients, for which there is open heart surgery, formerly there used to be a 30 percent loss and now it is about 10 to 15 percent loss, is that right?

Dr. SKOUGE. That is right, and, of course, over the years the patients that we have subjected to open heart surgery would have died undoubtedly.

Mr. EVINS. And you feel that you need 22 units?

Dr. SKOUGE. That is right. We will probably need more in the future. The long-range planning calls for 27.

Mr. EVINS. Place pages 4–45, 4–46, and 4–47 in the record.

(The pages follow:)

(3) *Open heart surgery*

Introduction. The VA, like the medical professional generally, began its cardiac surgery programs by performing procedures first in which the heart itself was not opened. Closed heart surgery has proved to be a safe and valuable procedure for patients whose conditions warrant this type of treatment. On the other hand, the refinement of existing technique and equipment, the development of artificial valves and the perfection of surgical skills resulting in a progressive lowering of mortality rates, have made acquired heart disease the second stage objective of open heart surgery. This should significantly affect the VA hospital program and evidence of this is beginning to come forward.

The preparation for and the carrying out of surgical procedures on veterans with heart disease is expensive and time consuming. The procedure, once a cardiac abnormality has been detected, requires:

Cardio-pulmonary lab: A careful clinical workup to determine if the patient is acceptable for surgery. This workup covers such things as a chest X-ray, fluoroscopy of the heart in many positions after a catheter is inserted, measurements of the blood pressure and blood gases in different chambers of the heart, and many other tests.

Surgical procedure: The operative procedure itself requires a large number of personnel such as surgeons, anesthesiologists, cardiologist, nurses, pump technicians, and monitoring technicians. These specialists not only perform the delicate procedures on the heart but arrange for blood to circulated to the patient's vital organs by the use of extracorporeal pump because the patient's heart has been brought to rest. the surgical procedure averages about 4 to 6 hours.

Post operative care (recovery room). Intensive nursing care for a period of 48 to 120 hours is necessary. The usual recovery room techniques may be supplemented by the need to do repeated observations of the patient's arterial and venous pressures, partial pressure of his expired gases and many other requirements.

In developing backup data to support the open heart long range plan it was determined that approximately $400,000 would cover all requirements to establish facilities for open heart surgery, i.e., cardiac pulmonary lab, operating room requirements and post operative care. This is a maximum figure for this surgical procedure however, and is not to be considered as the amount needed to establish each center. Each station selected is surveyed and costs developed independently.

Potential patient load: In calendar year 1964, of 4,046 discharge diagnoses in the VA coded as chronic valvular heart disease, there was a potential pool of 1,000 cases eligible to be considered for valvular surgery. With continued development of the program and the expected lowering of both mortality and morbidity figures, it is theorized that the potential patient load for open heart surgery will eventually rise to 1,800 to 2,000 cases per year. Firm figures, now available, as to the number of patients treated by elective open heart surgery in all VA hospitals show:

	Cases
Fiscal year 1964	428
Fiscal year 1965	847
Fiscal year 1966	938

This still leaves a sizeable gap between potential load and present capacity to perform.

Centers planned: There were 13 centers established during fiscal year 1966 and an additional 9 are planned for fiscal year 1968. Any further centers to be planned beyond the 22 will be determined by special surveys to be conducted to evaluate program demand. These centers will be located to provide the best geographical coverage possible for veterans in all sections of the country.

Space: Space requirements for open heart survery to date have not required any major renovations or alterations, therefore the Construction of Hospital and Domiciliary Facilities budget estimates for fiscal year 1967 and fiscal year 1968 do not contain funds for this purpose. However, surveys will be conducted as future sites are selected and any need for major renovation will be programmed in future construction budgets.

Funds requested: The recurring increase of 24 average employment and $360,000 will permit the activation of Open Heart Centers at nine additional hospitals and bring the total number of Centers in operation to 22. Funds requested represent additional amounts required over normal hospital average daily patient load cost which are not duplicated in this estimate. The table below identifies station location and funding requirements.

Support data for open heart surgery

	New programs in fiscal year 1968			
	Average employment	Recurring cost	Nonrecurring cost	Total
Cincinnati, Ohio	2	$40,000	$58,300	$98,300
Cleveland, Ohio	2	40,000	58,300	98,300
Coral Gables, Fla	3	40,000	58,400	98,400
Dallas, Tex	2	40,000	58,300	98,300
Denver, Colo	3	40,000	58,400	98,400
Indianapolis, Ind	3	40,000	58,300	98,300
Kansas City, Mo	3	40,000	58,300	98,300
Portland, Oreg	3	40,000	58,300	98,300
Wood, Wis	3	40,000	58,400	98,400
Total	24	360,000	525,000	885,000

PULMONARY EMPHYSEMA UNITS

Dr. SKOUGE. Pulmonary emphysema units.

Mr. EVINS. Now, explain the increase on page 4–48 for pulmonary emphysema units.

Dr. SKOUGE. Yes. We plan to activate 15 additional units in fiscal year 1968, giving us a total of 67 units in the system and our long-range plan is for 110.

Not too many years ago——

Mr. EVINS. This budget proposes 15 more units to be activated in 1968?

Dr. SKOUGE. Yes. Correct.

Mr. EVINS. Giving you a total of 67?

Dr. SKOUGE. Right.

Mr. EVINS. Your long-range plans are for 100?

Dr. SKOUGE. 110.

Mr. EVINS. Doctor, what is the cost per unit of these?

Dr. SKOUGE. Do you have the figures?

Mr. EVINS. With volume the costs are supposed to go down.

Mr. WISE. 4–50 shows the expense. These will vary somewhat by size or number of beds in hospitals. These are quarter year costs; these are not to be activated until the fourth quarter of 1968. The recurring expense there for a full year operation would be approximately four times the amount shown here. However, the nonrecur-

ring expense, for equipment initially laid down, is a one-time expense in the activation year only.

Mr. EVINS. Look over to 4–70 and tell us why all of these are needed. Are all of them required? Can some of them be deferred? What is the difference between the chart on 4–50 and this one?

Dr. SKOUGE. Pulmonary function units are something entirely different from pulmonary emphysema. If I can take a moment——

Mr. EVINS. You take all the time you need.

Dr. SKOUGE. In recent years there has been a marked increase in pulmonary insufficiency related to the disease called pulmonary emphysema. As a matter of fact, when I was a resident following World War II it was somewhat unusual to see a patient with pulmonary emphysema. It was more or less an X-ray diagnosis and clinically we were unable to detect it.

In the past years there has been an increase of something like 175 percent in cases of pulmonary emphysema coming into our hospitals. We are treating something like 18,000 a year. In our unit at Madison, Wis., where they have been particularly interested in pulmonary emphysema, they have found that by establishing a unit for providing special care to these patients that they can reduce the length of hospitalization by 30 percent and can significantly prolong the lives of these people, their productive lives.

Mr. EVINS. Well, now, you have pulmonary emphysema units on page 4–50 and you are budgeting for 15 more units. This other chart talks about pulmonary function units.

Dr. SKOUGE. That is right.

Mr. EVINS. You have not made that quite clear.

Dr. SKOUGE. These are laboratories staffed by technicians.

Mr. EVINS. Both say units. If you say centers or complete facilities, it would sound different from a unit. A unit sounds like a little quarter over here, a small unit over here.

Dr. SKOUGE. Actually the pulmonary emphysema treatment units are bed units in which patients are located where they receive the treatment. The laboratories are necessary so that we can evaluate——

Mr. EVINS. The 4–50 chart is laboratories?

Dr. SKOUGE. 4–70 and 4–71.

PULMONARY FUNCTION LABORATORIES

Mr. EVINS. Page 4–70 is the laboratories?

Dr. SKOUGE. Right. 4–50 is the treatment units. We need to evaluate the degree of disability by doing blood tests and other types of laboratory tests so that we can properly treat patients when they get farther in our emphysema treatment unit or treatment ward.

Dr. Timm, do you want to comment on this?

Dr. TIMM. Yes. The pulmonary function laboratory as it is called here, a unit, is a supporting unit for many services in the hospital.

For any seriously ill patient in the medical service or on the surgical service, for example chest or heart surgery, it is necessary to understand exactly the physiology of his breathing mechanism. That is basic to life. These pulmonary function laboratories then are essential to support particularly cardiac surgery and they have special application to the emphysema treatment unit.

Mr. EVINS. You are going to have 108 laboratories?

Dr. TIMM. Yes, sir. We need these laboratories practically everyplace we treat this kind of disease.

Mr. EVINS. How many are there now? Not 108?

Mr. MONK. They have 73 now, they are going to activate 10 more.

Mr. EVINS. That is 83?

Mr. MONK. In 1967, four in 1968, that will be 87 through 1968.

Mr. EVINS. 87.

Mr. MONK. Then they plan 31 more for a total of 118.

Mr. DRIVER. By 1972.

Mr. EVINS. You have 87 laboratories and you have 67 units?

Mr. DRIVER. Emphysema units.

Mr. MONK. And plan 110 eventually.

Mr. DRIVER. The pulmonary function laboratory is used, of course, to support other services, other than the pulmonary emphysema units, as Dr. Timm commented. They would perform tests in this area in many cases beyond the pulmonary emphysema treatment.

Dr. SKOUGE. This is correct. You see, we have many patients——

Mr. EVINS. You can treat in the units but you can make all the tests in the laboratories?

Dr. SKOUGE. Right.

Mr. EVINS. And you can also treat in the stations where you have the laboratories?

Dr. SKOUGE. The patients, for example, following surgery might develop pneumonia and they would require some pulmonary function tests but wouldn't necessarily have pulmonary emphysema.

Mr. EVINS. Do you have these costs checked out precisely?

Dr. SKOUGE. We have attempted to check them out as precisely as we can.

Mr. EVINS. I thought you were going down a little bit on your pulmonary work, that your TB had been pretty much arrested.

Mr. DRIVER. That is true, Mr. Chairman, but emphysema is on a sharp rise.

Mr. EVINS. All right. Let's take the hemodialysis units, 51, place the charts on pages 4–50, 4–70, and 4–71 in the record.

(The pages follow:)

Pulmonary Emphysema Units

Support data for pulmonary emphysema units

Location	Extension of fiscal 1967 programs		New programs in fiscal year 1968			
	Average employment	Recurring cost	Average employment	Recurring cost	Nonrecurring cost	Total
Albany, N.Y.		$3,400				
Albuquerque, N. Mex.		3,400				
Alexandria, La.			1.3	$11,850	$15,000	$26,850
Ann Arbor, Mich.		3,400				
Augusta, Ga.		3,400				
Baltimore, Md.		3,400				
Bay Pines, Fla.			2.0	15,780	15,000	30,780
Boston, Mass.			2.0	15,780	15,000	30,780
Bronx, N.Y.	5	51,700				
Brooklyn, N.Y.		3,400				
Buffalo, N.Y.		3,400				
Butler, Pa.	1	13,000				
Charleston, S.C.			1.2	11,850	15,000	26,850
Chicago, Ill. (West Side)	1	13,000				
Chicago, Ill. (Research)	1	13,000				
Cincinnati, Ohio		3,400				
Cleveland, Ohio	3	26,000				
Columbia, S.C.			2.0	15,780	15,000	30,780
Coral Gables, Fla.		3,400				
Dallas, Tex.	4	38,900				
Dayton, Ohio			2.5	21,290	15,000	36,290
Denver, Colo.		3,400				
Dublin, Ga.			2.0	15,780	15,000	30,780
Durham, N.C.		3,400				
East Orange, N.J.		3,400				
Hines, Ill.	5	52,000				
Houston, Tex.		3,400				
Indianapolis, Ind.		3,400				
Iowa City, Iowa	1	13,000				
Jackson, Miss.	1	13,000				
Kansas City, Mo.		3,400				
Lake City, Fla.			2.0	15,780	15,000	30,780
Little Rock, Ark.	1	13,000				
Livermore, Calif.			2.0	15,780	15,000	30,780
Long Beach, Calif.		3,400				
Los Angeles, Calif.	4	18,900				
Louisville, Ky.			1.2	11,850	15,000	26,850
Madison, Wis.		3,400				
Martinez, Calif.	3	26,000				
Martinsburg, W. Va.		3,400				
Memphis, Tenn.	5	52,000				
Minneapolis, Minn.		3,400				
Nashville, Tenn.	4	33,300				
New Orleans, La.	1	13,000				
New York, N.Y.		3,400				
Oklahoma City, Okla.	1	13,000				
Omaha, Nebr.	3	26,000				
Oteen, N.C.	3	26,000				
Palo Alto, Calif.	3	26,000				
Philadelphia, Pa.		3,400				
Pittsburgh, Pa. (GM)	4	38,900				
Portland, Oreg.		3,400				
Providence, R.I.	1	13,000				
Richmond, Va.		3,400				
St. Louis, Mo.			2.0	15,780	15,000	30,780
Salt Lake City, Utah		3,400				
San Fernando, Calif.			2.5	21,290	15,000	36,290
San Francisco, Calif.		3,400				
Syracuse, N.Y.	1	13,000				
Togus, Maine			2.0	15,780	15,000	30,780
Tucson, Ariz.			2.0	15,780	15,000	30,780
Tuskegee, Ala.	2	18,600				
Washington, D.C.	3	26,000				
West Haven, Conn.	3	26,000				
White River Junction, Va.			1.3	11,850	15,000	26,850
Wilkes-Barre, Pa.	3	26,000				
Wood, Wis.	1	3,700				
Total	68	751,000	28.0	232,000	225,000	457,000

Pulmonary Function Units

Support data for pulmonary function units

Location	Extension of fiscal year 1967 programs		New programs in fiscal year 1968			
	Average employment	Recurring cost	Average employment	Recurring cost	Nonrecurring cost	Total
Albany, N.Y.	1	$9,000				
Albuquerque, N. Mex.	1	9,000				
Ann Arbor, Mich.	1	7,500				
Atlanta, Ga.	1	6,600				
Augusta, Ga.	1	7,500				
Baltimore, Md.	1	6,600				
Batavia, N.Y.		3,600				
Bay Pines, Fla.	2	16,000				
Birmingham, Ala.	2	12,100				
Boston, Mass.	1	8,700				
Bronx, N.Y.	1	7,500				
Brooklyn, N.Y.	2	13,900				
Buffalo, N.Y.	2	17,000				
Butler, Pa.	1	8,400				
Castle Point, N.Y.			1.5	$14,500	$10,800	$25,300
Chicago, Ill. (West Side)	1	6,600				
Chicago, Ill. (Research)	1	9,600				
Cincinnati, Ohio	1	9,600				
Clarksburg, W. Va.	1	10,200				
Cleveland, Ohio	1	7,200				
Columbia, S.C.	1	6,700				
Coral Gables, Fla.	2	11,900				
Dallas, Tex.	2	16,000				
Dayton, Ohio	1	6,600				
Dearborn, Mich.	2	15,100				
Denver, Colo.	1	6,600				
Des Moines, Iowa		3,600				
Dublin, Ga.	2	11,700				
Durham, N.C.	2	12,000				
East Orange, N.J.	1	6,600				
Fayetteville, N.C.	1	10,200				
Hines, Ill.	1	10,200				
Houston, Tex.	2	13,200				
Indianapolis, Ind.	2	16,200				
Iowa City, Iowa	1	9,000				
Iron Mountain, Mich.		3,600				
Jackson, Miss.		3,600				
Kansas City, Mo.	1	9,000				
Kecoughtan, Va.	2	14,700				
Kerrville, Tex.	2	11,800				
Lake City, Fla.	1	9,400				
Lincoln, Nebr.			1.5	14,500	10,700	25,200
Little Rock, Ark.	2	13,300				
Livermore, Calif.	2	11,700				
Long Beach, Calif.	2	13,200				
Los Angeles, Calif.	2	12,600				
Madison, Wis.	1	9,000				
Martinez, Calif.	1	6,800				
Martinsburg, W. Va.	1	7,200				
Memphis, Tenn.	2	12,600				
Minneapolis, Minn.	2	12,100				
Mountain Home, Tenn.	1	11,700				
Nashville, Tenn.	1	10,100				
New Orleans, La.	2	13,600				
New York, N.Y.	1	10,500				
Oklahoma City, Okla.	1	9,000				
Omaha, Nebr.	1	9,100				
Oteen, N.C.	2	15,100				
Palo Alto, Calif.	2	18,700				
Philadelphia, Pa.	2	12,600				
Phoenix, Ariz.	2	12,100				
Pittsburgh, Pa. (GM)	1	6,600				
Portland, Oreg.	1	10,200				
Providence, R.I.	1	6,200				
Richmond, Va.	2	12,600				
St. Louis, Mo.	2	13,200				
Salt Lake City, Utah	2	13,600				
San Fernando, Calif.	2	17,500				
San Francisco, Calif.	2	18,700				
Seattle, Wash.	1	7,800				
Shreveport, La.	2	11,700				
Spokane, Wash.			1.5	14,500	10,700	25,200
Syracuse, N.Y.	1	11,000				
Temple, Tex.	1	9,000				

PULMONARY FUNCTION UNITS—Continued

Support data for pulmonary function units—Continued

Location	Extension of fiscal year 1967 programs		New programs in fiscal year 1968			
	Average employment	Recurring cost	Average employment	Recurring cost	Nonrecurring cost	Total
Togus, Maine		$3,600				
Tucson, Ariz	2	17,600				
Tuskegee, Ala	2	16,000				
Wadsworth, Kans	2	15,800				
Washington, D.C	1	9,000				
West Haven, Conn	1	7,600				
West Roxbury, Conn	1	6,600				
White River Junction, Vt		3,600				
Wilkes-Barre, Pa	1	5,400				
Wilmington, De			1.5	$14,500	$10,800	$25,300
Wood, Wis	1	7,200				
Total	108	840,000	6.0	58,000	43,000	101,000

HEMODIALYSIS UNITS

Mr. EVINS. Tell us why your increase is needed for these hemodialysis units. How many units are to be built in 1968?

Dr. SKOUGE. We plan to have in operation by the end of this fiscal year 28 units, and during the fiscal year 1968 we will increase the workload.

Mr. EVINS. How many hemodialysis units do you have installed and operating today?

Dr. SKOUGE. Twenty-four.

Mr. EVINS. Twenty-four.

Dr. SKOUGE. However, we have not constructed——

Mr. EVINS. You have 24 approved and funded. How many do you fund or propose for 1968?

Mr. MONK. None for 1968. We will have four more in operation before the end of this current fiscal year.

Mr. EVINS. Previously funded?

Mr. MONK. Yes, sir. And eventually we hope to have 42 of these.

Mr. EVINS. Long-range plans are for 42.

Place pages 4–51 and 4–52 into the record.

(The pages follow:)

3. Explanation of Request for Increases of 4,490 Average Employment and $40,428,000 in FY 1968 for Improvement in Quality of Patient Care.—

(5) Hemodialysis Units:

Introduction: One of the recent major break throughts in medicine has been the demonstration that certain individuals with seriously impaired renal function, or with no functioning kidney tissues, can be kept alive and in a fairly normal state of health through regularly schedule depitoneal or hemodialysis. This has been sufficiently well established that it has passed from medical research into the realm of patient care.

The VA recognizes its responsibility to the veteran who would benefit from this modality of treatment. This parallels the progressive development of like services in University and Community Hospitals for the general public.

Potential Patient Load: VA statistics are insufficient on which to base precise patient demand for this type of treatment. A projection has been made, however, using data published by King County in the State of Washington and the Metropolitan Life Insurance Company. These published statistics indicate that between 1 and 3 adults per 100,000 living population die annually from kidney

disease. This does not refer to the total deaths from kidney disease but only to persons defined as being "ideal candidates" for chronic dialysis. Although the veteran population is a select group, the figures appear valid for use in projecting the potential veteran patient demand in the immediate future. Applying the ratio above to the approximately 22 million living veterans, a potential load of ideal new candidates for dialysis treatment of at least 220 to 660 per year can be estimated. In view of extended life through dialysis, patient demand is expected to increase each year at the rate projected above.

Present indications are that the above estimates of demand for chronic hemodialysis for veterans are very conservative. At the present time the demand for this treatment is such that admissions to the units are occurring as rapidly as additional personnel, space and/or equipment is obtained.

Unit Capacity: The current capacity of a treatment unit will vary from 6 to 10 beds with an average daily patient load of approximately 7. Since a patient requires dialysis twice a week of approximately 12 to 17 hours duration each visit, the unit can provide service for an average of 21 different patients. The average of 7 patients a day gives consideration to any need for acute dialysis that may occur in addition to chronic dialysis.

Planned Units: The basic plan for dialysis consists of 42 units in existing hospitals to be developed over a period of 5 years. Through fiscal year 1966, thirteen centers were activated, two of which were on a very limited basis, with 15 more to be activiated during January 1967, making a total of 28 centers. Remaining units will be developed in future budget years.

Space: Experience to date has indicated that renovation of space will be required in every instance to develop facilities which will permit efficient and satisfactory treatment. Facilities not programmed within C of H&DF appropriations will receive consideration in future budgets as plans are developed. However, renovation of space is not a deterrent to activating a unit and it is proposed to activate all units regardless of when renovation will take place. This may impose some temporary problems for the staff but the urgency of the program requires that such action be taken.

Funds Requested: The increase in fiscal year 1968 of 157 average employment and $1,556,000 provides for the extension of fiscal year 1967 costs for the 17 units activated in fiscal year 1967. The table below identifies station location and funding requirements.

Support data for hemodialysis units

	Extension of fiscal year 1967 programs	
	Average employment	Recurring cost
Albany, N.Y.	10	$91,600
Ann Arbor, Mich.	10	91,600
Denver, Colo.	10	91,600
Indianapolis, Ind.	10	91,600
Little Rock, Ark.	9	91,600
Madison, Wis.	9	91,600
Nashville, Tenn.	9	91,600
New Orleans, La.	9	91,600
New York, N.Y.	9	91,600
Pittsburgh, Pa.	9	91,600
Oklahoma City, Okla.	9	91,600
Providence, R.I.	9	91,600
Salt Lake City, Utah	9	91,600
Seattle, Wash.	9	91,200
St. Louis, Mo.	9	91,600
West Haven, Conn.	9	91,200
Wood, Wis.	9	91,200
Total	157	1,556,000

Mr. EVINS. The chart on 52 shows you the locations; is that correct?

Mr. DRIVER. That is right.

Mr. EVINS. Each one cost $91,600?

Mr. DRIVER. Right.

Mr. JONAS. May I ask a question there?

Mr. EVINS. Mr. Jonas.

Mr. JONAS. Is this cost of $91,600 or total of $1,556,000 shown on the chart, is that to run the 28 units on in 1968?

Dr. SKOUGE. Yes.

Mr. SHYTLE. It is an extension of the 1967 program into 1968.

Mr. JONAS. When you say extension you mean just continuation?

Mr. SHYTLE. That is right.

Mr. MONK. These are the 17 we are activating this year that we did not have fully funded in the 1967 budget.

Dr. SKOUGE. Half year funding will become full year funding.

Mr. JONAS. Will this be the total cost to operate the 17 units in 1968?

Dr. SKOUGE. Unless we start running our units with greater patient loads.

Mr. JONAS. You have 24 functioning now, and you are going to implement four more before June 30?

Dr. SKOUGE. Correct.

Mr. JONAS. That will be 28. Now what is this $1,500,000 for?

Mr. MONK. This is 6 months' additional cost. We had in the 1967 budget for these 17 units a half year operating cost.

Mr. JONAS. You mean half year in what fiscal year?

Mr. MONK. 1967.

Mr. JONAS. Well, this is to continue, actually, a supplemental, this item?

Mr. MONK. Well, no. If you want to use the word "annualization," it is the annualization of the cost of 17 units that were started in 1967 and will be operated a full year in 1968.

Mr. JONAS. I know. But you would not get the money in this budget until after July 1. How can you spend it between now and June?

Mr. MONK. We have money in the 1967 budget for 6 months' operation of these 17 units.

Mr. JONAS. I understand.

Mr. DRIVER. From January through June.

Mr. JONAS. I understand.

Mr. MONK. So presumably it should be the same figure, $1.556 million as the additional cost for a 12-month operation in 1968.

Mr. JONAS. Is this to continue it on then into 1968?

Mr. MONK. Yes, for a full year.

Mr. EVINS. Why do you not come up with the full cost of these units in your budget; you are just giving a quarter of the funding now.

Mr. MONK. In the new ones?

Mr. EVINS. Why do you not give us the information of a full year's cost? When you propose to build a new facility or new unit, you should say we expect to spend this money this year but this is the full year amount. You are sort of hiding your costs until after you get it built.

Mr. MONK. We do not intend to hide it, but we are not going to have them in operation for a full year.

Mr. EVINS. I think you should show the full costs.

Mr. MONK. I agree, I agree. We can do that.

Mr. JONAS. Just show what it would be for 12 months.

Mr. MONK. Yes, sir; I understand the point.

Mr. EVINS. Is there any special reason why you did not request any more of these hemodialysis units for 1968?

Do you have your maximum? Are there new techniques being developed? Are you waiting to see what is developed? Have you reached your peak?

Mr. DRIVER. We have 14 more scheduled but do not intend to put them in yet.

Mr. EVINS. On this one do you want to wait a year and see what develops?

Dr. TIMM. There is change going on continuously in this field and our crystal ball doesn't give us the whole story. For example, possibly home dialysis is going to have an impact on this. We do not know but it looks promising. Possibly there will be a breakthrough in organ transplants. If we could use cadaver kidneys, for example, with the same degree of success that we can use kidneys from close relations, we could move a lot of patients out of the dialysis programs into the organ transplant program. Maybe this will come along in the next year or two.

Mr. JONAS. I apologize for interrupting so much, but you have to transport your patients to where you have these units?

Dr. TIMM. Yes, sir.

Mr. JONAS. That involves considerable travel sometimes with a man suffering from a kidney complication. Wouldn't it have been better to have made a better geographic assignment of these units that you have in operation? I do not want to pick out one particular section of the country, but you have two or three in New England and one in the South, Tennessee, but that is a long way from Florida.

Dr. TIMM. You have to literally create the personnel to run these. Where we have them in existence at some of the places, in universities where this has been going on for some time, we get the units going there. As we move into other parts of the country we have to train personnel, not only technical personnel but physicians.

Mr. JONAS. You do not show one on the west coast. The closest to the west coast is Utah.

Dr. TIMM. No; we have a very active one in Los Angeles. We have one in Portland that is going very well.

Mr. DRIVER. These have been in existence for quite a while.

Mr. WISE. There is one in Coral Gables, Fla.

Mr. JONAS. I think we ought to know where the other 11 are. Somebody reading this record——

Mr. DRIVER. Yes, sir. This is just really half the story.

Mr. JONAS. Why don't you add that.

Mr. EVINS. Supply for the record the location of these other units.

(The information follows:)

HEMODIALYSIS UNITS ACTIVATED PRIOR TO FY 1967

Boston, Mass.
Bronx, N.Y.
Cleveland, Ohio
Coral Gables, Fla.
Durham, N.C.
Hines, Ill.
Houston, Tex.
Iowa City, Iowa
Los Angeles, Calif.
Nashville, Tenn.
Portland, Oreg.
Washington, D.C.

ACTIVATED OR TO BE ACTIVATED IN FY 1967

Albany, N.Y.
Ann Arbor, Mich.
Denver, Colo.
Indianapolis, Ind.
Little Rock, Ark.
Madison, Wis.
New Orleans, La.
New York, N.Y.
Oklahoma City, Okla.
Pittsburgh, Pa.
Providence, R.I.
Salt Lake City, Utah
St. Louis, Mo.
Seattle, Wash.
West Haven, Conn.
Wood Wis.

BLIND REHABILITATION CENTERS

Mr. EVINS. Blind rehabilitation centers, 4–53.

Dr. SKOUGE. We plan to activate one additional blind rehabilitation center in fiscal year 1968 for a total of three and they will be located at Hines, Ill., Palo Alto, Calif., and West Haven, Conn.

Mr. EVINS. What would be the cost of the three units?

Dr. SKOUGE. The total cost at West Haven, the one to be activated, is $178,000. We will have an average employment of thirteen people at West Haven.

Mr. EVINS. Place in the record pages 4–53, 4–54, and 4–55.

(The pages follow:)

3. *Explanation of Request for Increase of 4,490 Average Employment and $40,428,000 in FY 1968 for Improvement in Quality of Patient Care.*—

(6) Blind Rehabilitation Centers:

Introduction: Blindness is among the most disabling of impairments. Disabilities which flow from the inability to see invade deeply into nearly every aspect of life. Sight is such a large part of the human's natural abilities that loss of it forces great changes. The number and variety of human abilities which are severely impaired by blindness make rehabilitation very complex. No single discipline can provide the services required to reduce the disabilites, dependency and deprvation which flow from the condition. A number of disciplines working together is required to accomplish the reorganization in performance and attitudes necessary to manage life under blindness.

Potential Patient Load: There has been a substantial increase in the number of veterans to apply for blind rehabilitation over the past several years. Presently, 120 veterans have applied, been found acceptable, and now await admission. With accommodations for 24, an annual turn-over of 80, and a waiting list of 120, the Blind Rehabilitation Center at Hines already is 1½ years behind in admissions, a fact causing veterans with service-connected disabilities to wait several months for admission and those in the lower priority categories to wait much longer. Some in the latter group have waited for as long as three years or more, and their chances for ever being admitted are decreasing as the rate of applicants in the higher priority is steadily increasing. Long delays and the possibility of never being admitted can be disastrous to veterans.

Centers Planned: The VA presently has two Blind Centers, one at Hines, Illinois and the second which is scheduled to be activated January 1, 1967, will be located at Palo Alto, California. This provides geographical coverage of the Mid-west and Western part of the country. The fiscal year 1968 funding request will provide for the activation of the third center to be located in the East, tentatively at West Haven, Connecticut.

Space: The center itself is largely a self-contained unit within the parent installation complex. Space is needed for 20 individual sleeping rooms and all of the therapeutic and administrative activities which the staff provides and in which the blinded patients participate. The space, all that it contains, and all that goes on within it are unequivocally oriented to improvement of attitudes and performances of permanently blinded veterans.

Alternatives: Consideration and study of several alternatives revealed the undesirability of any of these means. For instance, enlargement of present facilities at Hines on a permanent basis would have adverse affect on the Blind Rehabilitation Program. Experience strongly indicates that 20 patients are optimum and that to exceed this figure results in loss of individuality in patient's programs.

In addition, having only one center would require many veterans to travel very long distances which unquestionably places an extra strain on veterans and their families. Often too, when the length of the program is acceptable, the distance from home is the factor that causes a veterans and his family to forego the benefits which they would derive from his participation in the program. Costs incurred in long-distance travel are also a factor. Another factor adverse to expansion of Hines on a permanent basis is the scheduled construction plan for fiscal year 1968 which will force movement of the Blind Center into smaller facilities.

Another possible alternative was to enter into contract with non-VA facilities. It is the consensus that the Veterans Administration could not depend upon systems as these for rehabilitation of veterans mainly due to the absence of established standards with which to measure the quality of the programs.

Funds Requested: The recurring increase of 30 average employment and $277,000 is required for (1) the extension of FY 1967 approved amounts of 17 average employment and $163,000 for the activation of the second blind center at Palo Alto, California and the employment of three consultants on blindness, and (2) 13 average employment and $114,000 for the activation of the third blind center to be located on the East Coast, tentatively at West Haven, Connecticut. The table on the following page identifies station location and funding requirements.

Support data for blind rehabilitation centers

	Extension of fiscal year 1967 programs		New programs in fiscal year 1968			
	Average employment	Recurring cost	Average employment	Recurring cost	Nonrecurring cost	Total
Hines, Ill.	1	$15,500				
Menlo Park, Calif.	16	147,500				
West Haven, Conn.			13	$114,000	$64,000	$178,000
Total	17	163,000	13	114,000	64,000	178,000

Mr. GIAIMO. Will you yield?

Will you justify the need for activating this one at West Haven?

Dr. TIMM. Just a moment and I will give you some figures on the rate at which service-connected blind are developing. There are about 284 service-connected blind being produced per year. In addition to these, there is another 100-some service-connected individuals for other conditions who develop blindness and have a high priority for this type of rehabilitation activity.

We are able to handle something in the neighborhood of 20 patients at a time in one of these units. And a period of rehabilitation is approximately 3 months, so that we can actually handle about 80 patients per unit.

We have previously had only the unit at Hines. The one at Palo Alto is just coming into operation. The one in West Haven will be shortly in the future. These three, operating together, would just about be able to take care of the currently generated service-connected blind who can benefit from this kind of approach.

Now, the non-service-connected blind, some of them with present facilities are on a waiting list that may last a year and a half, because as the service-connected come along they keep getting pushed out. So this is a very big problem. Frankly, speaking personally, I would like to see it expanded a great deal faster, but again we have the same kind

of limitation that I spoke of a moment ago with regard to hemodialysis. The kind of people that can carry this activity on just do not exist. We have to take them in and train them. We are already training the people for the West Haven situation at the Hines setup. It is a big problem.

Mr. GIAIMO. What kind of treatment does this involve; is it rehabilitation or retraining?

Dr. TIMM. It is rehabilitation. It teaches the blinded individual to be mobile, to be able to read, communicate and in many instances will prepare him for positive economic gain in the community.

SPEECH PATHOLOGY UNITS

Mr. EVINS. Speech pathology units are to be increased. Place pages 4–56, 4–57, and 4–58 in the record.

(The pages follow:)

3. *Explanation of Request for Increases of 4490 Average Employment and $40,428,000 in FY 1968 for Improvement in Quality of Patient Care.*—

(7) Speech Pathology Units:

Introduction: In Speech Pathology, VA is planning for veterans who are in need of concentrated clinical speech services coincident with the balance of their hospital care. The concern is with major speech and language disorders which affect the patient in an overwhelming manner. The most serious problem is the condition termed aphasia. Patients who have suffered strokes, or traumatic brain injury, are frequently left with varying degrees of language impairment. An adult who is not able to comprehend or produce meaningful spoken language is certain to be adversely affected intellectually and emotionally. Another major disorder which VA must cope with is the loss of the ability to produce vocal utterances as a consequence of laryngeal cancer and ensuing surgery.

Potential Patient Load: It is on the basis of existing clinics that VA can forecast needs for Speech Pathology services. Speech pathologists presently on the staff at 29 hospitals have had difficulty coping with the rising demand for these urgent services. Over 7% or approximately 4,000 of our general hospital patients suffer significant disabilities requiring speech and language therapy.

A clear indication that the workload is increasing is seen in data on hospital discharges covering the condition of brain damage. Between calendar year 1957 and calendar year 1964 the number of patients in this category rose from 7,445 to 17,112. With a rising aging curve, it is virtually certain that our workload in the area of communicative disorders is destined to increase in steady fashion. Outside of VA, a 1960 study of aged patients in a county hospital and Michigan, reported that 21% of the patients required speech pathology services for disorders of a critical nature.

Speech Pathology Planning: On any given day, VA hospital rolls include at least 4,000 patients with serious disorders of the types described. The patient demand exists in all VA hospitals. VA's plan is to meet the greatest need, in terms of number of patients, by starting with the larger hospitals. In view of the unmet needs in the large and medium-sized hospitals, no action is planned for hospitals with fewer than 300 beds within the next five years.

Alternatives: The use of contract services is not feasible. To treat organic speech disorders for hospitalized veterans contractually would require fees at a significantly greater cost than an equivalent in-house program. Assuming the rate of $15.00 per hour, the annual fee cost per hospital would be $30,000. At the more conservative estimate of $10.00 per hour, the cost would be $20,000. For 21 hospitals using the $10.00 per hour estimate, the fiscal year 1968 contract cost would be $420,000 as contrasted with our annual request for $339,000.

Funds Requested: The increase of 15 average employment and $218,000 is required for (1) 10 average employment and $145,000 for the extension of FY 1967 approved amounts and (2) 5 average employment and $73,000 to expand the program at 2 locations and extend it to 15 additional hospitals. The table on the following page identifies station location and funding requirements.

Support data for speech pathology units

	Extension of fiscal year 1967 programs		New programs in fiscal year 1968			
	Average employment	Recurring cost	Average employment	Recurring cost	Nonrecurring cost	Total
Albuquerque, N. Mex.			0.2	$3,500	$2,300	$5,800
Ann Arbor, Mich.			.2	3,500	2,300	5,800
Atlanta, Ga.	0.4	$6,600				
Brooklyn, N.Y.	.4	6,900	.2	3,450	2,200	5,650
Charleston, S.C.			.2	3,500	2,300	5,800
Chicago, Ill. (WS)	.4	6,900				
Dallas, Tex.			.6	6,900	4,400	11,300
Dearborn, Mich.	.4	6,900				
Denver, Colo.			.2	3,500	2,300	5,800
Des Moines, Iowa			.2	3,500	2,300	5,800
Downey, Ill. (NP)	.4	6,900				
East Orange, N.J.	.5	6,900	.2	3,450	2,200	5,650
Fort Howard, Md.	.5	6,900				
Gainesville, Fla.	.5	6,900				
Indianapolis, Ind.			.6	6,900	4,400	11,300
Kecoughtan, Va.			.2	3,500	2,300	5,800
Lake City, Fla.	.5	6,900				
Los Angeles, Calif.	.5	6,900				
Martinsburg, W. Va.			.2	3,500	2,300	5,800
Memphis, Tenn.			.6	6,900	4,400	11,300
Miami, Fla.	.5	6,900				
Nashville, Tenn.	.5	7,000				
New York, N.Y.	.5	7,000				
Palo Alto, Calif.			.2	3,500	2,300	5,800
Philadelphia, Pa.	.5	7,000				
Richmond, Va.			.2	3,500	2,200	5,700
Salt Lake City, Utah	1.0	13,800				
San Juan, P.R.			.6	6,900	4,400	11,300
Seattle, Wash.			.2	3,500	2,200	5,700
Sepulveda, Calif. (NP)	.5	6,900				
St. Louis, Mo.	.5	6,900				
Syracuse, N.Y.	.5	6,900				
Tucson, Ariz.	.5	6,900				
Wadsworth, Kans.			.2	3,500	2,200	5,700
Wood, Wis.	.5	7,000				
Total	10.0	145,000	5.0	73,000	47,000	120,000

Mr. EVINS. How many units do you have in this type of therapy at present, how many do you plan and what will be the cost?

Dr. SKOUGE. Speech pathology, we will have at the end of this fiscal year 39, we plan to activate 15, for a total of 54 units activated through fiscal year 1968. We plan to eventually have 122. We are finding, again, with our aging population, many patients with strokes who need speech training. The advancing age of our veteran population has resulted in many additional patients with cancer of the vocal chords and larynx, requiring surgery, and of course they need a lot of intensive training in order to regain speech.

Mr. EVINS. Is the full year cost recommended on any of these? I notice on your chart 4–58 it is partial year funding.

Mr. MONK. For this service and some others, Mr. Chairman, it is one-fourth year's cost, the new money requested is one-fourth the total year cost.

Mr. EVINS. One-fourth year's cost. The total is how much?

Mr. MONK. For all of them.

Mr. EVINS. For 1968 is it $10 million?

Mr. DRIVER. It is a quarter of a year cost that is shown.

Mr. EVINS. How much is the total cost recommended in the budget for 1968?

Mr. MONK. For the new activations it is $5,551,000, of which $1,487,000 is one-half year's funding and $4,064,000 is one-fourth year's funding. The total full year cost for these activities will be $19,230,000.

Mr. EVINS. We want you to put all the figures in your budget so we know how much the cost is.

Mr. WISE. The cost for 1969——

Mr. EVINS. We are talking about 1968 figures. We would like to have a firm figure as to how much it is going to cost. Somebody will ask: "How much is this going to cost?"

Mr. WISE. We state the cost is $13,679,000 additional in 1969 to continue the operation of all the new medical services.

Mr. EVINS. How much does it cost for these new units to be installed in 1968?

Mr. MONK. The cost in this budget for 1968 is $5,551,000.

Mr. EVINS. All right, that is the figure we want. Your total down here would appear to be 10 under these partial year fundings.

Mr. MONK. That is the $10 million. There are two figures. The $10,372,000 is what we are asking in 1968 to make a full year for those we started in 1967.

We are asking for $5,551,000 to start new ones and we will have to come in next year.

Mr. EVINS. How much will be the cost for these units in 1968; that is, for the existing units and the new ones?

Mr. MONK. $15,923,000.

Mr. JONAS. How do you get by with one-fourth of a year funding?

Mr. MONK. We get by, Mr. Jonas, because we don't start these services at the beginning of the fiscal year. We don't get them installed. While we have estimated primarily on the basis of a one-fourth year funding, some of them may run 6 months, 7 months, and others may run 2 months or 1 month.

Mr. JONAS. You don't expect to have them completely activated except for a quarter of a year?

Mr. MONK. That is correct, sir.

FOSTER HOME CARE

Mr. EVINS. Foster homes care. You give the total on every one of these increases, on the overall amount. However, you don't give us the figure that we need for each item, continuing costs, and the new costs.

Now, looking at these, it would be $110,000——

Mr. MONK. That is $110,000 we are asking for to make up the full year for those we started this year.

We are asking for $143,000 for one-half of the year for the new ones we are going to put in in 1968.

Dr. SKOUGE. The foster home program is related to outplacement, particularly of our patients in our psychiatric hospitals and it is imperative that we do everything possible to get these patients out of the hospital when they can be supported on the outside in proper foster home facilities.

This money goes for the employment of additional social workers. They play an important role in finding foster homes, evaluating them, and bringing the information back to the physician.

Mr. EVINS. This cost does not include the nursing care?

Dr. SKOUGE. No.

Mr. EVINS. This is for the social worker to help locate the home?

Dr. SKOUGE. And work out problems with families and so on with regard to placement.

Mr. EVINS. What do you pay these individuals for this?

Dr. TIMM. Social workers are generally GS–9 up to GS–13.

SUPERVOLTAGE THERAPY

Mr. EVINS. Increases required for supervoltage therapy. Include in the record pages 4–61 and 4–62.

(The pages follow:)

3. *Explanation of Request for Increases of 4,490 Average Employment and $40,428,000 in FY 1968 for Improvement in Quality of Patient Care.*—

(9) Supervoltage Therapy:

Introduction: Supervoltage therapy has become a major treatment modality for cancer and related disorders. This type of treatment is the preferred method of X-ray therapy for deep seated malignancies, and refers to therapy in the multi-million volt range. The equipment used includes cobalt units, betatrons and linear accelerators. The advantages of supervoltage over conventional therapy are:

(1) Treatment time reduced so that therapist can handle more cases;

(2) No skin damage and less radiation sickness;

(3) Greater depth dose allowing the delivery of a large dose over a shorter period of time thus decreasing treatment time and shortening the period of hospitalization.

Space: The six cobalt units planned for fiscal year 1968 require renovation and alteration to provide proper facilities. These projects have been programmed in the fiscal year 1967 Construction of Hospital and Domiciliary Facilities appropriation, with completion of construction estimated for the first half of fiscal year 1968.

Use of Private or Other Public Sources: Contracting for services is generally not feasible because of time required for treatment and limited number of medical centers having supervoltage therapy units. Sharing of facilities has not been explored.

Funds Requested: The fiscal year 1968 increase of 7 average employment and $82,000 will provide for the radiologists and technicians necessary to operate the six cobalt units and two betatron units programmed. The table on the following page identifies station location and funding requirements.

Support data for supervoltage therapy

	New programs in fiscal year 1968			
	Average employment	Recurring cost	Nonrecurring cost	Total
Bronx, N.Y.	0.9	$10,300	$112,500	$122,800
Buffalo, N.Y.	.8	10,200	112,500	122,700
East Orange, N.J.	.8	10,200	112,500	122,700
Hines, Ill.	.9	10,300	112,500	122,800
Los Angeles, Calif.	.9	10,300	112,500	122,800
Philadelphia, Pa.	.9	10,200	112,500	122,700
Pittsburgh, Pa. (GM)	.9	10,200	112,500	122,700
San Francisco, Calif.	.9	10,300	112,500	122,800
Total	7.0	82,000	900,000	982,000

Dr. Skouge. We plan to activate eight such units in 1968 and we will then have 10 with a long-range plan for 36. The cost for the new activations will be $82,000, with an average employment of seven.

Mr. Evins. What is the total cost?

Dr. Skouge. It is $982,000 including nonrecurring costs. Excuse me.

DAY HOSPITAL TREATMENT

Mr. Evins. Next is day hospital treatment. Include in the record pages 4–63 and 64.

(The pages follow:)

3. *Explanation of Request for Increases of 4,490 Average Employment and $40,428,000 in FY 1968 for Improvement in Quality of Patient Care.*—

(10) Day Hospital Treatment:

Introduction: The concept of day hospital treatment for psychiatric patients is in keeping with the most modern and effective treatment programs available for psychiatric patients. The past 15 years have witnessed the development of day hospitals for the treatment of the mentally ill in many state and private hospitals in this country and abroad.

The day hospital offers all the treatment facilities available for the seriously ill patient without separation from home, family, and community, thus avoiding the development of hospital dependency, regression, and chronicity, and more readily facilitates readjustment to previous normal living and working conditions. It is utilized for patients too ill for office or clinic treatment who require therapies and facilities only available at a hospital. Patients attend the Day Hospital up to five days a week, for eight hours a day. A comprehensive treatment program tailored to the needs of the individual patient is provided without the requirement that the patient remain overnight, permitting him to retain family and community ties.

Patients admitted to this treatment modality will be in need of hospital care at the onset less than 24 hours a day but no less han 8 hours daily, five days a week. As therapy progresses, however, the intensity of the treatment will be lessened and the patient will be encouraged to seek out or resume employment on a part or full-time basis, depending upon the individual need of the patient and presenting circumstances concerned.

This treatment program is primarily for veteran patients not previously hospitalized; therefore, these patients will usually be processed by direct admission. However, this will not preclude admitting other veteran patients who had previously been hospitalized and whose psychiatric disease has again become severe enough to require rehospitalization. Assuming a reasonable amount of success with this type of treatment modality, the Agency would consider extending this Day Hospital treatment program to long-term bed occupants who have otherwise been immobilized and might benefit by this different treatment approach.

The first treatment program study was initiated during fiscal year 1966 at the VA Hospital, Minneapolis, Minnesota, at the request of the hospital itself. It is expected that, with this program, the hospitals will be able to utilize their beds more completely and, at the same time, attain greater flexibility in the use of these beds. The occupancy rate for psychiatric patients in general hospitals exceeds 90 percent. This limits mobility of patients. With a Day Hospital program, a hospital should be able to utilize beds more fully and still retain a high degree of flexibility to permit inter-service and inter-ward transfer of patients.

The Agency established this program at 4 other hospitals in FY 1967 and will evaluate the results before making more definitive estimate of projected trends.

Potential Patient Load: The potential patient load cannot be determined until experience has been obtained to determine the average length of treatment. For cost and statistical reporting purposes, the visits of these patients will be reported and identified as a separate type of outpatient visit during the period of the study.

Studies Planned: A study was established at the VA Hospital, Minneapolis, Minnesota, during fiscal year 1966. Four additional studies have been undertaken at the VA Hospitals at Cincinnati, Ohio; Denver, Colorado; Houston, Texas; and New York (Manhattan), New York.

Funds Requested: The recurring increase in fiscal year 1968 or 24 average employment and $233,000 permits the extension of amounts approved in fiscal year 1967 for the activation of the program at four additional locations. The table below identifies station location and funding requirements.

Support data for day hospitals

	Extension of fiscal year 1967 programs	
	Average employment	Recurring cost
Cincinnati, Ohio	6	$58,700
Denver, Colo	6	58,600
Houston, Tex	6	58,600
New York, N.Y	6	57,100
Total	24	233,000

Dr. SKOUGE. Day hospital treatment is another type of facility for the care of the mentally ill. We plan to have five activated by fiscal year 1968. We are activating four during fiscal year 1967. This is an attempt to place the mentally ill in a hospital environment where they can get intensive treatment from 8 o'clock to 5 o'clock and then go home at night and come back and receive all the services we have available to them every day. This is to try to maintain contact between the patient and the community while getting therapy.

Mr. EVINS. Could you give us the cost for this?

Dr. SKOUGE. The recurring cost, $233,000.

PROSTHETIC TREATMENT CENTERS

Mr. EVINS. Prosthetic treatment centers. Include in the record pages 4–65 through 4–67.

(The pages follow:)

3. *Explanation of Request for Increase of 4,490 Average Employment and $40,428,000 in FY 1968 for Improvement in Quality of Patient Care.*—

(11) Prosthetic Treatment Centers:

Introduction: During the past 15 years great improvements have been made in prosthetic devices and their use, primarily as the result of the VA Prosthetics Research and Development Program. Every possible effort has been made to train VA physicians, therapists, prosthetic specialists, and local commercial appliance makers in the proper prescription, fabrication, fitting, and use of these modern devices. Due to limitations on training funds and training facilities, plus the constant loss of trained personnel, however, it has been impossible to maintain adequately trained personnel in many of the VA hospitals and outpatient clinics where prosthetics patients are being treated.

It is planned to reorganize certain field elements of the Prosthetic and Sensory Aids Service and to centralize the prescription, procurement and/or fabrication, check-out, rehabilitation training, and intra-mural prosthetics research in a smaller number of VA field stations where we can afford to have adequate facilities and trained personnel to provide these specialized services. This plan envisions the consolidation and expansion of prosthetics activities and the establishment of Prosthetics Treatment Centers at 10 to 12 VA hospitals, plus the strengthening of Prosthetic Services in approximately 60 other VA field stations. As these expanded and improved facilities can be developed and

established, the furnishing of major prosthetics devices at VA hospitals where trained prosthetics personnel are not available will be curtailed or eliminated.

Prosthetic Treatment Centers Planned: As a first step in the application of this plan, a Pilot Prosthetic Treatment Center was established at Los Angeles, California effective January 1, 1966 by consolidating existing prosthetic facilities. Two more centers will be activated on January 1, 1967 at Hines, Illinois and Dallas, Texas. An additional three centers are planned for fiscal year 1968 at Boston, Massachusetts, Cleveland, Ohio and Atlanta, Georgia. The remaining centers are to be established by the close of fiscal year 1970.

Each proposed VA Prosthetics Treatment Center will contain the following organizational elements: Office of the Chief; Prosthetics Clinic Team; Administrative Section; Prosthetics Fabricating Shop; Restorations Clinic.

VA field stations selected for Prosthetic Treatment Centers will usually be those already having in operation most or all of the above organizational elements. Specific construction of new facilities, therefore, usually will not be required. Any future planned construction or alterations at the selected stations should, however, include the consolidation of all elements of the Prosthetics Treatment Center into one contiguous area.

Potential Patient Load: The gradually increasing overall VA prosthetics patient load is not expected to change as a result of establishment of Prosthetic Treatment Centers. The patient load in many small VA stations will eventually be reduced or eliminated, however, with a resulting increase in the patient load at stations having Prosthetic Treatment Centers or expanded Prosthetic Services.

Actual and estimated prosthetics patient loads at the five stations selected for establishment of Prosthetic Treatment Centers in fiscal year 1967 and 1968 are as follows:

Prosthetics patient load

Station	1966 actual	1967 estimate	1968 estimate
VA hospital, Hines	4,500	4,800	5,100
VA hospital, Dallas	4,200	4,500	4,800
VA hospital, Boston	1,600	1,700	2,000
VA hospital, Cleveland	6,000	6,200	6,500
VA hospital, Atlanta	4,100	4,300	4,500

Funds requested: The recurring increase of 7 average employment and $70,000 will provide for (1) the extension of fiscal year 1967 approved amounts of 2 average employment and $31,000 and (2) for the activation of 3 additional centers requiring 5 average employment and $39,000. The table on the following page identifies station location and funding requirements.

Support data for prosthetic treatment centers

	Extension of fiscal year 1967 programs		New programs in fiscal year 1968			
	Average employment	Recurring cost	Average employment	Recurring cost	Nonrecurring cost	Total
Atlanta, Ga			2	$13,000	$10,000	$23,000
Boston, Mass			2	13,000	10,000	23,000
Cleveland, Ohio			1	13,000	10,000	23,000
Dallas, Tex	1	$16,500				
Hines, Ill	1	14,500				
Total	2	31,000	5	39,000	30,000	69,000

Dr. TIMM. This is a relatively new program. We have had prosthetics teams in many of our hospitals and clinics but in an effort to upgrade the levels of treatment and at the same time keep pace with the development in the field, we are establishing these special centers so that surrounding VA hospitals can send their prosthetic problems to them.

These will be Hines, Dallas, Boston, Cleveland, and Atlanta. It is a kind of a regionalization approach in order to concentrate our most effective manpower, which has been in rather scarce supply——

Mr. EVINS. How many jobs will this require? How many are being employed in this work at the present time?

Dr. TIMM. This calls for an increase of seven employees. Two for the extension of fiscal year 1967 programs and five average employment for the activation of three additional centers in fiscal year 1968.

Mr. EVINS. How many jobs?

Dr. TIMM. The prosthetics team is made up of an orthopedist and a technician. There are clerical people and nurses.

PULMONARY FUNCTION LABORATORIES

Mr. TALCOTT. Is emphysema more prevalent in the East than it is in the West?

Dr. TIMM. I don't think so. I think it is pretty common everywhere. There are many gaps in our knowledge about this, where it is and what the factors are in back of it. There is a lot of talk now about atmospheric pollution being a primary cause of it. On this basis, you would expect to find it in those parts of the country where atmospheric polluition is more prevalent. Smoking, however, seems to be pretty generally disposed across the country and it is the primary culprit so far. There may be other elements involved. Certainly we see it everywhere.

Mr. EVINS. Place in the record pages 4–68 and 69.

(The pages follow:)

3. Explanation of Request for Increase of 4,490 Average Employment and $40,428,000 in FY 1968 for Improvement in Quality of Patient Care.—

(12) Pulmonary Function Laboratories:

Introduction: For several years, the VA Research Service has conducted at various hospitals researches in pulmonary function measurements. These researches led directly to the development of specific techniques which are basic to patient care, practical for routine use, and constantly reliable under routine hospital conditions. Clinical demands upon these laboratories have grown so large that the technicians and laboratory personnel are no longer capable of meeting the service demand nor can they perform the pressing need for continuing research in pulmonary function.

Potential Patient Load: The number of patients discharged from GM&S Hospitals with a primary diagnosis of emphysema (with or without bronchitis) has increased approximately 17% per year since 1956. The total number of patients with this first diagnosis was 6,848 in 1956, 15,796 in 1963, 16,425 in 1964 and 18,882 in 1965. To reach a volumetric statement of total load, there must be added those with a second diagnosis of emphysema, either with or without bronchitis. This number for 1965 is slightly in excess of 32,000. All of these patients require pulmonary function studies. In addition, most VA surgeons request pulmonary function studies for their older patients so that surgical procedures can be planned which are within the tolerance of the patients pulmonary function. There are no precise quantitative data available on this specific aspect but the load is growing. Pulmonary function tests are of two sorts: (a) blood studies for the concentrations of oxygen and carbon dioxide and blood acidity, and (b) ventilatory measurements consisting of five separate tests. Each technician can be expected in a full day's work, to complete the function measurements on 5–7 patients per day, in addition to his required activities in equipment maintenance. It is estimated that between 80 and 90 percent of patients with pulmonary insufficiency will require these eight tests. It is well recognized that 10–20 percent of the patients with pulmonary insufficiency will require complete diagnostic study because of the complexity of the problem which they present. These complete studies will take not less than two hours, but frequently up to half-day per patient.

Laboratories Planned: The long range plan for pulmonary function laboratory proposes that by fiscal year 1972 this program will have been established in 118 General Hospitals. Currently 81 hospitals have been programmed with four more planned in fiscal year 1968.

Space: Alterations and renovations are of minor nature and where required can be accomplished within the minor improvement limitations.

Funds Requested: The recurring increase of 114 average employment and $898,000 is required for (1) 108 average employment and $840,000 to extend fiscal year 1967 activations and (2) 6 average employment and $58,000 to activate the program at four additional locations. The table on the following page identifies station location and funding requirements.

INTENSIVE CARE UNITS

Mr. EVINS. Earlier we were talking about pulmonary and emphysema units altogether. Well, we will now look at intensive care units. Include in the record pages 4–72 and 4–73 and 4–74.

(The pages follow:)

3. *Explanation of Request for Increase of 4,490 Average Employment and $40,428,000 in FY 1968 for Improvement in Quality of Patient Care.—*

(13) Intensive Care Units:

Introduction: Intensive care is provided for critically ill patients whose special medical requirements cannot be met in the usual ward environment. Its objectives are:

a. To provide continuous concentrated care.

b. To make available specialized and lifesaving measures.

c. To provide fully qualified professional personnel who are specifically trained to recognize the need for and to be able to initiate and continue the type and kinds of care to meet the special needs of these patients.

d. To assure the most effective use of complicated equipment in the application of this specialized care.

Coronary care units are a special form of intensive care units for patients who have suffered acute coronary occlusion.

Potential Patient Load: On October 28, 1964, and October 27, 1965, there were 1,062 and 918 patients respectively in VA hospitals with a diagnosis of acute coronary occlusion. Special coronary care is also required for some of the patients who undergo cardiac surgery and who require careful monitoring post-operatively. In fiscal years 1964, 1965 and 1966, cardiac surgery was performed on 363, 446 and 574 patients respectively. The trend in cardiac surgery, made possible through research advances, is on the increase and the demand for post-operative care in facilities equipped and staffed for this purpose will significantly improve the chances for survival for many of these patients. A special Department of Medicine and Surgery Task Force reported on August 1, 1966, a critical shortage of Intensive care units in our hospital system and recommended a minimum need for 1,124 beds not including the need for coronary care units.

Units Planned. Intensive care units were activated at 20 locations in fiscal year 1967, with a total bed capacity of 191 beds. It is proposed to establish an additional 720 intensive care/coronary care beds in fiscal year 1968. These will augment beds at 12 of the 20 hospitals activating intensive care units in fiscal year 1967, with the remaining beds to be located in 48 hospitals presently without this type of medical service. By the close of fiscal year 1968, 56 hospitals will have initiated intensive care/coronary care units with a total capacity of 911 beds. The additional beds required as identified in the Department's Task Force survey will be planned in subsequent fiscal years.

Size and Number of Units: The number of beds in each intensive care unit would vary from 4 to 12 and in coronary units from 4 to 8. The number of units per hospital will depend upon size, affiliation, activity of the hospital, number of seriously ill patients and local needs.

Space: It is expected that space modification will be necessary at all selected stations. The extent of renovations and alterations has not been determined. However, those units requiring alterations which must be considered within the C of H&DF appropriation will receive priority consideration.

Funds Requested: A recurring increase of 586 average employment and $4,432,000 is required for (1) the extension of fiscal year 1967 approved amount of 154

average employment, and $1,046,000, and (2) 432 average employment and $3,386,000 to activate an additional 720 intensive care and coronary care beds at 60 locations. The table on the folowing page identifies station location and funding requirements.

Support data for intensive care and coronary care units

Location	Extension of fiscal 1967 programs		New programs in fiscal year 1968			
	Average employees	Recurring cost	Average employees	Recurring cost	Nonrecurring cost	Total
Albany, N.Y.	10	$68,100				
Albuquerque, N. Mex.			7.5	$51,500	$37,000	$88,500
Altoona, Pa.			2.2	15,300	11,100	26,400
Ann Arbor, Mich.			7.5	51,500	37,000	88,500
Atlanta, Ga.			10.0	77,200	81,520	158,720
Baltimore, Md.			4.0	28,000	29,600	57,600
Bay Pines, Fla.			4.5	30,700	22,200	52,900
Birmingham, Ala.			10.0	77,200	81,520	158,720
Boston, Mass.			8.0	67,800	59,320	127,120
Bronx, N.Y.	7	47,600	11.0	98,000	103,960	201,960
Brooklyn, N.Y.	7	47,600	7.5	51,500	37,000	88,500
Buffalo, N.Y.			9.0	77,000	81,640	158,640
Charleston, S.C.			6.0	53,700	44,520	98,220
Chicago, Ill. (research	22	146,700	8.5	71,300	63,020	134,320
Chicago, Ill. (westside)			8.5	70,100	74,180	144,280
Cincinnati, Ohio	4	27,200	5.5	50,100	40,820	90,920
Clarksburg, W. Va.			3.0	20,400	14,800	35,200
Cleveland, Ohio			7.5	59,600	63,020	122,620
Dallas, Tex.			7.5	51,500	37,000	88,500
Dayton, Ohio			2.0	20,700	22,320	43,020
Dearborn, Mich.	4	27,200				
Denver, Colo.	7	47,600	3.0	31,200	33,480	64,680
Des Moines, Iowa	10	65,200				
Durham, N.C.	4	27,200	8.8	76,000	64,900	140,900
East Orange, N.J.			8.0	67,700	59,320	127,020
Fargo, N. Dak.			2.0	14,000	14,800	28,800
Ft. Wayne, Ind.			9.0	68,400	48,560	116,960
Gainesville, Fla.			11.2	89,400	63,020	152,420
Houston, Tex.	4	27,200	7.5	61,300	64,900	126,200
Indianapolis, Ind.			10.5	84,200	88,980	173,180
Iowa City, Iowa			4.5	30,800	22,200	53,000
Jackson, Miss.			4.5	30,800	22,200	53,000
Kansas City, Mo.	4	27,200	11.2	92,400	64,900	157,300
Lexington, Ky.			4.5	30,800	22,200	53,000
Little Rock, Ark.			8.8	76,000	64,900	140,900
Livermore, Calif.			7.5	51,500	37,000	88,500
Long Beach, Calif.			12.0	98,200	103,840	202,040
Los Angeles, Calif.			15.0	117,200	111,120	228,320
Louisville, Ky.	4	27,200				
Minneapolis, Minn.	7	47,600	5.5	38,600	40,700	79,300
Nashville, Tenn.			10.1	77,600	63,020	140,620
New Orleans, La.			7.5	61,300	64,900	126,200
New York, N.Y.			3.0	32,500	22,320	54,820
Oklahoma City, Okla.			11.2	92,400	64,900	157,300
Omaha, Nebr.			12.5	96,600	101,900	198,500
Oteen, N.C.			9.0	70,200	74,120	144,320
Palo Alto, Calif.	15	98,000				
Philadelphia, Pa.	7	47,600	8.0	67,800	59,320	127,120
Pittsburgh, Pa. (University Drive)	14	98,000	11.2	77,300	45,500	132,800
Portland, Oreg.			11.2	88,100	74,180	162,280
Providence, R.I.			7.5	51,500	37,000	88,500
Reno, Nev.			4.0	28,000	29,600	57,600
Salt Lake City, Utah			8.2	56,600	40,700	97,300
San Francisco, Calif.	4	27,200	6.0	65,200	44,640	109,840
Seattle, Wash.			8.2	56,600	40,700	97,300
Shreveport, La.			3.7	25,600	18,500	44,100
Spokane, Wash.			5.0	35,000	37,000	72,000
St. Louis, Mo.			7.5	61,300	64,900	126,200
Syracuse, N.Y.			7.5	51,500	37,000	88,500
Temple, Tex.	4	27,200				
Tucson, Ariz.			4.0	28,000	29,600	57,600
Washington, D.C.			5.0	41,900	44,520	86,420
West Haven, Conn.			5.0	35,000	37,000	72,000
West Roxbury, Mass.	8	57,100				
White River Junction, Vt.			4.5	30,800	22,200	53,000
Wichita, Kans.	8	57,100				
Wilmington, Del.			6.0	41,100	29,600	70,700
Wood, Wisc.			3.0	32,500	22,320	54,820
Total	154.0	1,046,000	432.0	3,386,000	2,984,000	6,370,000

Dr. SKOUGE. We intend to activate 20 intensive care units——

Mr. EVINS. Twenty new units?

Dr. SKOUGE. In fiscal year 1967. Forty in fiscal year 1968 with a total of 60. As a matter of fact, it is so important that we establish these units so that we can focus all of our professional skills on the critically ill that we are probably going to have to have intensive care units in most of our hospitals. It is really another form of special nursing, but much, much more complicated than that. We will have special facilities for patients who have had coronary thrombosis, myocardial infarction. Just to give you an idea of the magnitude of the problem in the Veterans' Administration, during the course of a year we will treat about 10,000 patients who have had a heart attack. Myocardial infarction. Of those 10,000, roughly one-third will die. That is about 3,000. It is expected that with intensive care units for the care of the patient with myocardial infarction, approximately one-third of those people will survive.

We anticipate a thousand additional survivals per year from heart attacks.

Now, this disease occurs very frequently in previously productive individuals. If we can salvage them, they will again become productive citizens and we all know many males and many women as well who have suffered from a heart attack and who are making a tremendous contribution to society.

I think that this program will pay off. Every dime we plan to spend for it. The cost for fiscal year 1968 will be $6,370,000.

VA has been a little behind in the establishment of the intensive care units but evidence——

Mr. EVINS. Doctor, haven't we been giving all of our veterans intensive care for years?

Dr. SKOUGE. But this represents a more economical way of providing intensive care and a much more effective way because we can concentrate in a small area the skills and equipment required.

Mr. EVINS. What are you going to do when a veteran has a heart attack as compared with 10 years ago?

Dr. SKOUGE. Ten years ago we would probably have placed him in a private room. He would not have been under constant surveillance and not infrequently someone would have walked into the room and the ptaient would have been dead. He had developed an arrhythmia. His heart had stopped and he had died. We will move these patients into the intensive care units, connect them with monitoring devices and if they develop a change in rhythm of the heart, we can immediately apply treatment. In the event the heart does stop, we have only got about 3 minutes to apply resuscitation to the individual and if we don't do it in that 3 minutes, we have lost our opportunity. We have to have these people concentrated where we have skills and equipment so we can save their lives.

Mr. EVINS. You are saying you are going to look at them all the time?

Dr. SKOUGE. That is right. The majority of deaths from acute myocardial infarction will occur during the first week, so we will have to have these people in these intensive care units 7 to 10 days as a general rule.

Mr. EVINS. I have had called to my attention recently the distress of a widow of a veteran. Her husband died in a hospital at a very

acute stage in a heart attack. She had wanted to stay in the room with him, however, they wouldn't let her. She said, "I would have stayed with my husband all day, all night. I tried to stay with him," but they wouldn't let her.

She said they would buzz for a nurse and it would take a half hour to get one there. He was strapped down and could barely get to the buzzer, but they wouldn't let her stay in there.

What are your regulations on that?

Dr. SKOUGE. I am sure it must vary from place to place, depending upon the attitude of the physician who is taking care of the patient because we don't really establish any policy on this from the standpoint of the VA central office or management at the field level.

Mr. EVINS. In this case the bulletin board said you have to have approval from the head nurse. The doctor said it would be okay, but to see the head nurse. The head nurse wouldn't allow it.

Dr. SKOUGE. I can't explain that one. It sounds very irregular to me.

Mr. EVINS. It was on the bulletin board. It said you had to have the approval of the head nurse to sleep in there with your husband.

Mr. DRIVER. We don't just let anyone move into the hospital. There would have to be an orderly procedure.

Mr. EVINS. Not move in.

Dr. SKOUGE. I have been in a number of hospitals and where it was felt necessary for the family to be with the patient around the clock, we always provided this.

Once in a while a family can create more problems than they solve, too, by staying with the patient. But certainly in an instance where a man has had an acute heart attack, we need constant observation so the minute we detect anything which is irregular we can institute treatment. Really, what we are trying to do in these intensive care units is to provide that very thing. Monitoring devices are available now, so we should have second-to-second information on these patients, really.

Mr. GIAIMO. Isn't it true that intensive care treatment is a technique that has been developed by general hospitals and by the better hospitals over the more recent years, as a new means of providing complete control and observation over heart patients? In effect, what you are doing is bringing your care for heart patients up to date through the methods of being used by modern hospitals throughout the country. To have equipment available which can be moved into these areas within the 3-minute period. The equipment can't be down at the other end of the hospital and have to go through the halls with it.

Dr. SKOUGE. This is necessary if we are going to cut down on the mortality rate. Of course, the intensive care unit isn't just confined to the patient with myocardial infarction.

Postoperative cardiac surgery requires intensive monitoring. We have any number of veterans coming in, particularly in the wintertime, whose peptic ulcers are creating problems for them and they suddenly develop massive gastrointestinal bleeding. They will bleed to death in a matter of a few hours. We have to have these people under constant surveillance so we can supply them with the necessary blood and treatment.

There are any number of other serious diseases that require constant surveillance if we are going to salvage more of them and return them to their community.

Mr. EVINS. Doctor, I am sure your work is a lot like that of a Member of Congress in some respects. You hear all the bad complaints, but you don't hear too much about the good services.

Dr. SKOUGE. That is right. In management we have to hear all the bad and then we have to go out and regain our perspective because there is a lot of good going on.

MEDICAL REFERENCE LABORATORIES

Mr. EVINS. "Medical reference laboratories." Place pages 4–75 and 4–76 in the record.

(The pages follow:)

3. *Explanation of Request for Increases of 4490 Average Employment and $40,428,000 in FY 1968 for Improvement in Quality of Patient Care.—*

(14) Realignment of Medical Reference Laboratories:

Introduction: The VA Reference Laboratory System was designed to assist the smaller laboratories by providing sources for the performance of more complex procedures; to maintain quality by conducting surveys; making advisory visits; and by providing training. Prior to FY 1967, a total of 14 reference laboratories carried on these functions. The system over the past years had become too weakened to function properly through the necessity of meeting the increased laboratory needs of the parent station.

Planned Revision: The revision calls for reduction in the number of Reference Laboratories from the present 14 to 9. Based on studies and analyses of the system it has been concluded that the smaller number of better equipped and better staffed Reference Laboratories will be able to provide more diversified and prompt service. As a part of the revision, a new function will be assumed by the Reference Laboratory system, the developmental activities in connection with evaluation, and modification, if indicated, of laboratory instruments and methodologies. Though all reference laboratories will participate in these activities, special facilities to provide for a broader scope will be established at the VA Hospital, Washington, D.C. The proposed expansion of this reference laboratory is based on the following planned activities:

(a) render assistance to Central Office staff in coordinating the entire VA Reference Laboratory program.

(b) conduct with assistance of Communicable Disease Center and other national organizations (e.g. College of American Pathologists) periodic quality control studies for VA Reference Laboratories.

(c) conduct, in possibly all phases of laboratory medicine, developmental activities for evaluation of newly introduced laboratory methods and newly marketed equipment and products.

(d) close planning with Automatic Hospital Information System (AHIS) group to determine extent of applicability of laboratory medicine for this program.

In addition to the general reference laboratories, two special units have been established; One for serologic studies in connection with coccidioidomycosis at VA Hospital, San Fernando and the other primarily for viral and rickettsial serology at VA Hospital, Memphis.

Use of Private or Other Public Sources: We estimate that the tests performed at the present time by the existing Reference Laboratories for other VA stations would be more expensive if obtained from other sources on a fee basis. Furthermore, training facilities, developmental activities, quality control evaluation studies and consultation services would not be available by such an arrangement, thereby requiring additional needs for these purposes.

Funds Requested: The increase in FY 1968 of 11 average employment and $131,000 provides for the extension of FY 1967 costs for the nine selected general reference laboratories and the two special units established in FY 1967. The table below identifies station location and funding requirements.

Support data for medical reference laboratories

	Extension of fiscal year 1967 programs	
	Average employment	Recurring cost
Atlanta, Ga.	1	$9,900
Boston, Mass.	1	9,900
Dallas, Tex.	1	9,900
Denver, Colo.	1	9,900
Hines, Ill.	1	9,900
Memphis, Tenn.	1	6,200
Minneapolis, Minn.	1	9,900
Portland, Oreg.	1	9,900
San Fernando, Calif.		3,100
San Francisco, Calif.	1	9,900
Washington, D.C.	2	42,500
Total	11	131,000

Mr. EVINS. Tell us about this, Doctor.

Dr. SKOUGE. We plan to have in operation at the end of 1968 nine medical reference laboratories with a recurring cost of $131,000. I would like to ask Dr. Timm to speak to this, if he would.

Dr. TIMM. We have always had a so-called reference laboratory system. They were supposed to support the laboratory activities of all the hospitals in the field. The new alinement represents, again, an effort to bring us up to the front of the field by regular survey of laboratory activities.

I have heard mentioned by a number of nonmedical people the recent report about 25 percent of laboratory reports being inaccurate in the hospitals. This is talked about in the general press. We can say with our system of surveillance and monitoring of our laboratories that no such figure prevails in the Veterans' Administration. This is simply another method of making sure that our laboratories are practicing the very best kind of laboratory medicine and that their results are as accurate as it is possible to be.

Mr. EVINS. Recurring cost is estimated to be $131,000 annually, to support these medical reference laboratories. Is that correct?

Mr. MONK. That is the increase requested this year.

CLINICAL RADIOISOTOPE PROGRAM

Mr. EVINS. Clinical radioisotope program, 4–77 through 4–80. Place those pages in the record.

(The pages follows:)

3. *Explanation of request for increase of 4,490 average employment and $40,428,000 in fiscal year 1968 for improvement in quality of patient care.—*

(15) Clinical radioisotope program:

Introduction: Radioisotopes have been used in the VA since late in 1947. Due to licensing requirements of the Atomic Energy Commission, the highly specialized instrumentation required, and the newness of the entire field of nuclear science, this program was established as a research activity. As physicians with training and experience in the use of radioactive materials joined the VA, the

demand for facilities to apply nuclear techniques in the care of patients grew rapidly.

While it is desirable not to draw artificial boundaries to separate clinical medicine from research, it has become obvious that the use of radioisotopes for routine diagnostic procedures, and to a lesser degree for therapy, must be recognized as a normal part of the professional services of a hospital. Since the techniques and instrumentation cut across all other disciplines, such as medicine, surgery, radiology and basic sciences, the growing trend in medical schools is to recognize this field as a separate department.

Support for the present level of activity using radioisotopes for clinical purposes in 85 VA hospitals has been derived from sharing of facilities with research, and participation by research technical help in clinical activities. In practically every VA hospital the demand for radioisotope procedures is growing, and the need for additional equipment grows more acute., The very recent availability of more suitable radioisotopes and more sensitive scanners has resulted in a sudden and huge upsurge in demands for scanning of brain, liver, kidney, heart, spleen and lung. These scans can furnish quick and reliable information regarding location, nature and extent of possible abnormalities such as tumors, pulmonary embolisms and malfunctioning organs, without surgery and with no injury to the patient.

Potential patient load: Comparative analyses of workloads for fiscal year 1963 through 1968 follows. It is estimated that the number of patients having diagnostic procedures will continue to increase in fiscal years 1967 and 1968 at approximately the same rate as experienced from fiscal year 1963 to 1966. The estimated number of patients undergoing therapy in fiscal years 1967 and 1968 has been projected at the fiscal year 1966 level.

Fiscal year	Actual, 1963	Actual, 1964	Actual, 1965	Actual, 1966	Estimate, 1967	Estimate, 1968
Patients having diagnostic procedures	37,641	43,116	55,497	64,200	72,000	80,000
Patients undergoing therapy	687	763	662	600	600	600

A major part of the increase in 1966 is due to the increased use of scanning techniques. This is expensive in time required, cost of the newer isotopes such as technetium 99^{m}, and the larger crystal scanners and scintillation cameras now available and being developed.

Extent of Program: There are 85 hospitals now licensed by the Atomic Energy Commission for use of radioisotopes for clinical purposes. Funds requested are intended to operate, and strengthen programs in 62 of these and to activate this program in 3 hospitals not previously included.

Space: No major construction needs are foreseen for the clinical uses of radioisotopes. In new hospitals a clinical radioisotope suite is being planned consisting of less than 1,000 n.s.f. except in unusual situations. This provides two clinical treatment rooms, a physician's office and record space, small storage and processing room for radioactive materials and a waiting area for patients. No elaborate facilities are needed, other than electric supply. Specialized needs can be handled in the research laboratories where such facilities are available.

Use of Private or Other Public Sources: It is impracticable to contract for services of this type, since they are as essential to quick use as other diagnostic procedures. For example, in many hospitals equipment and materials for blood volume measurements are available on a 24-hour basis. The licensing requirements to Atomic Energy Commission also make the use of facilities within VA the only suitable source of this service.

Fund Requested: The recurring increase of 91 average employment and $1,386,000 is required for (1) 87 average employment and $1,281,000 to extend fiscal year 1967 approved amounts and (2) 4 average employment and $105,000 for the activation of the program at four additional locations. The table on the following page identifies station location and funding requirements.

Support data for clinical radioisotope units

Location	Extension of fiscal 1967 programs		New programs in fiscal year 1968			
	Average employed	Recurring cost	Average employed	Recurring cost	Nonrecurring cost	Total
Albany, N.Y.	1	$19,000				
Albuquerque, N. Mex.	1	16,700				
Alexandria, La.		6,000				
Ann Arbor, Mich.	1	19,000				
Atlanta, Ga.	1	19,300				
Augusta, Ga.	1	12,700				
Batavia, N.Y.	1	12,700				
BayIPines, Fla.	1	16,600				
Birmingham, Ala.	2	24,300				
Boston, Mass.	3	33,000				
Bronx, N.Y.			2	$35,000	$36,000	$71,000
Brooklyn, N.Y.	2	25,700				
Buffalo, N.Y.	1	20,600				
Charleston, S.C.	1	18,900				
Chicago, Ill. (W.S.)	1	20,100				
Chicago, Ill. (Res.)	2	23,000				
Cincinnati, Ohio	1	20,600				
Cleveland, Ohio	1	20,100				
Coral Gables, Fla.	1	16,900				
Dallas, Tex.	2	20,900				
Dayton, Ohio	1	19,080				
Dearborn, Mich.	1	16,400				
Denver, Colo.	1	20,100				
Durham, N.C.	2	22,700				
East Orange, N.J.	2	20,900				
Hines, Ill.	3	36,500				
Houston, Tex.	2	22,000				
Indianapolis, Ind.	2	20,900				
Iowa City, Iowa	2	20,900				
Jackson, Miss.	1	16,700				
Kansas City, Mo.	2	20,900				
Little Rock, Ark.	2	20,900				
Long Beach, Calif.	2	29,500				
Los Angeles, Calif.	3	37,000				
Louisville, Ky.	1	18,000				
Madison, Wis.	1	19,600				
Martinez, Calif.	1	16,400				
Martinsburg, W. Va.	1	18,500				
Memphis, Tenn.	2	20,900				
Minneapolis, Minn.	2	29,000				
Nashville, Tenn.	1	20,100				
New Orleans, La.	1	20,100				
New York, N.Y.	1	20,400				
Oklahoma City, Okla.	1	20,100				
Omaha, Nebr.	2	29,100				
Oteen, N.C.			1	35,000	36,000	71,000
Palo Alto, Calif.	2	21,600				
Philadelphia, Pa.	1	15,900				
Phoenix, Ariz.	1	15,900				
Pittsburgh, Pa.	2	21,200				
Portland, Oreg.	1	20,600				
Providence, R.I.	1	15,900				
Richmond, Va.	1	19,300				
Salt Lake City, Utah	1	20,900				
San Francisco, Calif.	2	22,600				
San Juan, P.R.	1	19,300				
Seattle, Wash.	1	20,900				
Sepulveda, Calif.	1	16,400				
St. Louis, Mo.	1	19,300				
Syracuse, N.Y.	1	20,900				
Tucson, Ariz.	1	16,400				
Washington, D.C.	2	22,500				
West Haven, Conn.	1	20,900				
Wilmington, Del.			1	35,000	36,000	71,000
Wood, Wis.	2	27,800				
Total	87	1,281,000	4	105,000	108,000	213,000

Mr. EVINS. How many units are in existence? How many are proposed in the 1968 budget and what will be the cost?

Dr. SKOUGE. Through 1966 we had 20 units. We are activating 62 additional ones in fiscal year 1967, and three additional in 1968, for a

total activated by the end of 1968 of 85. The recurring cost of new activations in 1968 will be $213,000.

The radioisotope units are really a product of research because when they were established within the VA following World War II, they were supported by research but they have come of age and now are an essential part of the management of our patients and provide information that we can't get any other way except through the use of this particular tool.

We plan to eventually have within our system 96 such units.

Mr. DRIVER. Dr. Timm, explain the nature of this program.

Dr. TIMM. The radioisotope is a chemical which has been modified in various kinds of reactors so that it becomes radioactive. Now, this radioactivity is controlled to the point where the substance can be given to the human patient without jeopardizing his health from radiation. Various chemicals have specific points of locating in the body. For example, iodine will be picked up by the thyroid gland. There are certain other chemicals which are picked up by the nervous system, some by the liver. So the appropriate chemical can be given and then, using a so-called scanning device, which is a photographic type of equipment that responds to radioactivity, the shadow of the particular organ, the intensity of the substance which has been picked up, can be measured, which gives us an index to the function of the particular organ or whether or not there are tumor masses that are taking up space in the organ.

It is also applicable to such things as measuring the amount of blood that an individual has circulating in his body at a given time. Sometimes this is a very important information. About the only technique we have of measuring this quickly is the introduction of a radioisotope and then measuring the degree of radioactivity that is developed, and from this we can get the volume of blood.

There are many other applications diagnostically. In therapy the radioisotopes are getting increasing usage. They are very effective in the treatment of thyroid disease and their application to the treatment of various kinds of cancer is being developed.

Mr. EVINS. A recurring increase of 91 average employment is required. You are requesting 87 average employment to extend fiscal year 1967 approved amounts and $105,000 for the activation of the program at four additional locations. It goes up from four to 91. That is a big increase in average employment. You are annualizing your employees in this field.

Mr. SHYTLE. This extension of the 1967 program is the 1968 cost. This is the 1968 increase cost to carry forward the programs.

Mr. EVINS. What did it cost in 1967? What was your program cost in 1967?

Mr. SHYTLE. That is the question you have asked that we are going to have to attack and find a way to build this up for you so that you have that total cost of the program.

Mr. EVINS. You don't know what it cost last year?

NEW MEDICAL SERVICES INITIATED

Mr. DRIVER. We will put this in the record for each one of these services so you can make a comparison of the full year cost versus this increase. We are just applying the increase here.

(The insert for the record follows:)

New medical services initiated in fiscal year 1967 on a six-month basis

New medical service	Number of hospitals	Fiscal year 1967 budget			Annualization of fiscal year 1967 costs included in fiscal year 1968 budget	Grand total through fiscal year 1968		
		Recurring	Nonrecurring	Total		Recurring	Nonrecurring	Total
Medical and surgical beds	8	$1,405,000	$42,000	$1,447,000	$1,443,000	$2,848,000	$42,000	$2,890,000
Psychiatric medically infirm	32	1,698,000		1,698,000	1,747,000	3,445,000		3,445,000
Hemodialysis units	17	1,520,000	510,000	2,030,000	1,556,000	3,076,000	510,000	3,586,000
Blind rehabilitation centers	1	136,000		136,000	163,000	299,000		299,000
Speech pathology units	21	141,000	47,000	188,000	145,000	286,000	47,000	333,000
Pulmonary emphysema units	26	646,000	378,000	1,024,000	751,000	1,397,000	378,000	1,775,000
Foster home care	8	107,000		107,000	110,000	217,000		217,000
Day hospital treatment	4	226,500		226,500	233,000	459,500		459,500
Prosthetic treatment centers	2	30,000	27,000	57,000	31,000	61,000	27,000	88,000
Pulmonary function labs	83	816,000	376,000	1,192,000	840,000	1,656,000	376,000	2,032,000
Clinical radioisotope services	62	1,249,000	206,000	1,455,000	1,281,000	2,530,000	206,000	2,736,000
Cardiac catheterization labs	43	870,000	347,000	1,217,000	895,000	1,765,000	347,000	2,112,000
Intensive-care units	20	1,017,000	67,000	1,084,000	1,046,000	2,063,000	67,000	2,130,000
Medical reference labs	11	128,000	49,000	177,000	131,000	259,000	49,000	308,000
Total	338	9,989,500	2,049,000	12,038,500	10,372,000	20,361,500	2,049,000	22,410,500

New medical services to be initiated in fiscal year 1968

New medical service	Number of hospitals	Fiscal year 1968 budget			Annualization of 1968 costs to be budgeted for fiscal year 1969	Grand total through fiscal year 1969		
		Recurring	Nonrecurring	Total		Recurring	Nonrecurring	Total
Activated on 6-month basis:								
Medical and surgical beds	3	$435,000	$375,000	$810,000	$435,000	$870,000	$375,000	$1,245,000
Open heart surgery	9	360,000	525,000	885,000	360,000	720,000	525,000	1,245,000
Blind rehabilitation centers	1	114,000	64,000	178,000	114,000	228,000	64,000	292,000
Foster home care	8	143,000	----------	143,000	143,000	286,000	----------	286,000
Supervoltage therapy units	8	82,000	900,000	982,000	82,000	164,000	900,000	1,064,000
Prosthetic treatment centers	3	39,000	30,000	69,000	39,000	78,000	30,000	108,000
Pulmonary function labs	4	58,000	43,000	101,000	58,000	116,000	43,000	159,000
Clinical radioisotope services	3	105,000	108,000	213,000	105,000	210,000	108,000	318,000
Cardiac catheterization labs	5	151,000	410,000	561,000	151,000	302,000	410,000	712,000
Subtotal	44	1,487,000	2,455,000	3,942,000	1,487,000	2,974,000	2,455,000	5,429,000
Activated on 3-month basis:								
Psychiatric medically infirm	9	373,000	----------	373,000	1,119,000	1,492,000	----------	1,492,000
Pulmonary emphysema units	15	232,000	225,000	457,000	696,000	928,000	225,000	1,153,000
Speech pathology units	17	73,000	47,000	120,000	219,000	292,000	47,000	339,000
Intensive/coronary care units	60	3,386,000	2,984,000	6,370,000	10,158,000	13,544,000	2,984,000	16,528,000
Subtotal	101	4,064,000	3,256,000	7,320,000	12,192,000	16,256,000	3,256,000	19,512,000
Total	145	5,551,000	5,711,000	11,262,000	13,679,000	19,230,000	5,711,000	24,941,000

Mr. SHYTLE. All we are doing here is annualizing the increased cost in 1968. That is for new programs in 1968 to be activated. The other column has the extension into 1968 of those that were in operation in 1967.

Mr. EVINS. Eighty-seven was the average employment in 1967.

Mr. SHYTLE. In 1968. The increase in employment in 1968 required to carry forward the programs initiated in 1967. In addition to that, this page says there are four more employees needed to activate these units.

The total cost here—the total increased cost in 1968 is $1,494,000.

Mr. EVINS. That is the increased cost?

Mr. SHYTLE. That is right. All of this whole section deals with the increase, 1968 over 1967. We see our weakness as you point it out.

Mr. EVINS. It would be better to show what the cost for the year is and what the increase is.

CARDIAC CATHERIZATION LABORATORIES

Take the next item. Cardiac catherization laboratories. Place pages 4–81 through 4–83 in the record, please.

(The pages follow:)

3. *Explanation of Request for Increases of 4490 Average Employment and $40,428,000 in FY 1968 for Improvement in Quality of Patient Care.*—

(16) Cardiac Catherization Laboratories:

Introduction: During the past twenty years the use of intravascular catherization techniques for diagnosis and therapy has been found to have more and more application. Initially applied mainly to the study of the right side of the heart and of the larger pulmonary arterial branches, techniques of various sorts now permit approachs to all four of the heart's chambers; to both inflow and outflow systems of the lungs and coronary arteries; to liver and kidney vessels; to peripheral arteries and to the brain circulation. Effective application of these techniques has only been possible through the development of highly trained individuals and complex, expensive instrumentation, all of which must be housed in an appropriate environment. At the present time, all but the simplest types of heart and blood vessel surgery are dependent upon adequate diagnostic catherization, and in most instances, operative and post-operative mortality statistics are as much a reflection of the adequacy of these procedures as they are of the skill of the surgeon.

As has been true of many new medical modalities in recent years, catherization studies both within and outside of the VA have in major part been supported initially by research funds. Now that the development stages of a majority of existing techniques are over, it is obvious that this has become a primary and essential service function and should be supported by patient care funds. Furthermore, since the support of an adequate facility for these purposes is costly, it cannot be absorbed within existing levels of hospital budgeting without impinging to a serious degree on other service.

Potential Workload: Data submitted by 43 field stations included the information that the average workload for 43 laboratories during the past three fiscal years was 3,500 catherizations per year. The average number of catherizations per station (81.5) indicate that utilization of the laboratories is at an acceptable level. The stations further indicated that the workload would be markedly increased when the laboratories were adequately funded for personnel and equipment. Also the increasing age of the veteran population may be expected to increase the demands for catherization services in future years.

Laboratories Planned: Laboratories are presently in operation in 43 VA hospitals with an additional five planned for FY 1968. The expansion of this program beyond the 48 planned will be determined after stations have been surveyed and the need for implementing such facilities is fully demonstrated.

Space: The Department of Medicine and Surgery, in coordination with the Construction Service, has developed criteria for catherization laboratory space and equipment for all new hospital construction and for major modernization

projects of existing facilities. There are no requirements for space modifications in existing facilities submitted herewith. Requirements in this area will be submitted as they are developed.

Funds Requested: The recurring increase of 101 average employment and $1,046,000 is required for (1) 86 average employment and $895,000 for the extension of fiscal year 1967 approved amounts and (2) 15 average employment and $151,000 for the activation of cardiac catherization laboratories at five additional hospitals. The table on the following page identifies station location and funding requirements.

Support data for cardiac catherization units

Location	Extension of fiscal 1967 programs		New programs in fiscal year 1968			
	Average employees	Recurring cost	Average employees	Recurring cost	Nonrecurring cost	Total
Albany, N.Y.	2	$20,900				
Albuquerque, N. Mex.	2	20,900				
Ann Arbor, Mich.	2	20,900				
Atlanta, Ga.	2	20,900				
Batavia, N.Y.	2	20,900				
Birmingham, Ala.			3	$30,200	$82,000	$112,200
Bronx, N.Y.	2	20,900				
Brooklyn, N.Y.	2	20,800				
Buffalo, N.Y.	2	20,800				
Chicago, Ill. (Research)			3	30,200	82,000	112,200
Chicago, Ill. (West Side)	2	20,800				
Cincinnati, Ohio	2	20,800				
Cleveland, Ohio	2	20,800				
Coral Gables, Fla.	2	20,800				
Dallas, Tex.	2	20,800				
Dearborn, Mich.	2	20,800				
Denver, Colo.	2	20,800				
Durham, N.C.	2	20,800				
East Orange, N.J.	2	20,800				
Hines, Ill.			3	30,200	82,000	112,200
Houston, Tex.	2	20,800				
Indianapolis, Ind.	2	20,800				
Iowa City, Iowa	2	20,800				
Kansas City, Mo.	2	20,800				
Lexington, Ky.			3	30,200	82,000	112,200
Little Rock, Ark.	2	20,800				
Long Beach, Calif.	2	20,800				
Los Angeles, Calif.	2	20,800				
Madison, Wis.			3	30,200	82,000	112,200
Martinez, Calif.	2	20,800				
Memphis, Tenn.	2	20,800				
Minneapolis, Minn.	2	20,800				
Nashville, Tenn.	2	20,800				
New York, N.Y.	2	20,800				
Oklahoma City, Okla.	2	20,800				
Palo Alto, Calif.	2	20,800				
Philadelphia, Pa.	2	20,800				
Pittsburgh, Pa. (GM)	2	20,800				
Portland, Oreg.	2	20,800				
Richmond, Va.	2	20,800				
St. Louis, Mo.	2	20,800				
San Francisco, Calif.	2	20,800				
Seattle, Wash.	2	20,800				
Syracuse, N.Y.	2	20,800				
Washington, D.C.	2	20,800				
West Haven, Conn.	2	20,800				
West Roxbury, Mass.	2	20,800				
Wood, Wis.	2	20,800				
Total	86	895,000	15	151,000	410,000	561,000

Dr. SKOUGE. We are activating in 1967, 43. Five additional in 1968 with a total activated by the end of fiscal year 1968 of 48.

Now, the extension of the fiscal year 1967 activations will cost $895,000 and the new activations in fiscal year 1968 will cost $561,000.

The cardiac catheterization program is, again, an extension of something that started out as a research program and has now moved in the

realm of clinical medicine, and most of your hospitals will have to have such a unit. That is a device whereby they pass a small catheter through a vein in the arm into the major blood vessels and into the heart to get samples of blood and make any number of determinations. These tests are vital for patients undergoing cardiac surgery and, of course, they are needed also for patients with a number of other diseases relating to their heart and lungs.

I recall as a resident in medicine 20 years ago, I think I was in the medical service of a hospital where they initiated the first cardiac catheterization unit in the country. In order to get some norms about 20 of us in the hospitals were catheterized and developed normals and this, I think, made it possible for us at that particular hospital to go ahead and develop a lot of additional information which now is really being introduced in clinical medicine.

Mr. EVINS. Doctor, at the top of page 4–83, you list two for $20,900 and down below you list another figure. It depends on when you put them to work, is that right?

You have six or seven programs at $20,900. Most of them at $20,800. It depends upon when you put them to work?

Mr. WISE. I would have to check on this.

Mr. EVINS. Is it unexplainable?

Mr. DRIVER. No, sir. This merely represents rounding of individual estimates to the program total.

Mr. EVINS. Six of them at $20,900 and the rest of them at $20,800.

How many jobs did you have last year in this type of service? How many people worked in this type of service last year?

Mr. WISE. In 1967 we started these on a 6 months basis.

Mr. EVINS. Can you tell us how many worked in this type service in 1966? One thousand nine hundred and sixty-six is completed. Do you know how many people worked in this type of service in 1966?

Mr. WISE. No, sir; these were just started in 1967.

Mr. MONK. We didn't have them in 1966.

Mr. EVINS. Can you tell us how many people are expected to work in this in 1967, the year that is past?

Mr. WISE. Let me explain this, Mr. Chairman. There would be 172 individuals—starting in midyear 1967, December or January, there would be 172 people hired for this——

Mr. EVINS. 172 people hired?

Mr. WISE. That would be a half a year. It would be 86 average employment. Next year we have to pay for the 12 months' operation so the average employment would increase by 86 to the full 172.

Mr. EVINS. It appears you are working these people a whole year. You didn't work any of them in 1966 and will work them a half a year in 1967. We can't find out how many people you have on board or how many are working. You didn't have any in 1966 and you will use half in 1967.

Mr. WISE. We will use all of them for 6 months.

Mr. DRIVER. They came to us in January and we paid from January to June, so in 1968 they will be there from July 1, so we have to pay them for the whole year.

Mr. EVINS. The first full year of employment will be 1968 in this budget.

Mr. DRIVER. The first full year employment for 12 months will be twice 86 or 172.

Mr. BOLAND. Don't you have to add the 68 to the 15 too?

Mr. DRIVER. Yes; we are just referring to those that operated in 1967.

Mr. GIAIMO. Your full employment, it would be twice 86?

Mr. DRIVER. Plus 15 new ones.

Mr. GIAIMO. That 15 is estimated for the whole year?

Mr. DRIVER. We don't expect to start that until the middle.

Mr. SHYTLE. This calls for the addition of this program of 172 by the end of the year. So, since we are putting them on, starting this program as spread out through the year, we estimate the average we need money for is half of that or 86. So next year we need the money to support that full 172 we have got on, and this is where the 86 comes from for the program extension, and then, of course, as you said, we have 15 new ones.

Mr. WISE. The money doesn't become available until the beginning of the fiscal year.

Now, we in some cases will have some construction or minor maintenance, or some problems of recruiting this staff and really we do not need the full year's money because once the preliminary work is out of the way, we don't need to hire the people until the start of the service.

Dr. TIMM. It actually takes about five and a half full-time equivalents to operate one of these units when you have it staffed up. Now, this figure will probably increase by fractions of a full-time equivalent as the technique changes. That is about it. About 5.5 people.

Mr. PRYOR. Does that mean it takes on the average, five and a half people to administer this type operation to one individual?

Dr. TIMM. Yes. The halves get in there because some of the people who work in this are doing other things. For example, we figure one and a half physicians, which means there are probably two or three doctors who are working in this unit but devoting only a fraction of their time to it.

Mr. PRYOR. How many doctors do you have who are qualified to perform this?

Dr. TIMM. I couldn't give you an answer. I would guess perhaps a hundred.

Mr. EVINS. I hope the same thing doesn't exist in all your other services that exists in your cardiac catheterization laboratories. You don't have any people working in this, you claim, in 1966?

Mr. MONK. That is right.

Dr. SKOUGE. We had some going but they were being funded out of other money.

Mr. EVINS. A new program in the current year?

Mr. DRIVER. That is right, sir.

STAFF IMPROVEMENT FOR EXISTING FACILITIES

Mr. EVINS. How much are you recommending by way of increased staffing and appropriations?

Mr. DRIVER. 1,352 average employment and $10,978,000.

Mr. EVINS. This is overall?

Mr. DRIVER. Yes, sir.

Mr. EVINS. Are they going to work a full year or a half a year?

Mr. DRIVER. This is an average employment. Some will work a full year and others just a fraction.

Mr. EVINS. Some will work one quarter?

Mr. DRIVER. That is right.

Mr. EVINS. How many people do you need for full-year employment?

Dr. SKOUGE. To improve existing staffing for a full year here we need 1,352 at an approximate cost of $11 million for improved staffing other than new medical programs.

Mr. EVINS. 1,352 for full-year employment. Is that average employment or quarter employment?

Mr. MONK. Full year this one is, Mr. Chairman.

Dr. SKOUGE. Primarily for nursing personnel?

AUTOMATIC DATA PROCESSING SERVICES

Mr. EVINS. Automatic data processing services. An increase of 4,490 average employment. This doesn't apply to automatic data processing service, you are talking about the overall. You put your headline the same on every one of these items, however, it doesn't tell how many employees and how much money for each of these services.

Mr. DRIVER. In the next paragraph, 52 increase for ADP.

Mr. EVINS. Tell us why it is necessary; give us an explanation for the record.

Mr. WISE. This is the value of the service that the Department of Data Management renders to the Medical Department. The DDM operation also charges other appropriations such as general operating expenses and the supply fund, for services they render. This is processing of our statistical and biometrical reports; ADP research.

Mr. DRIVER. On the next page we come to the end of this $40 million figure, Mr. Chairman.

INCREASE FOR ADDITIONAL CALENDAR DAY, AND UTILITIES, DRUGS, AND SO FORTH

Mr. EVINS. $597,000 in 1968 for 1 additional calendar day. Does anybody want to talk about this?

Mr. MONK. We have 1 more calendar day to pay and this adds $597,000 to our payroll.

Mr. EVINS. Include pages 4–86 and 4–87 in the record.

(The pages follows:)

4. *Explanation of $597,000 Increase in FY 1968 for One Additional Calendar Day.*—The total increase of $597,000 attributable to one additional calendar day occurring in fiscal year 1968 is comprised of increases in non-personal services costs.

The increases were computed by increasing fiscal year 1967 amounts for all Inpatient non-personal service classes, excluding object class 31, Equipment and object class 32, Lands and Structures, by 1/365 (365 calendar days in fiscal year 1967 and 366 calendar days in fiscal year 1968). Non-personal services expenses for such items as employee travel; payment of rental, communications, utility or contract per diem charges; and food, drugs, or medicines consumed by patients, generally are incurred by Inpatient activities at a fairly even daily rate in relationship to calendar days.

Requirements for object class 31 Equipment and object class 32 Lands and Structures are determined by factors other than the number of calendar days. Therefore, such requirements are excluded from this column of the estimate.

5. *Explanation of $5,002,000 Increase in FY 1968 for Increased Usage of Utilities, Communications, Drugs, Medicines, Medical and Dental Supplies, New Central Air Conditioning Systems, etc.*—Increases are required in fiscal year 1968 for the following:

(a) In fiscal year 1968, $1,031,000 is required for increased utilization of communication and utility systems (exclusive of operation of new air conditioning systems). The continuation of rising price trends, an increase in the number of patients treated with a greater emphasis on the use of electromedical equipment and a fuller utilization of expanded communications systems are all contributing factors in this area of increased operating costs.

(b) In fiscal year 1968 an additional $2,820,000 is required for increased usage of drugs, blood and blood products, medical and dental supplies and linens. In addition to a continuing trend of price increases, other factors contributing thereto are increases in number of patients treated, the rising average age of the veteran population which increases the number of patients treated for multiple chronic medical infirmities, and a greater number of patients being treated with the newer and more costly medical techniques being implemented throughout the Veterans Administration.

(c) In fiscal year 1968, an increase of $358,000 is required for new prostheses and prosthetic repairs. These new costs are generated by an increase in the number and composition of patients treated, the use of newer and more expensive appliances and a continuing trend of rising prices per unit for both new purchases and repairs to existing prosthetic appliances. Increased costs in this program can be expected due to the influx of newly disabled veterans of the Vietnamese conflict into the VA hospital patient load.

(d) An increase in fiscal year 1968 of $398,000 and 24 average employment will provide for the annualization of the operating cost of central air conditioning systems installed in seven hospitals in fiscal year 1967 where the air-conditioning system was operated less than the entire fiscal year.

Planned expenditures and average employment by station are set forth in the following table:

Station	Average employment	Cost
VA hospital, Fort Wayne, Ind	2	$32,000
VA hospital, Gainesville, Fla	2	23,000
VA hospital, Memphis, Tenn	4	83,000
VA hospital, Miami, Fla	6	120,000
VA hospital, New York, N.Y	4	69,000
VA hospital, Oteen, N.C	4	51,000
VA hospital, Temple, Tex	2	20,000
Total	24	398,000

(e) In fiscal year 1967, $692,000 payment will be made to cover the Department's share of the Civil Service Commission charge to the Agency for the operation of Interagency Boards of Examiners. In fiscal year 1968 increased payment of $395,000 has been assessed to provide a total payment of $1,087,000 by the Department for these services.

The above mentioned trends involving increased patients treated, increasing age of veteran population and installation of newer more costly treatment apparatus and procedures as well as rising prices have been substantiated as the basic cause of steadily rising operational costs in VA Medical Care programs. In order for the VA to meet its mission of providing quality medical care to the eligible beneficiary population, the increments requested above are necessary to avoid reduction of treatment staff levels that already are considered to be minimal.

Mr. EVINS. We have an explanation of the $5 million for 1968 for increased usage of utilities, communications, and drugs. Average employment increases by 24.

Mr. WISE. There has been a constant increase in both cost and usage for communications, drugs, medicines, utilities, and so forth.

One item has to do with the introduction of air-conditioning systems

into the hospitals. There is a breakout on page 4–87 regarding air conditioning, where we have to have mechanical engineers, operators, and the increased cost.

Actually we have found over the past 8 years that the total annual cost of these items increases about 6.8 percent. Some is unit cost, some is usage relating to the greater number of patients being treated.

CAPITAL OUTLAY

Mr. EVINS. Place in the record these tables on pages 4–88 through 4–94.

(The pages follow:)

6. *Explanation for Increase of $8,563,000 in Capital Outlay Requirements.*—Capital outlay requirements consist of (a) object class 31 replacement and additional equipment, (b) object class 32 replacement and additional building services equipment, and (c) minor improvement projects having construction costs of less than $5,000 prior to fiscal year 1967 and less than $25,000 in fiscal year 1967 and fiscal year 1968.

(a) Object Class 31 Equipment Requirements: Object class 31 equipment requirements for Medical Care appropriation activities are identified under two headings as (1) replacement equipment and (2) additional equipment. Applied costs in fiscal year 1968 for object class 31 equipment required by Medical Care appropriation activities total $34,735,000. This is an increase of $5,061,000 over the fiscal year 1967 applied costs of $29,674,000 comprised of the following:

(1) Replacement equipment: The fiscal year 1968 total applied cost of $17,457,000 for replacement equipment is an increase of $2,750,000 over fiscal year 1967. The Medical Care equipment replacement program was developed collaboratively with the Bureau of the Budget, and determines replacement requirements in accordance with prescribed equipment life expectancy tables and use standards. These criteria require that equipment items be repaired, refinished, or refurbished and continued in useful life as long at economically feasible. The Medical Care appropriation object class 31 inventory currently exceeds $255,000,000 value. The majority of medical equipment items require replacement within 10 to 15 years after being placed in use. However, many other items such as office furniture and beds generally are used for periods of 20 to 30 years or longer.

The funding plan for replacement of object class 31 equipment for fiscal years 1967 and 1968 is shown in the table on the following page.

	1967	1968
Requirements remaining from the prior fiscal year	$12,580,847	$14,460,475
Plus value of items due for replacement in current year	17,686,628	30,732,886
Adjusted requirements	30,267,475	45,193,361
Less:		
Planned obligations	14,707,000	17,457,000
Planned purchases from construction of hospital and domiciliary facilities appropriation (replacement equipment furnished and installed by contractors for construction projects)	1,000,000	600,000
Anticipated value of property to be acquired from excess declaration of other agencies	100,000	100,000
Requirements remaining at end of fiscal year	14,460,475	27,036,361

The projected year-end unfunded requirements remaining may be further reduced depending on the progress of construction work and the extent of actual acquisitions of excess property from other agencies.

(2) Additional equipment: The fiscal year 1968 total applied cost of $17,278,000 is an increase of $2,311,000 over fiscal year 1967. These requirements provide additional equipment for existing facilities including equipment for those new medical services not

involving construction, and for newly constructed facilities. The estimate for fiscal year 1968 includes $3,167,000 value of additional equipment for new medical services not requiring construction and $2,544,000 value of additional equipment for new medical services for which construction is required.

(a) Additional equipment requirements for existing facilities and new medical services not involving construction of $9,741,000 for fiscal year 1968, is based on a need of VA hospitals and clinics to adequately and concurrently equip their facilities as new medical and administrative techniques are perfected. This is an increase of $2,737,000 over fiscal year 1967. Of the total amount planned for fiscal year 1968, $2,500,000 is required for the following items of new medical equipment essential to operate a modern hospital system and required by VA hospitals that do not presently have them:

	Approximate cost	Quantity	Total price
Ultrasonic cleaner	$4,300	82	$352,600
Treadmill	200	90	18,000
Hydraulic bath tub lift	250	271	67,750
Circo-electric bed	900	151	135,900
Multipurpose wheel chair (stretcher)	350	268	93,800
High velocity oral evacuator	350	105	36,750
Port-a-bath	450	108	48,600
Venetian blind and light fixture washer	1,800	44	79,200
Echoencephalograph	5,400	59	318,600
Electronic table counter	1,500	57	85,500
Label imprinter	700	52	36,400
External-internal defibrillator	1,200	116	139,200
Chloride titrators (electronic)	700	52	36,400
Refractometer	900	50	45,000
Incubators CO_2	1,200	65	78,000
Electrophoresis apparatus	2,000	48	96,000
Anger camera	32,500	6	195,000
Time lapse camera	2,200	6	13,200
Memory oscilloscope	2,200	6	13,200
5-inch scanner	18,500	33	610,500

The remaining $7,241,000 is required for new medical services and for other essential items of additional operating equipment which was determined only after extensive Central Office review of individual items requested by heads of VA Field stations. In all cases the station head certified that the additional equipment items requested were essential to the mission of the station and explained satisfactorily why the items requested would not replace other items now in use. The items requested included highly specialized equipment becoming available through rapid technological advances such as cobalt therapy units, closed circuit TV monitors, radio paging systems, laundry folding machines, physiological monitoring and reporting systems, radiographic and telefluoroscopic equipment and accessories, mechanical filing equipment, remote control dictating systems and electronic microscopes.

(b) Applied cost of $7,537,000 is planned in fiscal year 1968 to provide additional equipment for newly constructed facilities. This is a decrease of $426,000 from fiscal year 1967. Current procedures for financing object class 31 initial portable and fixed operating equipment needed for newly constructed facilities require the station director to develop collaboratively with his service and division chiefs, from approved architectural specifications and working drawings, additional equipment requirements for construction projects after taking into account (1) equipment items already on hand that can be continued in use in the new facility, and (2) those items whose useful lives have expired and are to be replaced from the "Equipment Replacement" amounts described in the preceding section of this estimate. Total equipment requirements are then reviewed by the Agency and Bureau of the Budget prior to apportionment of funds for purchase of the equipment.

The construction projects for which the requested funds are required are as follows:

Fiscal year 1968 projects

Stations	No.	Description
Albany, N.Y.	5662	Research addition.
Albuquerque, N. Mex.	5118	Oxygen and vacuum outlets.
Do.	(1)	Intensive care unit.
Altoona, Pa.	(1)	Do.
Ann Arbor, Mich.	5199	Do.
Baltimore, Md.	5169	Additional laundry space.
Batavia, N.Y.	(2)	Move Rochester, N.Y., outpatient clinic to new Federal building.
Bay Pines, Fla.	(1)	Intensive care unit.
Biloxi (Gulfport division), Miss.	5156	Medical and surgical service.
Birmingham, Ala.	5182	Frozen food storage refrigeration.
Boston, Mass.	5265	Medical research facilities.
Do.	(1)	Coronary bed care.
Bronx, N.Y.	5634	Convert space to research.
Do.	5688	Installation of betatron.
Brooklyn, N.Y.	5667	Central oxygen and vacuum system.
Do.	5669	Expand laundry.
Do.	(1)	Intensive care unit.
Buffalo, N.Y.	5680	Colbalt therapy unit.
Charleston, S.C.	(1)	Coronary bed care.
Chicago, Ill. (research)	5411	Do.
Do.	5419	Central oxygen and vacuum system.
Cincinnati, Ohio	5268	Research wing.
Do.	5282	Day hospital care.
Do.	(1)	Coronary bed care.
Clarksburg, W. Va.	(1)	Intensive care unit.
Coral Gables, Fla.	5247	Oxygen outlets.
Dallas, Tex.	(1)	Intensive care unit.
Denver, Colo.	5158	Day hospital care.
Des Moines, Iowa	5154	Modernization program, phase III, and new chapel.
Durham, N.C.	5163	Coronary bed care.
East Orange, N.J.	5143	Central oxygen system.
Do.	5147	Cobalt therapy unit.
Do.	(1)	Coronary bed care.
Fargo, N. Dak.	5054	New engineering shops and alterations.
Fayetteville, N.C.	5146	Expand clinical laboratory.
Fort Lyon, Colo.	5153	Enlarge dental clinic.
Do.	5159	Fire station.
Fort Wayne, Ind.	5174	Intensive care unit.
Do.	(1)	Coronary bed care.
Gainesville, Fla.	(1)	Intensive care unit.
Do.	(1)	Coronary bed care.
Hines, Ill.	5391	Replace hospital, 1,220 M.S. & N. beds.
Do.	(1)	Installation of betatron.
Houston, Tex.	5373	Day hospital care.
Iowa City, Iowa	5164	Addition to building No. 1 for laboratory.
Do.	(1)	Intensive care unit.
Jackson, Miss.	(1)	Do.
Kansas City Mo.	5203	Enlarge clinical laboratory.
Do.	5209	Expand audiology clinic.
Do.	(1)	Intensive care unit.
Do.	(1)	Coronary bed care.
Lake City, Fla.	5240	New laundry.
Lexington, Ky.	(1)	Intensive care unit.
Little Rock, Ark.	(1)	Coronary bed care
Livermore, Calif.	(1)	Intensive care unit.
Long Beach, Calif.	5510	Replace hospital, 1,160 beds.
Do.	5555	Spinal cord injury service
Los Angeles, Calif.	5579	Colbalt therapy unit.
Do.	5590	Coronary bed care.
Manchester, N.H.	5017	Laundry alterations.
Montrose, N.Y.	5687	Medical and surgical service.
Nashville, Tenn.	(1)	Intensive care unit.
New Orleans, La.	5098	Centralized tray service.
New York, N.Y.	5673	Day hospital care.
Do.	(1)	Coronary bed care.
Oklahoma City, Okla.	5131	Conveyor and subveyor system.
Do.	(1)	Intensive care unit.
Do.	(1)	Coronary bed care.
Palo Alto, Calif.	5519	New dining hall and kitchen.
Do.	5569	Radioisotope laboratory.
Philadelphia, Pa.	5424	Cobalt therapy unit.
Do.	(1)	Coronary bed care.
Pittsburgh, Pa. (GM)	5409	Provide cardiac catheterization area.
Do.	5404	Intensive care unit.
Do.	5423	Cobalt therapy unit.

See footnotes at end of table.

Fiscal year 1968 projects—Continued

Stations	No.	Description
Portland, Oreg	(1)	Intensive care unit.
Providence, R.I	(1)	Do.
Roseburg, Oreg	5146	Expand laundry and linen facilities.
St. Cloud, Minn	5179	Medical and surgical service.
St. Louis, Mo	5205	Research addition.
Salt Lake City, Utah	(1)	Intensive care unit.
San Fernando, Calif	5558	Convert wards from TB to GM.
San Francisco, Calif	5580	Cobalt therapy unit.
Do	(1)	Coronary bed care.
San Juan, P.R	5045	Relocation of hospital, 720 beds.
Do	5048	New Laundry and boiler plant.
Seattle, Wash	(1)	Intensive care unit.
Sepulveda, Calif	5560	Enlarge laundry.
Shreveport, La	5102	Central oxygen system.
Do	(1)	Intensive care unit.
Syracuse, N.Y	(1)	Do.
Tucson, Ariz	5141	Frozen food storage refrigeration.
West Haven, Conn	5069	East coast blind center.
Wilmington, Del	(1)	Intensive care unit.
White River Junction, Vt	(1)	Do.
Wood, Wis	(1)	Coronary bed care.

[1] Pending.
[2] GSA.

Mr. EVINS. We have completed medical services and now you are getting into facilities.

Mr. DRIVER. The $8 million item runs through 4–99 and includes the additional equipment which is all specified on 90, 91, 92, 93, and 94. It gives the locations where it will be placed. It ranges through all types of equipment used in a hospital.

We come down to 4–95 and we have building service equipment, minor improvements in buildings, additions.

On page 4–96 is all the replacement equipment, such as boiler units, freight elevators, and the like. There is just a miscellany of it.

Mr. EVINS. The Bureau of the Budget has agreed to increase limitations for minor improvements, projects payable under medical appropriations from $5,000 to $25,000, exclusive of the cost of installed equipment.

Is there a change in policy? You say, construction of hospital and domiciliary facilities appropriation will continue to provide funds for major construction projects costing more than $25,000. You raised the limits?

Mr. MONK. That is right. We couldn't do much for $5,000.

MAINTENANCE AND REPAIR

Mr. EVINS. The next item is $1,152,000 for maintenance and repair. This is recurring maintenance.

Include 4–100 in the record.

(The page follows:)

7. *Explanation for Increase of $1,152,000 for Maintenance and Repair Needs.*—Estimates for other maintenance and repair requirements not covered by the Oklahoma system are separately developed after review of station budgets for such items as repairing operating equipment, maintenance of utility lines outside the building perimeter and maintenance of roads, sidewalks, grounds and cemeteries.

The following chart summarizes the computed adjustments in maintenance and repair operating costs:

	1967	Increase (+) or decrease (−)	1968
Maintenance and repair of buildings (based on adopted University of Oklahoma factors)	$43, 406, 000	+$892, 000	$44, 298, 000
Maintenance and repair of operating equipment and miscellaneous facilities	12, 862, 000	+260, 000	13, 122, 000
Total	56, 268, 000	+1, 152, 000	57, 420, 000

Fiscal years 1967 and 1968 totals shown above are exclusive of adjustments for station closures, opening new hospitals, wage board adjustments, within-grade salary increases, and legislated salary increases.

MEDICAL FEE AND PER DIEM RATES

Mr. EVINS. Medical fee rates.

Mr. MONK. An increase of $2,184,000 for contract fee and per diem rates.

Mr. DRIVER. That is on page 4–101, Mr. Chairman, and 2 and 3.

Mr. EVINS. Include those in the record.

(The pages follow:)

8. *Explanation of Request for Increased Contract Fee and Per Diem Rates of $2,184,000 in FY 1968.*—An increase of $2,184,000 is required in fiscal year 1968 to meet (a) an upward revision of fee rates based on periodic studies and renegotiations with medical and dental societies, associations and individual practitioners and (b) higher per diem rates resulting from renegotiation with public and private hospitals and community nursing homes and as prescribed by the Bureau of the Budget for other Federal hospitals.

(a) Medical and Dental Fee Rates:

(1) Medical Fee Rates: The Bureau of Labor Statistics, U.S. Department of Labor reports a general price index rise of 25% for medical office visits from 1957 to 1965. During this same period, the Veterans Administration fee rates for the same type of visits increased only 4.9%. For fiscal year 1967 an increment of $600,000 has been approved for adjustment of medical fee schedules. This provides for an increase of about 6% which when added to the VA fee rate increases approved since 1957, is still substantially less than the rate of general fee schedule increases cited in the Bureau of Labor Statistics report.

Inequity in medical fee rates paid by various Federal agencies has led to recognition of the need for developing more equitable approaches in effecting fee schedule changes. The Veterans Administration plans adoption of the "Relative Value Principle" in establishing Veterans Administration Medical Fee Schedules and negotiating adjustments of fee rates with State Medical Associations. Under the "Relative Value Principle", fees are adjusted automatically in relation to key conversion factors that measure currnet charges for groups of like medical services. This system is being used increasingly by national and state medical associations and health groups in determining proper and current fee schedule rates.

For fiscal year 1968 an increment of $287,000 will be necessary to adjust medical fee schedules in approximately 23 outpatient clinics to meet the general movement by private physicians to raise their "usual and customary" fees in response to "Medicare". The Veterans Administration has negotiated fee agreements with medical associations. however, individual physicians are not bound by these agreements and the number of physicians refusing to abide by negotiated fee rates is rising.

(2) Dental Fee Rates: The most recent survey conducted by the Bureau of Economic Research and Statistics of the American Dental Association indicates average dental fees throughout the United States have increased each year. The Composite Study of 1965 conducted by the American Dental Association reflects an increase of 21.8% over VA's August 1963 Basic Dental Fee Schedule currently in effect. The Composite Study was based upon the five more frequently provided services. This method is considered more reliable than the Bureau of Labor Statistics, U.S. Department of Labor which is predicated on but two services.

For fiscal year 1968 an increase of $286,000 will be necessary for the Veterans Administration to update its August 1963 Outpatient Basic Dental Fee Schedule. This will provide an increase of about 22% and will bring VA's dental fees current with the national average.

(b) Contract Hospitalization and Community Nursing Care:

(1) Contract Hospitalization: The estimate for fiscal year 1968 of $513,000 for increased contract hospital costs provides $415,000 for non-Federal rate increases and $98,000 in Federal rate increases. The non-Federal rate increases are based on negotiated rates involving an increase in the average fiscal year 1968 per diem rates in Puerto Rico rising to $18.46 for an increase of $277,000 and increase of $138,000 in other non-Federal contract facilities.

The fiscal year 1968 increase of $98,000 in Federal rates will provide for an increase in the Federal reciprocal rate at Public Health Hospital, Ft. Worth, Texas and to meet the steadily rising per diem cost at the Veterans Memorial Hospital in Manila, Republic of Philippines.

The Bureau of the Budget has advised that the federal reciprocal per diem rate at Public Health Hospital, Fort Worth, Texas will be $19.25 in FY 1968 an increase of $1.25 over the $18.00 rate in existence in fiscal year 1967. The actual per diem at the Veterans Memorial Hospital in fiscal year 1966 was $6.38. Based on preliminary negotiations a per diem of $7.03 has been estimated for fiscal year 1967 and $7.26 has been planned for fiscal year 1968. The rate estimated for fiscal year 1968 is in line with the rising trend experienced during the past several years.

(2) Community Nursing Care: An increase of $1,098,000 has been projected in fiscal year 1968 to raise the per diem from $10.50 to $11.50 payable to Community Nursing Homes for the care of eligible veterans.

Public Law 88–450, 88th Congress, which established the Community Nursing Care program for veterans, set the cost of such care at not to exceed one-third of the cost of care furnished by the Veterans Administration in a general hospital under the direct and exclusive jurisdiction of the Administrator.

By the close of FY 1967 the per diem rate for VA general hospitals is expected to average $34.93, with ⅓ thereof closely approximating $11.50 per day. Therefore, an $11.50 maximum per diem rate has been used in projecting FY 1968 community nursing home care monetary requirements based on actual experience rather than anticipatory cost increases. While it is expected that the $1.00 maximum per diem rate increase now requested will facilitate the Agency's ability to carry out the objectives of this program, further increase in the maximum rate may be indicated before the close of FY 1968.

Hospital Care

Mr. Evins. We will refer to hospital care. Include in the record pages 4–113 and 4–114.

(The pages follow:)

Hospital Care

Veterans' Administration Hospitals—Introduction

The estimates presented herein are predicated on Agency plans to provide care and treatment to such proportion of the patient demand as can be accommodated, consistent with the ability to staff and operate the additional beds without sacrificing high quality medical care.

On June 30, 1966, the Veterans Administration operated 41 neuropsychiatric hospitals and 124 general hospitals for a total of 165 hospitals, counting separate divisions of consolidated hospitals. The activation of the new general hospital at Gainesville, Florida late in fiscal year 1967 will adjust the number of general hospitals planned for operation on June 30, 1967 to 125, bringing the overall total of hospitals to 166. Between June 30, 1967 and June 30, 1968, activation of the new Miami hospital will increase the total number of hospitals to 167. Activation of the larger San Juan replacement hospital in fiscal year 1968 will not change the number of hospitals operated by the Agency.

Estimated hospital workloads for fiscal year 1968 show an increase of 21,000 patients treated and net increases of 77 operating beds and 24 average patient load from the fiscal year 1967 planned workloads. The fiscal year 1968 estimates will provide for the treatment of 768,000 patients and operation of 115,929 beds at an approximate 92% of occupancy rate with an estimated average daily patient load of 106,316. The operating bed and average patient load increase in fiscal year 1968 reflect the full year effect of hospital beds converted to nursing care use during fiscal year 1967.

Patients admited, treated and discharged

During fiscal year 1966, there were 614,338 admissions and 619,160 discharges of patients in VA hospitals with a total of 741,813 patients treated during this period.

The number of patients treated in fiscal year 1966 increased by 11,302 over the prior year by expanding the use of the post hospital care and nursing home care programs, and improved diagnostic and therapeutic techniques. A commensurate increase of 13,227 occurred in the number of patients discharged.

The estimated number of patients treated for fiscal year 1968 represents an increase of 21,000 over fiscal year 1967. This is based on increases to be generated from improved hospital bed turnover resulting from expansion of the nursing home care program, and requested improvements in quality of patient care.

During fiscal year 1966 there were 23,234 patients admitted through the pre-bed care (PBC) program. The PBC program accounted for approximately four percent of all VA hospital admissions, and surgical cases accounted for two out of three of the PBC admissions.

The post-hospital care program speeded the release of 244,553 patients, enabling them to return to their homes at an earlier date. While the exact number of bed days made available by this program for admission of other patients cannot be determined, even one or two days of hospitalization saved per patient substantially affects the Agency's bed availability. An aditional 28,055 patients were placed on trial visit during fiscal year 1966.

The average monthly turnover rate (percentage of ADPL discharged) for all types of patients in VA hospitals was 48.0 per cent in fiscal year 1966, compared to 46.2 percent in fiscal year 1965.

A decrease in the number of tuberculous patients in VA hospitals allowed the VA hospital system to accommodate more medical, surgical and neurological patients in fiscal year 1966. The latter types of patients have relatively shorter lengths of stay than tuberculous patients. There were 4,534 tuberculous patients in VA hospitals on June 30, 1966, as compared to 5,050 on June 30, 1965.

Trends resulting from all these factors are reflected in the following table:

	1964	1965	1966	Total change, 1966-65	Percent change, 1966-65
Patients admitted to VA hospitals	609,077	602,102	614,338	+12,236	+2.0
Patients treated in VA hospitals	738,583	730,511	741,813	+11,302	+1.5
Patient discharged from VA hospitals	612,786	605,933	619,160	+13,227	+2.2

Mr. Evins. In 1956 the Veterans' Administration operated 41 NP hospitals. The activation of the new general hospital in Florida later in 1967 will adjust the number of general hospitals for 1967 to 125, bringing the overall total to 166. Between 1967 and 1968 activation of the new Miami hospital will increase the total number

of hospitals to 167. Activation of the large San Juan hospital in 1968 will not change the number of hospitals operated by the agency. It is already activated.

Mr. MONK. We have one there now. We will have a bigger one.

Mr. EVINS. Estimated workload for 1968 shows an increase of 21,000 patients treated and a net increase of 77 operating beds and 24 average patient load for fiscal year 1967 planned workloads. You will have an average of 24 more patients per day; is that right?

Mr. DRIVER. Yes, sir.

Mr. EVINS. Twenty-four more patients with all the increased hospitals and beds. You will just have an increase of 24 more patients.

Mr. WISE. Mr. Chairman, there is quite a shift of present hospital beds over to the nursing care program.

Mr. EVINS. That is your explanation for it.

The fiscal year 1968 estimates will provide for the treatment of 768,000 patients. The estimated average daily patient load is 106,316. During fiscal year 1966, there were 614,338 admissions and 619,160 discharges of patients in VA hospitals with a total of 741,813 patients treated during this period.

There are that many patients treated during the year.

Mr. DRIVER. There is a bar chart on 4–118. We have gone from 738,000 up to 768,000—an estimated increase of 30,000.

Mr. EVINS. This is the heart of your medical care treatment program. We discussed this in general discussion.

Include in the record pages 4–115 through 4–117, and 4–123 through 4–126.

(The pages follow:)

Change in average operating bed levels at VA facilities for the comparative fiscal years are shown below:

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Increase (+) or decrease (−)
NP hospitals	55,592	54,205	53,425	−780
General hospitals	61,419	61,647	62,504	+857
Total	117,011	115,852	115,929	+77

The net hospital bed changes in fiscal year 1968 from fiscal year 1967 will result principally from the following:

(a) Modernization and alternation projects at Bedford, Massachusetts; Long Beach, California; and Perry Point, Maryland.

(b) The construction of new facilities at Gainesville, Florida; Miami, Florida; and San Juan, Puerto Rico; and full activation of beds at Charleston, South Carolina.

(c) Phasing down of bed capacities at Columbia, South Carolina; Coral Gables, Florida; Memphis, Tennessee; and Oteen, North Carolina for relocation of new construction at Charleston, South Carolina; Miami, Florida; and Memphis, Tennessee.

(d) The activation of additional beds at Denver, Colorado; Marlin, Texas; Salt Lake City, Utah; Sepulveda, California; Walla Walla, Washington; and West Haven, Connecticut.

(e) An additional reduction of hospital beds to complete the annualization impact of hospital beds displaced by nursing care beds during fiscal year 1967.

The total VA hospital bed authorization is based on the present structural capacity of each of the hospitals with adjustments for approved future hospital replacement and modernization projects. As of June 30, 1966, the total bed capacity of the VA hospitals was 118,335, of which 116,338 were equipped, staffed and available for daily care of veterans. 1,997 beds were unavailable on that date for reasons listed on the following page.

In process of activation	694
Insufficient demand for type of beds in service area	636
Space for beds undergoing construction or maintenance activity	408
Difficulty in recruiting key personnel—beds required	175
Other reasons—conversion to non-ward care services, provision of space for cardiovascular laboratory and hemodialysis units, etc	84
Total	1,997

Shown below is a comparative analysis of the total VA hospital costs, patient per diem cost and the cost per patient treated in VA Hospitals from fiscal year 1958 through fiscal year 1966. It should be noted that although the per diem cost has increased by $8.06 or 47.8%, the cost per patient treated has increased by only $188 or 16.1% during the same period.

Fiscal year	Total costs	Per diem cost	Cost per patient treated
1958	$685,753,898	$16.84	$1,128
1959	722,175,557	17.82	1,168
1960	751,867,457	18.44	1,180
1961	810,091,015	19.93	1,219
1962	844,796,608	20.87	1,227
1963	867,116,281	21.56	1,216
1964	904,509,472	22.43	1,225
1965	946,399,293	23.75	1,297
1966	976,066,125	24.90	1,316

The table on the following page shows workload, employment and staffing ratio comparisons for fiscal years 1966, 1967, and 1968.

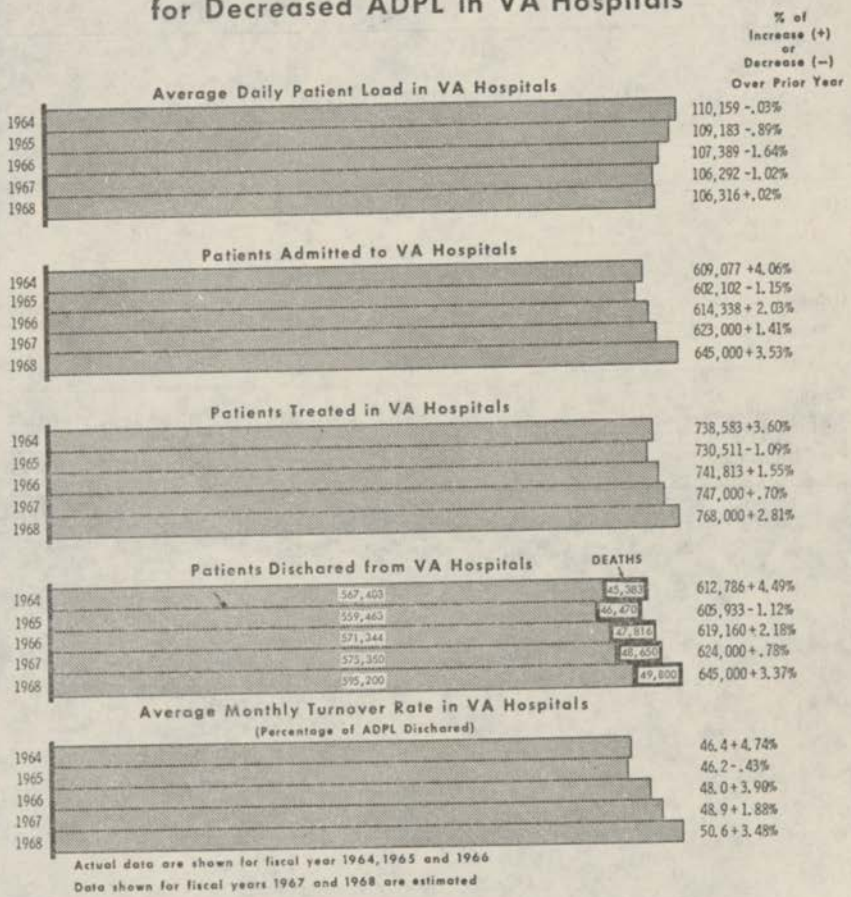
VA hospital statistical data

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Increase (+) or decrease (−)
Number of hospitals (end of year)	165	166	167	+1
Average operating beds	117,011	115,852	115,929	+77
Average daily patient load	107,389	106,292	106,316	+24
Patients treated	741,813	747,000	768,000	+21,000
Employment—Average FTE	111,795	112,797	116,178	+3,381
Ratio of employees to operating beds	0.955	0.974	1.002	+0.028
Ratio of employees to patients	1.041	1.061	1.093	+0.032
Cost per patient-day	$24.90	$26.94	$28.14	+$1.20

HOSPITAL CARE

All VA Hospitals

Increased Numbers of Veterans Admitted, Treated, and Discharged More Than Compensate for Decreased ADPL in VA Hospitals



Total costs and cost per day by type of hospital

	1966 actual	1967 estimated	1968 estimated	Increase (+) or decrease (−)
NP hospitals:				
Gross costs	$320,696,386	$342,654,000	$349,285,000	+$6,631,000
Cost per patient-day	16.87	18.34	19.01	+.67
General hospitals:				
Gross cost	655,369,739	702,635,000	745,863,000	+43,228,000
Cost per patient-day	32.46	34.93	36.32	+1.39
Total gross costs	976,066,125	1,045,289,000	1,095,148,000	+49,859,000
Less QS & L	4,463,748	4,220,000	4,220,000	
Net costs	971,602,377	1,041,069,000	1,090,928,000	+49,859,000

Average FTE employment by type of hospital

	1966 actual	1967 estimated	1968 estimated	Increase (+) or decrease (−)
NP hospitals:				
VA employees	39,011	39,374	39,523	+149
Consultants	100	101	102	+1
Total	39,111	39,475	39,625	+150
General hospitals:				
VA employees	72,070	72,697	75,915	+3,218
Consultants	614	625	638	+13
Total	72,684	73,322	76,553	+3,231
Total:				
VA employees	111,081	112,071	115,438	+3,367
Consultants	714	726	740	+14
Grand total	111,795	112,797	116,178	+3,381

All hospitals—Average daily patient load in VA hospitals

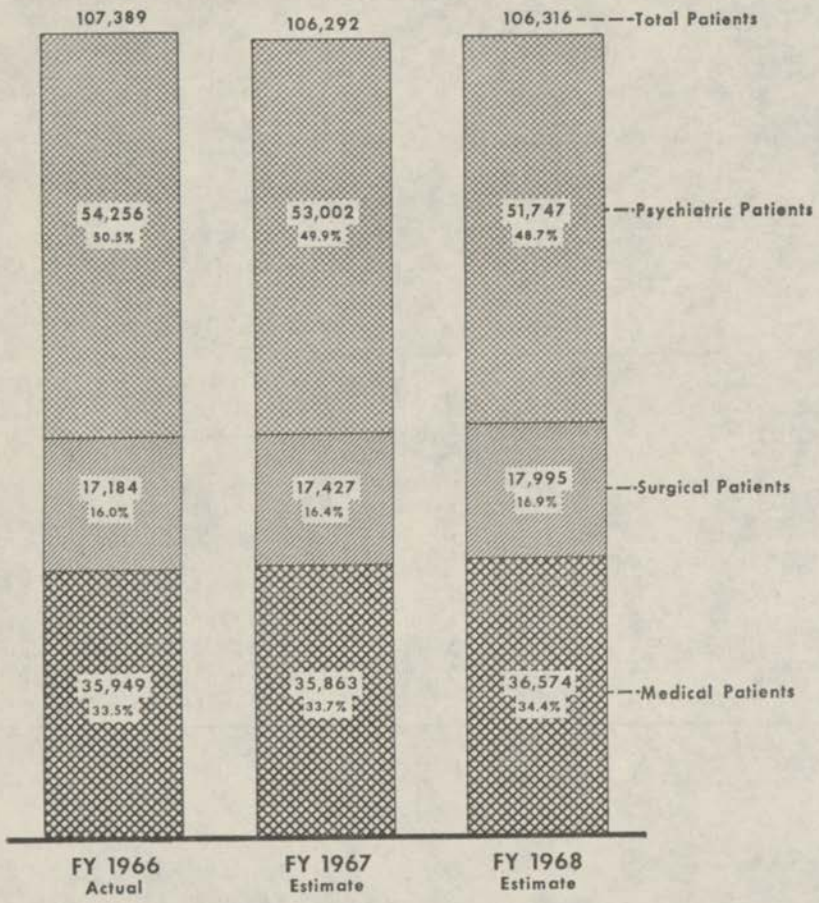
	1966 actual	1967 estimated	1968 estimated	Increase (+) or decrease (−)
NP hospitals:				
Psychiatric patients	48,332	46,920	45,495	−1,425
Medical patients [1]	2,927	3,198	3,428	+230
Surgical patients [1]	822	1,065	1,281	+216
Total patients	52,081	51,183	50,204	−979
General hospitals:				
Psychiatric patients	5,924	6,082	6,252	+170
Medical patients [1]	33,022	32,665	33,146	+481
Surgical patients [1]	16,362	16,362	16,714	+352
Total patients	55,308	55,109	56,112	+1,003
All hospitals:				
Psychiatric patients	54,256	53,002	51,747	−1,255
Medical patients [1]	35,949	35,863	36,574	+711
Surgical patients [1]	17,184	17,427	17,995	+568
Total patients	107,389	106,292	106,316	+24

[1] Patients with psychiatric-TB and neurologic conditions receiving treatment in medical and surgical wards are included in the respective counts for medical or surgical patients.

Waiting list of beneficiaries eligible for admission to VA hospitals

At end of month	Psychiatric patients		Medical, surgical and tubercular patients		Total		Increase (+) or decrease (−)
	1965	1966	1965	1966	1965	1966	
July	9,903	6,959	6,149	5,211	16,052	12,170	−3,882
August	9,375	6,783	5,594	4,858	14,969	11,641	−3,328
September	9,219	6,689	5,307	4,637	14,526	11,326	−3,200
October	8,817	6,498	4,832	4,241	13,649	10,739	−2,910
November	8,704	6,128	4,698	4,167	13,402	10,295	−3,107
December	8,395	6,140	4,163	3,711	12,558	9,851	−2,707
January	8,648	6,272	6,467	5,708	15,115	11,980	−3,135
February	8,882	6,361	8,419	7,086	17,301	13,447	−3,854
March	8,718	6,097	9,023	7,781	17,741	13,878	−3,863
April	8,286	5,563	7,740	7,385	16,026	12,948	−3,078
May	7,767	5,331	6,449	6,787	14,216	12,118	−2,098
June	7,289	5,135	5,906	6,385	13,195	11,520	−1,675
Monthly average	8,667	6,163	6,229	5,663	14,896	11,826	−3,070

HOSPITAL CARE
Change In Composition
Of ADPL In VA Hospitals



Mr. EVINS. You detail each of your hospitals. Your NP hospitals, general hospitals, and nursing home care.

Dr. DRIVER. And domiciliaries after that.

Mr. EVINS. We will place these statements in the record, pages 4–127, 4–135, and 4–136.

(The pages follow:)

HOSPITAL CARE

NEUROPSYCHIATRIC HOSPITALS—INTRODUCTION

The estimate provides for averages of 53,425 operating beds and 50,204 patient load in neuropsychiatric hospitals in fiscal year 1968, or decreases of 780 operating beds and 979 patient load averages from levels anticipated for fiscal year 1967. These decreases are mostly necessitated by displacement for VA nursing beds and reduction due to overcrowding and construction work that will be in progress in fiscal year 1968.

The estimate contemplates a net increase of 150 treatment staff resulting primarily from the extension of new medical services approved in fiscal year 1967, new medical services being initiated in fiscal year 1968 and the activation of two 240-bed replacement buildings as part of the modernization program at VA Hospital, Palo Alto, California. These increases are partially offset by reduced workloads due to transfer of neuropsychiatric beds to the VA nursing program and the loss of beds while renovation and modernization projects are in progress.

The following table shows workload, employment and staffing ratio comparisons for fiscal years 1966, 1967 and 1968:

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Increase (+) or decrease (−)
Number of hospitals	41	41	41	
Average operating beds	55,592	54,205	53,425	−780
Average daily patient load:				
Psychiatric	48,332	46,920	45,495	−1,425
Medical	2,927	3,198	3,428	+230
Surgical	822	1,065	1,281	+216
Total	52,081	51,183	50,204	−979
Patients treated	128,547	127,000	126,000	−1,000
Employment, average FTE	39,111	39,475	39,625	+150
Ratio of employees to operating beds	0.704	0.728	0.742	+0.014
Ratio of employees to patients	.751	.771	.789	+.018
Cost per patient day	$16.87	$18.34	$19.01	+$.67
Average FTE employment by category:				
Consultings and attendings	100	101	102	+1
Nurses	3,806	3,946	4,014	+68
Dentists	152	157	160	+3
Physicians	941	1,040	1,082	+42
Clinical and counseling psychiatrists	285	285	296	+11
Wage rate employees	10,935	10,800	10,750	−50
Purchase and hire	53	53	53	
Other personnel	22,839	23,093	23,168	+75
Total	39,111	39,475	39,625	+150

GENERAL HOSPITALS—INTRODUCTION

The estimate provides averages of 62,504 operating beds and 56,112 patient load in General hospitals in fiscal year 1968, or net increases of 857 operating beds and 1,003 patient load averages from levels anticipated for fiscal year 1967.

A net increase of *3,231* in average employment is requested for fiscal year 1968 This increase will provide for improving the quality of patient care through (a) the extension of new medical services initiated in FY 1967 and the activation of additional new services in FY 1968, such as open heart centers, intensive care/coronary care units, etc. (b) staffing improvement, primarily nursing staff and additional medical residents and other professional and technical trainees (c) continued activation of modern new and replacement hospitals at Charleston, S.C., and Gainesville, Fla., and (e) initial activiation of the new replacement hospitals at San Juan, Puerto Rico and Miami, Florida.

The following table shows workload, employment and staffing ratio comparisons for fiscal years 1966, 1967 and 1968:

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Increase (+) or decrease (−)
Number of hospitals	124	125	126	+1
Average operating beds	61,419	61,647	62,504	+857
Average daily patient load:				
Psychiatric	5,924	6,082	6,252	+170
Medical	33,022	32,665	33,146	+481
Surgical	16,362	16,362	16,714	+352
Total	55,306	55,109	56,112	+1,003
Patients treated	613,266	620,000	642,000	+22,000
Employment, average FTE	72,684	73,322	76,553	+3,231
Ratio of employees to operating beds	1.183	1.189	1.225	+.036
Ratio of employees to ADPL	1.314	1.330	1.364	+.034
Cost per patient day	$32.46	$34.93	$36.32	+$1.39

Average FTE employment by category

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Increase (+) or decrease (−)
Consultations and attendings	614	625	638	+13
Nurses	110,77	11,240	12,467	+1,227
Dentists	327	325	337	+12
Physicians	4,326	4,470	4,774	+304
Clinical and conseling psychiatrists	207	217	246	+29
Wage rate employees	19,890	19,965	20,067	+92
Purchase and hire	111	111	111	
Other personnel	36,132	36,369	37,923	+1,554
Total	72,684	73,322	76,553	+3,231

OPERATING BEDS AND AVERAGE PATIENT LOADS

Mr. EVINS. Distribution of average operating beds and average patient loads by stations. It might be worthwhile information to some.

Pages 4–141 through 4–144 will be included in the record.

(The pages follow:)

General hospitals—Distribution of average operating beds and average patient loads by station

Station	1966 actual			1967 estimate			1968 estimate		
	Operating beds	Patient load	Percent utilized	Operating beds	Patient load	Percent utilized	Operating beds	Patient load	Percent utilized
Albany, N.Y.	984	899	91	1,005	872	89	975	890	91
Albuquerque, N. Mex.	527	493	94	550	510	93	550	510	93
Alexandria, La.	485	416	86	498	416	84	498	418	84
Altoona, Pa.	200	183	92	200	184	92	200	184	92
Amarillo, Tex.	156	140	90	156	140	90	156	140	90
Ann Arbor, Mich.	486	397	82	486	369	76	486	414	85
Atlanta, Ga.	302	277	92	572	515	90	572	515	90
Augusta, Ga.	421	382	91	421	380	90	421	366	87
Baltimore, Md.	291	260	89	291	265	91	291	265	91
Batavia, N.Y.	257	231	90	257	229	89	257	229	89
Bath, N.Y.	268	229	85	205	185	90	208	185	89
Bay Pines, Fla.	660	637	97	660	630	95	660	630	95
Beckley, W. Va.	174	162	93	172	155	90	172	155	90
Big Spring, Tex.	250	225	90	250	220	88	250	220	88
Biloxi, Miss.	209	200	96	209	194	93	209	194	93
Birmingham, Ala.	479	436	91	479	445	93	479	445	93
Boise, Idaho	203	166	82	203	155	76	203	165	81
Bonham, Tex.	56	53	95	56	50	89	56	51	91
Boston, Mass.	905	809	89	920	795	86	920	820	89
Brecksville, Ohio	27	4	15						
Bronx, N.Y.	1,222	1,124	92	1,331	1,097	82	1,331	1,185	89
Brooklyn, N.Y.	1,000	930	93	1,000	932	93	1,000	915	92
Buffalo, N.Y.	951	861	91	951	860	90	951	860	90
Butler, Pa.	402	373	93	432	388	90	432	388	90
Castle Point, N.Y.	294	271	92	315	286	91	315	287	91
Vietnam	(36)	(36)		(57)	(57)		(57)	(57)	
Charleston, S.C.	6			440	395	90	498	454	91
Cheyenne, Wyo.	133	108	81	133	106	80	133	110	83
Chicago, Ill. (West Side)	505	469	93	505	470	93	505	470	93
Chicago, Ill. (Research)	505	447	89	516	450	87	516	450	87
Cincinnati, Ohio	463	405	87	463	418	90	483	418	87
Clarksburg, W. Va.	200	181	91	200	183	92	200	183	92
Cleveland, Ohio	792	737	93	795	747	94	795	747	94
Columbia, S.C.	579	534	92	500	450	90	410	369	90
Coral Gables, Fla.	475	454	96	497	460	93	450	385	86
Dallas, Tex.	778	743	96	778	737	95	823	737	90
Dayton, Ohio	772	697	90	766	701	92	766	701	92
Dearborn, Mich.	833	753	90	846	727	86	846	767	91
Denver, Colo.	502	429	85	497	440	89	528	467	88
Des Moines, Iowa	386	339	88	386	312	81	386	346	90
Dublin, Ga.	500	477	95	500	480	96	500	480	96
Durham, N.C.	489	453	93	489	450	92	489	450	92
Dwight, Ill.	33	8	24						
East Orange, N.J.	950	901	95	950	881	93	950	885	93
Erie, Pa.	204	175	86	204	175	86	204	175	86
Fargo, N. Dak.	228	197	86	228	199	87	228	199	87
Fayetteville, Ark.	254	221	87	254	224	88	254	214	84
Fayetteville, N.C.	390	353	91	390	351	90	390	351	90
Fort Bayard, N. Mex.	33	6	18						
Fort Harrison, Mont.	160	149	93	160	150	94	160	150	94
Fort Howard, Md.	377	333	88	377	330	88	377	330	88
Fort Thomas, Ky.	100	83	83						
Fort Wayne, Ind.	200	177	89	200	182	91	200	182	91
Fresno, Calif.	256	242	95	262	241	92	262	243	93
Gainesville, Fla.				12	10	83	320	275	86
Grand Island, Nebr.	201	172	86	201	167	83	201	170	85
Grand Junction, Colo.	131	112	85	103	90	87	103	94	91
Hines, Ill.	2,079	1,933	93	2,079	1,876	90	2,079	1,942	93
Hot Springs, S. Dak.	245	212	87	245	205	84	245	205	84
Houston, Tex.	1,261	1,194	95	1,264	1,190	94	1,276	1,190	93
Huntington, W. Va.	180	157	87	180	164	91	180	164	91
Indianapolis, Ind. (2 divisions)	671	606	90	671	619	92	671	619	92
Iowa City, Iowa	479	398	83	475	410	86	475	410	86
Iron Mountain, Mich.	269	238	88	269	238	88	269	238	88
Jackson, Miss.	498	463	93	498	463	93	498	463	93
Kansas City, Mo.	501	450	90	501	461	92	501	461	92
Kecoughtan, Va.	604	561	93	604	559	93	604	559	93
Kerrville, Tex.	422	374	89	422	380	90	370	346	94
Lake City, Fla.	468	426	91	468	427	91	468	427	91
Lincoln, Nebr.	176	135	77	200	175	88	200	165	83
Little Rock, Ark.	471	434	92	471	430	91	471	431	92
Livermore, Calif.	465	425	91	466	411	88	466	400	86
Long Beach, Calif.	1,581	1,461	92	1,581	1,452	92	1,721	1,527	89
Los Angeles, Calif.	1,344	1,233	92	1,372	1,219	89	1,323	1,188	90
Louisville, Ky.	496	463	93	496	458	92	496	458	92

General hospitals—Distribution of average operating beds and average patient loads by station—Continued

Station	1966 actual			1967 estimate			1968 estimate		
	Operating beds	Patient load	Percent utilized	Operating beds	Patient load	Percent utilized	Operating beds	Patient load	Percent utilized
Madison, Wis	475	395	83	475	365	77	475	365	77
Manchester, N.H	150	137	91	150	137	91	150	137	91
Marion, Ill	183	162	89	184	164	89	170	164	96
Marlin, Tex	207	194	94	201	194	97	222	194	87
Martinez, Calif	498	464	93	498	464	93	498	464	93
Martinsburg, W. Va	763	691	91	765	690	90	765	690	90
McKinney, Tex	42	5	12						
Memphis, Tenn	1,198	1,018	85	1,092	985	90	990	891	90
Miami, Fla							544	341	63
Miles City, Mont	96	84	88	96	84	88	96	84	88
Minneapolis, Minn	1,014	949	94	1,014	930	92	1,014	960	95
Montgomery, Ala	285	246	86	285	246	86	285	236	83
Mountain Home, Tenn	575	544	95	575	530	92	575	513	89
Muskogee, Okla	390	335	86	390	309	79	390	329	84
Nashville, Tenn	498	465	93	498	465	93	507	470	93
Newington, Conn	250	207	83	250	209	84	250	212	85
New Orleans, La	567	530	93	591	536	91	591	536	91
New York, N.Y	1,218	1,072	88	1,194	1,090	91	1,194	1,078	90
Oklahoma City, Okla	488	409	84	488	410	84	488	402	82
Omaha, Nebr	486	423	87	486	411	85	486	425	87
Oteen, N.C	841	764	91	740	649	88	620	563	91
Palo Alto, Calif	1,000	932	93	1,000	951	95	1,000	951	95
Philadelphia, Pa	488	451	92	488	454	93	488	454	93
Phoenix, Ariz	198	190	96	207	197	95	207	197	95
Pittsburgh, Pa. (including Aspinwall)	1,091	1,005	92	957	788	82	904	878	97
Poplar Bluff, Mo	179	145	82	179	145	81	179	145	81
Portland, Oreg	562	509	91	565	515	91	565	515	91
Prescott, Ariz	273	247	90	270	250	93	270	250	93
Providence, R.I	393	372	95	393	354	90	393	360	92
Reno, Nev	202	185	92	202	185	92	202	185	92
Richmond, Va	943	822	87	951	825	88	945	825	87
Rutland Heights, Mass	52	21	40						
Saginaw, Mich	217	181	83	217	180	83	217	180	83
Salt Lake City, Utah	533	464	87	538	475	88	566	500	88
San Frenando, Calif	519	468	90	519	459	88	519	465	90
San Francisco, Calif	415	384	93	400	385	96	440	385	88
San Juan, P.R	200	187	94	200	184	92	284	247	87
Seattle, Wash	320	291	91	320	295	92	320	295	92
Shreveport, La	445	413	93	449	410	91	449	410	91
Sioux Falls, S. Dak	270	240	89	270	237	88	270	238	88
Spokane, Wash	202	180	89	200	180	90	204	183	90
St. Louis, Mo	513	470	92	513	463	90	513	470	92
Sunmount, N.Y	67	18	27						
Syracuse, N.Y	488	445	91	488	425	87	488	445	91
Temple, Tex	800	706	88	800	692	87	800	710	89
Tucson, Ariz	385	333	86	420	332	83	402	360	90
Vancouver, Wash	501	444	89	501	425	85	501	430	86
Wadsworth, Kans	704	627	89	724	610	84	724	633	87
Walla Walla, Wash	275	244	89	275	232	84	300	267	89
Washington, D.C	641	586	91	707	639	90	707	658	93
West Haven, Conn	823	725	88	823	751	91	861	754	88
West Roxbury, Mass	300	257	86	300	261	87	300	261	87
White River Junction, Vt	194	169	87	200	167	84	200	167	84
Wichita, Kans	252	228	90	252	228	90	252	228	90
Wilkes-Barre, Pa	500	462	92	500	462	92	500	462	92
Wilmington, Del	300	253	84	300	234	78	300	270	90
Wood, Wis	1,097	881	80	1,042	916	88	1,042	854	82
Total	[1] [2] 61,419	55,308	90	61,647	55,109	89	62,504	56,112	90

[1] Includes 36 overcapacity beds for Vietnam patients at Castle Point, N.Y.
[2] Individual station totals do not equal total due to roundoff.

Workload changes

Station	1968 over 1967 operating beds	1968 over 1967 patient load
Albany, N.Y.	−30	+18
Alexandria, La.		+2
Ann Arbor, Mich.		+45
Augusta, Ga.		−14
Bath, N.Y.	+3	
Boise, Idaho		+10
Bonham, Tex.		+1
Boston, Mass.		+25
Bronx, N.Y.		+88
Brooklyn, N.Y.		−17
Castle Point, N.Y.		+1
Charleston, S.C.	+58	+59
Cheyenne, Wyo.		+4
Cincinnati, Ohio	+20	
Columbus, S.C.	−90	−81
Coral Gables, Fla.	−47	−75
Dallas, Tex.	+45	
Dearborn, Mich.		+40
Denver, Colo.	+31	+27
Des Moines, Iowa		+34
East Orange, N.J.		+4
Fayetteville, Ark.		−10
Fresno, Calif.		+2
Gainesville, Fla.	+308	+265
Grand Island, Nebr.		+3
Grand Junction, Colo.		+4
Hines, Ill.		+66
Houston, Tex.	+12	
Kerrville, Tex.	−52	−34
Lincoln, Nebr.		−10
Little Rock, Ark.		+1
Livermore, Calif.		−11
Long Beach, Calif.	+140	+75
Los Angeles, Calif.	−49	−31
Marion, Ill.	−14	
Marlin, Tex.	+21	
Memphis, Tenn.	−102	−94
Miami, Fla.	+544	+341
Minneapolis, Minn.		+30
Montgomery, Ala.		−10
Mountain Home, Tenn.		−17
Muskogee, Okla.		+20
Nashville, Tenn.	+9	+5
Newington, Conn.		+3
New York, N.Y.		−12
Oklahoma City, Okla.		−8
Omaha, Nebr.		+14
Oteen, N.C.	−120	−86
Pittsburgh, Pa. (2 divisions)	−53	+90
Providence, R.I.		+6
Richmond, Va.	+4	
Salt Lake City, Utah	+28	+25
San Fernando, Calif.		+6
San Francisco, Calif.	+40	
San Juan, P.R.	+84	+63
Sioux Falls, S. Dak.		+1
Spokane, Wash.	+4	+3
St. Louis, Mo.		+7
Syracuse, N.Y.		+20
Temple, Tex.		+18
Tucson, Ariz.		+28
Vancouver, Wash.		+5
Wadsworth, Kans.		+23
Walla Walla, Wash.	+25	+35
Washington, D.C.		+19
West Haven, Conn.	+38	+3
Wilmington, Del.		+36
Wood, Wis.		−62
Total	+857	+1,003

Nursing Home Care

Mr. Evins. This brings us down to the nursing home care. Tell us again for the record how many nursing home beds have been authorized, how many have been activated, and how many you plan. Give us the situation for the record.

Dr. Haber. Under Public Law 88–450, 4,000 nursing home beds were authorized to be in the VA facilities. As of this date we are operating 2,730 and we plan to activate the additional beds to reach a total of 4,000 by July 1, 1967.

Mr. Evins. The full amount would be authorized in last year's budget. There are no new ones proposed in the 1968 budget.

Dr. Haber. That is right.

Mr. Evins. Through the 1967 budget funding the full authorization for nursing homes will be activated; the fully authorized number.

Mr. Monk. But we will have an additional average daily load in those beds in 1968. Yes, sir.

Dr. Haber. Since enactment of Public Law 88–450, we have provided more than 2.5 million days of nursing home care, either in our own facilities, in the facilities under contract, or facilities we have recognized and subsidized in State veterans homes. That is in excess of 2.5 million days of nursing home care.

Mr. Talcott. With only 2,730 beds, that is more than——

Dr. Haber. That is all three programs. The nursing home program is a three-pronged program. 4,000 beds within our own facilities, all of which are to be activated by July 1 of this year, and an unspecified number—in the law, at least —— of beds to be operated—which would be available for placement of our veterans in communities to be operated by private and non-Federal facilities and lastly, an unspecified number of beds to be operated in the States.

The three programs have proceeded very well. As of the present moment we have in excess of 6,000 veterans in nursing home beds each day.

The turnover in our Veterans' Administration nursing home beds has been gratifyingly high; 6.5 percent turnover per month in an area where previously the basic thought was that nothing could be done to improve the lot of patients who had been admitted to nursing home care. We have found numerous instances where veterans could be rehabilitated even after they had reached a point of maximum hospital benefit.

What I am trying to say, Mr. Chairman, is that in the Veterans' Administration nursing home program, the application of intensive nursing skills and the modification of the environment to a more cheerful homelike environment has provided motivation to render increased treatment and rehabilitation of a limited nature, albeit, to veterans who otherwise would have had to occupy needed hospital beds or else would have had to have been discharged to nursing homes as recipients of public welfare or other public funds.

Mr. EVINS. This program has relieved the pressure on the daily operating general hospital beds.

Dr. HABER. Precisely, sir.

Mr. TALCOTT. May I ask the daily average occupancy of these beds? Are they 99 percent filled like most hospitals are or is it considerably less?

Dr. HABER. Our average occupancy rate for nursing homes that have been established for at least 6 months is about 93 or 94 percent. Since we are activating beds every month, it is impossible to reach that level of occupancy for the year, as you will understand, in a program that is still being developed. We expect our permanent occupancy rate will be 93 or 94 percent.

Mr. MONK. This budget shows an average load in our own beds of 3,720 for 1968 and that is in 4,000 beds and that is 93 percent.

Mr. EVINS. For community nursing with 3,000 beds they show an average daily nursing load of 3,000. They are fully occupied and more than occupied for State homes, 1,526 as against 1,926.

Mr. MONK. There will be an increase in the State home beds available.

Mr. EVINS. A 400 increase in beds available.

Dr. HABER. The reason we can run 3,000 occupancy rates in a community nursing home program is that the VA has under contract in excess of 121,000 beds, of which we use only a small proportion, 3,000. In other words, we will make a contract with any nursing home in any community that meets our standards, but there is no obligation on the part of the VA.

Mr. EVINS. VA nursing costs go up to $23,203,000 in 1968, an increase of $5,889,000. There is an increase of $1,130,000 in community nursing and in State homes an increase of $501,000. Your total increase recommended for 1968 is $7,520,000.

Mr. MONK. With a increased total load 1,330.

Mr. EVINS. This is a very useful and very successful program, although it has been running for a very short period of time.

Mr. MONK. That is right, sir.

Mr. EVINS. We will place in the record pages 5–150 through 5–153.

(The pages follow:)

VA nursing home care—Distribution of average operating beds and average patient load by station

Station	1966 actual			1967 estimate			1968 estimate		
	Operating beds	Patient load	Percent utilized	Operating beds	Patient load	Percent utilized	Operating beds	Patient load	Percent utilized
Albany, N.Y.				10	9	90	29	27	93
Alexandria, La.	77	75	97	85	79	93	95	88	93
American Lake, Wash.				57	53	93	76	72	95
Augusta, Ga.				13	12	92	40	37	93
Bath, N.Y.	3			40	37	93	40	37	93
Battle Creek, Mich.				21	20	95	65	60	92
Beckley, W. Va.	39	37	95	42	39	93	42	39	93
Bedford, Mass.				16	15	94	84	78	93
Biloxi, Miss.				23	21	91	71	66	93
Bonham, Tex.	38	33	87	38	36	95	38	36	95
Brecksville, Ohio				17	16	94	50	47	94
Brockton, Mass.	36	30	83	51	47	92	51	47	92
Buffalo, N.Y.	36	34	94	36	33	92	36	33	92
Butler, Pa.	61	57	93	64	58	91	64	58	91
Canandaigua, N.Y.				16	15	94	43	40	93
Castle Point, N.Y.				21	20	95	84	78	93
Cheyenne, Wyo.	39	21	54	47	44	94	47	44	94
Chicago, Ill. (West Side)	22	15	68	40	37	93	40	37	93
Chillicothe, Ohio				44	41	93	107	99	93
Columbia, S.C.	6			72	67	93	72	67	93
Danville, Ill.				19	18	95	57	53	93
Dayton, Ohio	43	40	93	84	78	93	84	78	93
Dearborn, Mich.	6	1	17	36	32	89	36	32	89
Dublin, Ga.	56	54	96	56	52	93	56	52	93
Fargo, N. Dak.	41	40	98	50	46	92	50	46	92
Fayetteville, N.C.	36	34	94	39	36	92	39	36	92
Fort Lyon, Colo.	3	2	67	37	34	92	37	34	92
Fort Thomas, Ky.	126	103	82	190	180	95	190	180	95
Grand Junction, Colo.	3			42	39	93	42	39	93
Houston, Tex.	63	57	90	78	73	94	78	73	94
Indianapolis, Ind.	56	43	93	46	42	91	46	42	91
Jefferson Barracks, Mo.				22	20	91	68	63	93
Kecoughtan, Va.	41	40	98	41	40	98	41	40	98
Kerrville, Tex.				22	20	91	37	34	92
Knoxville, Iowa				34	32	94	50	46	92
Lebanon, Pa.	37	33	89	37	34	92	37	34	92
Lexington, Ky.				17	16	94	51	47	92
Livermore, Calif.	36	33	92	47	42	89	75	70	93
Los Angeles, Calif.	120	114	95	196	182	93	229	213	93
Manchester, N.H.	31	14	45	38	35	92	38	35	92
Marion, Ind.				23	21	91	69	64	93
Montrose, N.Y.				26	24	92	75	70	93
Mountain Home, Tenn.	58	55	95	58	55	95	58	55	95
Murfreesboro, Tenn.				17	16	94	51	47	92
North Little Rock, Ark.				33	31	94	100	93	93
Palo Alto, Calif.				29	27	93	50	46	92
Pittsburgh, Pa.	41	36	88	183	172	93	208	193	93
Poplar Bluff, Mo.	49	45	92	49	45	92	49	45	92
Reno, Nev.	22	22	100	22	22	100	22	22	100
Roseburg, Oreg.				18	16	89	44	41	93
St. Cloud, Minn.				15	14	93	44	40	91
Salisbury, N.C.				31	29	94	62	57	92
Salt Lake City, Utah	4			46	43	93	46	43	93
San Fernando, Calif.	3			36	33	92	36	33	92
Sepulveda, Calif.	38	28	74	45	42	93	45	42	93
Sioux Falls, S. Dak.	35	18	51	75	71	95	75	71	95
Togus, Maine	42	13	31	60	57	95	60	57	95
Tomah, Wis.				36	33	92	52	48	92
Tuskegee, Ala.				22	20	91	65	60	92
Waco, Tex.	8	4	50	100	93	93	84	80	95
Wadsworth, Kans.	45	43	96	45	43	96	45	43	96
Wilmington, Del.	39	27	69	39	35	90	39	35	90
Wood, Wis.	49	43	88	106	98	92	106	98	92
Total	[1] 1,475	[1] 1,245	84	3,000	2,790	93	4,000	3,720	93

[1] Does not add due to round off.

Workload changes

Station	1968 over 1967	
	Operating beds	Patient load
Albany, N.Y.	+19	+18
Alexandria, La.	+10	+9
American Lake, Wash.	+19	+19
Augusta, Ga.	+27	+25
Battle Creek, Mich.	+44	+40
Bedford, Mass.	+68	+63
Biloxi, Miss.	+48	+45
Brecksville, Ohio	+33	+31
Canandaigua, N.Y.	+27	+25
Castle Point, N.Y.	+63	+58
Chillicothe, Ohio	+63	+58
Danville, Ill.	+38	+35
Jefferson Barracks, Mo.	+46	+43
Kerrville, Tex.	+15	+14
Knoxville, Iowa	+16	+14
Lexington, Ky.	+34	+31
Livermore, Calif.	+28	+28
Los Angeles, Calif.	+33	+31
Marion, Ind.	+46	+43
Montrose, N.Y.	+49	+46
Murfreesboro, Tenn.	+34	+31
North Little Rock, Ark.	+67	+62
Palo Alto, Calif.	+21	+19
Pittsburgh, Pa.	+23	+21
Roseburg, Oreg.	+26	+25
St. Cloud, Minn.	+29	+26
Salisbury, N.C.	+31	+28
Tomah, Wis.	+16	+15
Tuskegee, Ala.	+43	+40
Waco, Tex.	−16	−13
Total	+1,000	+930

Community nursing homes—distribution of FY 1966 average daily nursing load by VA facility

Station	*ADNL*
VARO Montgomery, Ala.	18
VAH Phoenix, Ariz.	34
VAH Little Rock, Ark.	38
VAOPC Los Angeles, Calif.	64
VAH San Francisco, Calif.	35
VAH Denver, Colo.	29
VAH Newington, Conn.	23
VAH Wilmington, Del.	4
VAH Washington, D.C.	30
VARO St. Petersburg, Fla.	135
VARO Atlanta, Ga.	21
VAC Boise, Idaho	7
VAH Chicago, Ill. (W.S.)	140
VARO Indianapolis, Ind.	15
VAC Des Moines, Iowa	39
VAC Wichita, Kans.	4
VARO Louisville, Ky.	35
VAH New Orleans, La.	5
VAH Shreveport, La.	6
VAC Togus, Maine	11
VARO Baltimore, Md.	10
VARO Boston, Mass.	90
VAH Dearborn, Mich.	22
VAC St. Paul, Minn.	66
VAC Jackson, Miss.	4
VAH Kansas City, Mo.	19
VAH St. Louis, Mo.	19
VAC Ft. Harrison, Mont.	3

Community nursing homes—distribution of FY 1966 average daily nursing load by VA facility—Continued

Station	*ADNL*
VAH Lincoln, Nebr	5
VAC Reno, Nev	1
VAH Manchester, N.H	3
VARO Newark, N.J	31
VAH Albuquerque, N.M	3
VAH Albany, N.Y	14
VAH Buffalo, N.Y	41
VARO New York, N.Y	85
VAH Syracuse, N.Y	17
VARO Winston-Salem, N.C	10
VAC Fargo, N. Dak	12
VAH Cincinnati, Ohio	32
VAH Cleveland, Ohio	24
VARO Muskogee, Okla	33
VARO Portland, Oreg	12
VAOPC Philadelphia, Pa	40
VARO Pittsburgh, Pa	6
VAH Wilkes-Barre, Pa	12
VAC San Juan, PR	17
VARO Providence, R.I	11
VARO Columbia, S.C	8
VAC Sioux Falls, S. Dak	6
VAH Nashville, Tenn	49
VAH Dallas, Tex	26
VAH Houston, Tex	15
VAOPC Lubbock, Tex	8
VAOPC San Antonio, Tex	5
VARO Waco, Tex	34
VAH Salt Lake City, Utah	1
VARO Roanoke, Va	36
VAH Seattle, Wash	18
VAH Huntington, W. Va	15
VAC Wood, Wis	80
VAC Cheyenne, Wyo	1
Total	1,637

Domiciliary and Restoration Care

Mr. Evins. Tell us about your domiciliary program.

Dr. Haber. The program is proceeding on a course that has been indicated by our Administrator in previous hearings, Mr. Chairman, in which we are increasingly trying to encourage rehabilitation on the part of the younger domiciliary members.

In the past our domiciliaries had been thought of as final repositories for veterans who had been unable to secure employment. This is no longer the case. Some of the veterans in our domiciliaries at a given age will require nursing home care and will then be transferred to VA nursing home care units. Many of them, we believe, can be rehabilitated and we are increasingly working on this.

During the past year we have activated three restoration-type programs in three of our domiciliaries. Incidentally, Mr. Chairman, we find that our turnover rate increases by about 100 percent in these restoration programs and we feel that we have a gratifying ratio of success——

Mr. Evins. Total number of employees in this program for next year is projected to be decreased by 20.

Dr. Haber. Yes. This is because of the fact that some of the load has decreased as these veterans are moved out——

Mr. EVINS. Include in the record 4–155 and 4–156.
(The pages follow:)

DOMICILIARY CARE

INTRODUCTION

The estimate provides for average of 14,312 operating beds and 13,444 member load in VA domiciliaries during fiscal year 1968 or net decreases of 22 operating beds and 56 member load averages from levels anticipated for fiscal year 1967. The decrease is attributable largely to the transfer of domiciliary beds at Biloxi, Mississippi, to VA nursing care beds.

Two Restoration Centers at the VA Hospitals at Hines, Illinois and East Orange, New Jersey, and similar type programs of restoration at VA Centers, Dayton, Ohio; Los Angeles, California; and Wood, Wisconsin will be operative in fiscal year 1968. Special restorative training will be afforded certain beneficiaries that have received maximum hospitalization benefits to fit them for more purposeful and independent living. The Restoration Centers and other programs emphasize restoration of disabled veterans and serve to make more hospital beds available for those in need of hospitalization.

The domiciliary waiting list during fiscal year 1966 remained fairly stable from month to month averaging 158 a month or 494 less than the monthly average for fiscal year 1965. The number of eligible applicants not scheduled for admission at the end of each month for both the 1965 and 1966 fiscal years is shown below:

Month	Fiscal year 1965	Fiscal year 1966	Month	Fiscal year 1965	Fiscal year 1966
July	355	231	January	925	310
August	439	147	February	1,068	168
September	586	102	March	1,165	170
October	665	84	April	546	93
November	664	150	May	365	141
December	728	187	June	319	110

The following table shows comparative total employment, staffing ratios, and workload data for fiscal years 1966, 1967, and 1968:

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Increase or decrease
Average FTE employment	3,068	3,014	2,994	−20
Number of domiciliaries	18	18	18	
Average operating beds	15,363	14,334	14,312	−22
Average daily member load:				
Members	13,090	13,218	12,804	−414
Restorees	276	282	640	+358
Total	13,366	13,500	13,444	−56
Ratio of employees to operating beds	0.200	0.210	0.209	−0.001
Ratio of employees to average daily member load	0.230	0.223	0.223	
Cost per member-day	$6.48	$6.68	$6.77	+$0.09

Average FTE employment by category

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Increase or decrease
Consultants and attendings	11	11	11	
Nurses	50	48	48	
Dentists	40	38	38	
Physicians	88	84	84	
Clinical and counseling psychiatrists	27	27	27	
Wage-rate employees	1,521	1,527	1,515	−12
Purchase and hire	12	12	12	
Other personnel	1,319	1,267	1,259	−8
Total	3,068	3,014	2,994	−20

Contract Hospitalization

Mr. Evins. Contract hospitalization. Place in the record pages 4–163 through 4–166.

(The pages follow:)

Contract Hospitalization

INTRODUCTION

Hospitalization of VA beneficiaries in other Federal hospitals is provided for either service-connected or non-service-connected conditions to insure coverage in areas where VA facilities are not available.

Hospitalization of VA beneficiaries in non-Federal hospitals in the United States (including Alaska and Hawaii) is restricted to male veterans requiring hospitalization for service-connected conditions, female veterans in need of hospitalization for treatment of either service or non-service-connected conditions, and those veterans requiring hospitalization to prevent interruption of training authorized under provisions of 38 U.S.C. 1506. Non-Federal hospitals may be utilized for the care and treatment of the aforementioned persons when suitable facilities are not feasibly available in VA hospitals, e.g.:

(*a*) When beds in VA hospitals are insufficient to meet the demand for hospitalization of certain types of patients, i.e., primarily those suffering from mental disorders, or where Federal hospital facilities are extremely limited or non-existent.

(*b*) To provide hospitalization in medically emergent cases when immediate transfer to a VA hospital would be hazardous.

(*c*) To provide hospitalization for female beneficiaries for whom appropriate facilities are not available in Federal Hospitals.

Per diem reimbursement rates for care rendered by other Federal hospitals are established and/or approved annually by the Bureau of the Budget. The cost of hospitalization in non-Federal hospitals is based generally on per diem rates established under contracts between the VA and the various hospitals concerned plus charges for additional services such as special duty nursing care, surgical fees, consultants, special medical services, etc. This latter arrangement is exemplified by the $40.07 per diem rate for the 24 medical and surgical average patient load in municipal and state hospitals where the higher cost is incurred for special medical services which cannot be provided by VA hospitals in the immediate area.

Patient load and cost estimates for Federal hospitals are based on actual utilization rather than bed allocation agreements with the agencies concerned. The VA, however, will provide reimbursable support for patient loads up to the full number of beds allocated, where demand exists.

Contract hospital patient load is estimated to decrease by 28 in FY 1968 with costs increasing by $554,000 resulting primarily from an increase in non-Federal rates and an adjustment of reciprocal rates at certain Federal hospitals and one additional calendar day.

The net decrease of 28 contract load occurs entirely within the Federal patient load and results in a net reduction of $9,000. The net loss of 28 results from (a) a total reduction of 60 patients and $325,000 in Public Health Hospitals, 56 of which are at St. Elizabeth, Washington, D.C., continuing the phasing down of the contract load with the activation of NP beds at the new VA Hospital, Washington, D.C., and 4 at Savannah, Georgia where a lower demand is expected with the full activation of the VA Hospital, Charleston, South Carolina; (b) an increase of 32 patient load and $316,000 at the following Department of Defense and Public Health facilities to meet the rising demand for beds in these areas: U.S. Army Hospital, Basset, Alaska (1); U.S. Air Force Hospital, Elemdorf, Alaska (3); U.S. Army Tripler Hospital, Honolulu, Hawaii (19); U.S. Navy Hospital, San Diego, California (2) and Public Health Hospital, Staten Island, New York (7). Of the 32 patient load increase, 23 are required in the States of Alaska and Hawaii where the VA does not have its own facilities. The increase for Staten Island represents the extension of the 30 bed allocation to a full fiscal year since the program was initiated in FY 1967 for approximately three quarters of the fiscal year.

Contract hospitalization rates are expected to increase by $513,000 in FY 1968. Of this increase $415,000 has been planned for non-Federal rate increases and $98,000 for Federal rates.

The non-Federal per diem rate has been steadily rising over the past several years as shown on the table in the Special Analyses section of this budget submission. Based on latest contract negotiation information, non-Federal hospital per diem costs are expected to increase $1.96 in FY 1967 and $0.97 in FY 1968. This increase will provide for a rate adjustment in contract hospitals in San Juan, Puerto Rico, where approximately two-thirds of all non-Federal beds are located, of $1.64 in FY 1967 and $1.00 in FY 1968.

Increased Federal per diem rates are planned for Public Health Hospital, Fort Worth, Texas and the Veterans Memorial Hospital, Manila, Philippines. The increase in per diem rate at Fort Worth of $1.25, from $18.00 in FY 1967 to $19.25 in FY 1968, has been established by the Bureau of the Budget for reimbursement in FY 1968.

The Veterans Memorial Hospital, Manila, Philippines furnished by contract, hospital care to service-connected veterans of the Armed Forces of the United States and to Regular Philippine Scouts enlisted prior to October 6, 1945. An increase of $0.23 per patient day for a total of $7.26, is planned for FY 1968 to meet the steadily rising cost in this facility. The hospital also furnished care to Commonwealth Army and Guerrilla Veterans. A reciprocal rate of $7.26 has also been planned for this latter group which is funded from the appropriation "Grants to the Republic of the Philippines."

An increase of $50,000 has been planned to provide for one additional calendar day occurring in FY 1968.

Of the total contract hospitalization load of 2,411 planned for fiscal year 1968, it is estimated that approximately 59% will be hospitalized in the 50 States and 41 in Manila and Puerto Rico.

Comparative summary of average daily patient load and costs

	1966 actual	1967 estimate	Decrease workload	Increase workload	Increase per diem	1 more calendar day	1968 estimate	Increase (+) or decrease (−)
Average daily patient load:								
Non-Federal	1,227	1,167					1,167	
Federal	1,266	1,272	60	32			1,244	−28
Total	2,493	2,439	60	32			2,411	−28
Costs:								
Non-Federal	$8,250,366	$8,682,000			$415,000	$24,000	$9,121,000	+$439,000
Federal	9,244,265	9,380,000	$325,000	$316,000	98,000	26,000	9,495,000	+115,000
Total	17,494,631	18,062,000	325,000	316,000	513,000	50,000	18,616,000	+554,000

Mr. EVINS. Give us a statement on this program.

Mr. WISE. About half of these are in Puerto Rico or Manila. We utilize Federal hospitals in the United States where there are areas of heavy veteran demands and VA hospitals are not readily available. And in Hawaii and Alaska there are no veterans' hospitals. The load is fairly well distributed between Federal and non-Federal hospitals and their locations are on 4–167.

Mr. EVINS. Also the totals on 166 would show a decrease in both categories.

Mr. MONK. A decrease in Federal of 28 and a hold-even of non-Federal.

COMPARATIVE COSTS, PATIENT LOAD AND PATIENT DAY COSTS

Mr. EVINS. What is the per diem rate for these type patients?

Mr. DRIVER. It is on 4–169, Mr. Chairman.

Mr. WISE. It shows a variation between the Federal, municipal, and State hospitals.

Mr. EVINS. We will put page 4–169 in the record.

(The page follows:)

Contract hospitalization—Comparative costs, patient load, and patient-day costs

	1966 actual			1967 estimate			1968 estimate			Increase (+) or decrease (−)		
	Total cost	ADPL	Cost per patient-day	Total cost	ADPL	Cost per patient-day	Total cost	ADPL	Cost per patient-day	Total cost	ADPL	Cost per patient-day
NON-FEDERAL HOSPITALS												
Civil:												
Neuropsychiatric	$2,626,725	505	$14.25	$2,905,000	450	$17.69	$3,051,000	450	$18.52	+$146,000	----	+$0.83
General	3,773,771	381	27.14	3,945,000	378	28.59	4,105,000	378	29.67	+160,000	----	+1.08
Subtotal	6,400,496	886	19.79	6,850,000	828	22.67	7,156,000	828	23.61	+306,000	----	+.94
Municipal and State:												
Neuropsychiatric	1,477,353	315	12.85	1,481,000	315	12.88	1,604,000	315	13.91	+123,000	----	+1.03
General	372,517	26	39.25	351,000	24	40.07	361,000	24	41.10	+10,000	----	+1.03
Subtotal	1,849,870	341	14.86	1,832,000	339	14.81	1,965,000	339	15.84	+133,000	----	+1.03
Total	8,250,366	1,227	18.42	8,682,000	1,167	20.38	9,121,000	1,167	21.35	+439,000	----	+.97
FEDERAL HOSPITALS												
U.S. Army	2,256,640	223	27.72	2,316,000	235	27.00	2,520,000	255	27.00	+204,000	+20	----
U.S. Air Force	512,755	51	27.55	463,000	47	27.00	494,000	50	27.00	+31,000	+3	----
U.S. Navy	3,351,027	333	27.57	3,390,000	344	27.00	3,419,000	346	27.00	+29,000	+2	----
HEW (Fort Worth)	973,057	175	15.23	1,150,000	175	18.00	1,233,000	175	19.25	+83,000	----	+1.25
HEW (St. Elizabeths)	1,273,793	251	13.90	1,044,000	205	13.95	761,000	149	13.95	−283,000	−56	----
HEW (other)	242,962	22	30.26	374,000	38	27.00	405,000	41	27.00	+31,000	+3	----
Panama Canal Zone	102,703	7	40.20	71,000	5	38.90	71,000	5	38.90	----	----	----
Manila, Philippine Islands (Veterans Memorial)	531,328	204	7.14	572,000	223	7.03	592,000	223	7.26	+20,000	----	+.23
Total	9,244,265	1,266	20.01	9,380,000	1,727	20.20	9,495,000	1,244	20.85	+115,000	−28	+.65
Grand total	17,494,631	2,493	19.22	18,062,000	2,439	20.28	18,616,000	2,411	21.09	+554,000	−28	+.81

Mr. GIAIMO. Did I understand there is no VA hospital in Hawaii?

Mr. DRIVER. We use the Army hospital.

Mr. GIAIMO. Is that because the patient load is not large enough?

Mr. DRIVER. We couldn't justify the operation. The same is true in Alaska. We have a clinic in both places. An outpatient clinic, but we depend on the military for contract beds. We also have a load in the State NP hospitals. The military doesn't treat them except on a very short-term basis.

STATE HOMES

Mr. EVINS. How many States operate State homes for veterans?

Dr. HABER. Twenty-eight States operate 33 State homes.

Mr. EVINS. How much is our annual total contribution to these State homes?

Mr. MONK. In 1968 it is to be $6,907,000.

Mr. EVINS. That is on an agreed contractual basis?

Mr. MONK. The law provides we can pay up to half of the cost but not to exceed $2.50 a day and our average cost is $2.48 per day in these homes, where the patient load in 1968 is estimated at 7,610.

Mr. EVINS. A very small amount. Any prospects for the expansion of this program and other States participating?

Dr. HABER. Yes, sir; there is. Several States have indicated it.

OUTPATIENT CARE

Mr. EVINS. We discussed the outpatient program earlier. Statistics on this are shown on pages 4–175 and 4–176. Insert these pages.

(The pages follow:)

OUTPATIENT CARE

INTRODUCTION

The estimate for fiscal year 1968 reflects 6,435,100 medical visits, 67,696 dential examination completed cases and 60,156 dental treatment completed cases to VA Outpatient Clinics and hometown physicians and dentists, which represents a net increase of 142,100 medical visits, 1,500 dental examinations and 4,500 dental treatment completed cases over fiscal year 1967. The activation of three Day Treatment Centers, one Mental Hygiene Clinic, activation of replacement hospitals, continued impact of newly enacted legislation. PL 88–450 and PL 89–358, and increased visits because of the Viet Nam conflict and an aging veteran population are the major causes for the increased workload.

The estimate projects a net increase of 356 average employment. Increased employment is planned for three Day Treatment Centers, one Mental Hygiene Clinic, replacement hospitals and increased workload.

The following table shows workload and employment comparisons for fiscal years 1966, 1967 and 1968:

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Increase (+) or decrease (−)
Employment (average FTE)	11,785	11,793	12,149	+356
Workloads:				
Medical visits:				
Staff	4,981,790	5,092,400	5,234,500	+142,100
Fee	1,199,888	1,200,600	1,200,600	
Total	6,181,678	6,293,000	6,435,100	+142,100
Dental examination cases completed:				
Staff	55,067	62,000	63,500	+1,500
Fee	3,482	4,196	4,196	
Total	58,549	66,196	67,696	+1,500
Dental treatment cases completed:				
Staff	46,919	48,500	53,000	+4,500
Fee	6,768	7,156	7,156	
Total	53,687	55,656	60,156	+4,500

Average FTE employment by category

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Increase (+) or decrease (−)
Consultants and attendings	191	190	190	
Nurses	345	347	351	+4
Dentists	195	197	203	+6
Physicians	1,366	1,369	1,396	+27
Clinical and counseling psychiatrists	182	186	205	+19
Wage rate employees	518	523	529	+6
Purchase and hire	3	3	3	
Other personnel	8,985	8,978	9,272	+294
Total	11,785	11,793	12,149	+356

Dental Program

Mr. Evins. Miscellaneous benefits. Tell us about the dental workload and how many patients you are treating in the dental care program. How many visits? How many are treated? What are the costs?

Mr. Monk. On page 4–175 is shown the workload of dental examination cases completed in 1967. It is 62,000 by the staff.

It shows the treatment cases and the examination cases going up slightly in 1968.

Mr. Talcott. Do you have a program of dental care for mentally deranged veterans?

Mr. Driver. In neuropsychiatric hospitals we do.

Mr. Talcott. I understand some of these persons have difficulty obtaining proper dental care because dentists don't like to work on them, or can't, or don't know how.

Dr. Skouge. In our hospitals we have such services. Every one of them has a dental service. We feel one of our missions is to make sure they have good oral hygiene. We also have facilities for the service-connected in our outpatient clinics.

Mr. Talcott. You are satisfied with the dental care of patients with mental problems?

Dr. SKOUGE. Right.
Mr. WISE. Annual examinations are required.
Mr. GIAIMO. Will you yield?
Mr. EVINS. Mr. Giaimo.

COST PER CASE

Mr. GIAIMO. On page 4–183, you have fee, cost-per-case, examination, $21.25. Is that the estimated cost of what it costs to pay the fee basis, dentists, per case?
Mr. MONK. Yes, per case.
Mr. GIAIMO. That could be more than one visit?
Mr. MONK. That is the examination. If you look right below, there is a treatment cost.
Mr. EVINS. Tremendous increase.
Mr. GIAIMO. Is that the average?
Mr. MONK. That is the average.
Mr. GIAIMO. Is that the cost of the average case?
Mr. MONK. Of the average case, yes, sir.
Mr. GIAIMO. Isn't that $21.25 high for an examination?
Mr. WISE. This will include X-rays.
Mr. EVINS. Isn't the $202.35 per treatment pretty high?
Dr. SKOUGE. Of course, we do have an aging population. Many of them have pyorrhea, need dentures and the costs have to go up.
Mr. EVINS. Doesn't have to. How do you justify an increase from 1967 to 1968, from $162 to $202.35 per treatment? What percentage increase is that?
Mr. WISE. It is about 25 percent. However, this is part of a request earlier discussed on fee increases where the negotiated fee examinations have not been updated for years.
This is to pay the comparable prices as now being paid under other benefit programs such as military, and I believe medicare.
Mr. EVINS. What is the cost of dental treatment in your own VA hospitals?
Mr. WISE. A little less, sir. However, the utilization of these fee dentists are generally where the patient lives so far from a VA hospital it would be uneconomical to bring him in several hundred miles. This is a program that has been in existence since World War II and it has gone down gradually.
Mr. EVINS. Supposing he has been in the dentist's office two times and he puts a little pyorrhea treatment on and there is a bill for $500——
Mr. WISE. No, sir, these are in agreement with approved State fee schedules. This cost per case, $202, is the average which may cover four or five separate visits and the treatment.
Mr. EVINS. It doesn't say four or five, it says treatment.
Mr. MONK. Per case completed.
Dr. SKOUGE. Total treatment per case.
Mr. EVINS. Total treatment, not just a visit.
Dr. SKOUGE. That would be pretty substantial.
Mr. TALCOTT. Would that include dentures?
Dr. SKOUGE. Yes. In many instances this would include dentures.
Mr. DRIVER. And the X-ray costs?

Mr. GIAIMO. One other question. On these fee basis examination and treatment cases, what veterans qualify for these?

Dr. CAMP. These are service-connected veterans.

Mr. GIAIMO. A comment or a statement was made here recently that you must remember. Dr. Haber said we must remember we are getting an aged veteran population, which brings about more teeth problems. Are these service connected?

Dr. SKOUGE. The service-connected veteran is certainly getting older and there are a certain number of them with service-connected dental problems who are entitled to care.

Mr. GIAIMO. No; they suddenly develop pyorrhea after 40 years or 25 years here.

Dr. SKOUGE. It could very well be related to trauma, during this period of service.

Mr. GIAIMO. But that isn't usual, is it?

Dr. SKOUGE. I don't think it is usual.

Mr. DRIVER. If he had a service-connected mouth disease and this occurred, it would be treated?

Mr. EVINS. If he had any service-connected disability and general hospital treatment while he had this one finding of service-connected disability, he would also be entitled to dental treatment.

Mr. DRIVER. In the hospital, yes.

Mr. GIAIMO. Is that so? I mean on a fee basis?

Mr. DRIVER. No; we are talking now about the hospital care.

Mr. EVINS. He is in the hospital; he had a service-connected disability for anything, so he is also entitled to dental treatment while there.

Mr. GIAIMO. I am talking about the outpatient service rendered by fee dentists in places other than veterans' hospitals.

Mr. DRIVER. Right.

Mr. GIAIMO. I am talking about the aging veteran who develops dental defects of the aged, such as pyorrhea, or whatever else the diseases are. Is there a substantial claim that most of these are service connected?

Mr. MONK. I would point out the number, 7,156 cases out of the total veteran population of 26 million veterans. So that these are service connected.

Mr. GIAIMO. They are?

Mr. MONK. This would be where a man maybe had his mouth shot up and we are definitely required to take care of him.

Mr. GIAIMO. I understand that.

Mr. MONK. And it is a very small number.

Mr. GIAIMO. What I was questioning was the statements that have been made that you have got to remember we are getting an aged population which means more teeth problems. That is true——

Mr. MONK. But they don't get their teeth fixed unless they are in a hospital for some other purpose.

Mr. EVINS. If they are in the hospital for some other purposes, and they need dental care, they will get it while there, even though the dental disability is not service connected?

Mr. DRIVER. Right.

Mr. GIAIMO. I am not talking about the patients in the hospital.

Mr. EVINS. The men who are on the outside must establish that it is service connected in order to get treatment?

Mr. MONK. On the outside the man who has a mouth condition must show that it is a continuing condition related to his service disability.

Mr. TALCOTT. It seems to me that the reference to pyorrhea was probably bad. That is probably not the usual kind of service-connected disease which they develop.

Dr. SKOUGE. It is possible. I am sure those who suffered gunshot wounds of the mouth and had to have teeth removed and now develop pyorrhea are service connected.

Mr. EVINS. Gentlemen, we want them to have the treatment and the service, but we want you to hold the outside dental fees down; that is all.

Mr. GIAIMO. Do you make any provision in the outpatient treatment cases for indigent veterans?

Mr. MONK. No.

Mr. DRIVER. That has nothing to do with it.

Dr. CAMP. Not on a fee basis. I believe what might help here is that a service-connected diabetic needs complete dentures to keep his diabetes in control. Now, we can have a service-connected diabetic and when his physician certifies he needs complete dentures, if he cannot come into a VA hospital, we will pay his private dentist if the patient lives 200 miles from a clinic or hospital.

Mr. GIAIMO. But that is by interpretation of service connected rather than indigency.

Dr. CAMP. That is correct. Now, there was enacted a law involving the 1-year limitation on dental care following service, a few years ago. They are only entitled to one complete care following military service and we do not have this escalation which appeared to be taking place after World War II where a veteran could get every tooth service-connected eventually. This is no longer possible. As Mr. Monk pointed out, that is why there are a limited number of cases in the fee dental program.

MISCELLANEOUS BENEFITS AND SERVICES

Mr. EVINS. Little things can cost an immense amount. Your other benefits and services, housekeeping, jobs go up from 782 to 799. A 17-job increase for other services, and the total cost is estimated to be $13,973,000 for next year.

Mr. DRIVER. Right.

Mr. MONK. These are the ones that we talked about yesterday, that are not directly associated with patient care.

Mr. EVINS. How about the laundry services? Is it better to have laundries within the VA or to have it contracted out with the private laundries? The private laundries write us and say they can't do business with the VA; they do their own.

Mr. MONK. We feel it is better to have it within the Veterans' Administration and we know we are doing it cheaper than we can get it done on the outside.

Mr. BOLAND. And it gives you an opportunity to put some of the patients in productive work too, doesn't it?

Mr. MONK. True.

Mr. EVINS. I think we have looked over these special analyses. This chart on 4–193 shows the increase in short-term employment, 246 increase; the next group is a 252 increase; the next is 218; State, local, and other specials, 234; VA hospitals, 132.

Mr. MONK. This relates to that ratio of employees-to-patients that we were talking about yesterday.

Mr. EVINS. Right. Average payroll cost, 4–195 is up.

Mr. MONK. Yes, sir.

GRANTS TO THE REPUBLIC OF THE PHILIPPINES

Program and financing

[In thousands of dollars]

		1966 actual	1968 estimate	1968 estimate
	Program by activities:			
	1. Medical care and treatment of veterans	349	386	1,225
	2. Medical research and training grants			100
10	Total program costs, funded—obligations (object class 41.0)	349	386	1,325
	Financing:			
25	Unobligated balance lapsing	37		
40	New obligational authority (appropriation)	386	386	1,325
	Relation of obligations to expenditures:			
71	Total obligations (affecting expenditures)	349	386	1,325
72	Obligated balance, start of year	31	52	52
74	Obligated balance, end of year	−52	−52	−52
77	Adjustments in expired accounts	−1		
90	Expenditures	326	386	1,325

Mr. EVINS. We talked about these other items. Take a look at grants to the Philippines and place in the record pages 5–3 through 5–7.

(The pages follow:)

APPROPRIATION LANGUAGE

For payment to the Republic of the Philippines of grants, as authorized by law (38 U.S.C. 631–634), $1,325,000.

INTRODUCTION

This appropriation provides grants-in-aid to the Republic of the Philippines for medical care and treatment of eligible Philippine Commonwealth Army veterans and new Philippine Scouts, for medical research and the training of health service personnel at the hospital, and for replacement and upgrading of equipment and in rehabilitating the physical plant and facilities of the Veterans Memorial Hospital.

On July 1, 1948, the 80th Congress (PL 865) authorized the original funds for medical care and treatment, also for construction of the Veterans Memorial Hospital.

"Grants-in-aid" legislation has authorized continual assistance from this date forward.

Public Law 89–612, approved September 30, 1966, extended the program for another five years, through June 30, 1973, and expanded reimbursement for the medical care and treatment of Philippine Commonwealth Army veterans with service-connected disabilities to include payments for hospital care of Commonwealth Army veterans with non-service-connected disabilities, if financial need exists. This agreement is extended further, to give new Philippine Scouts, both

service-connected and non-service-connected, the same coverage to which the Commonwealth Army veterans are entitled. The cost for this benefit shall not exceed $1.2 million for fiscal year 1967, nor $2 million for any one fiscal year thereafter. Also, $100,000 is authorized for each fiscal year for the next six years beginning with fiscal year 1967, for making grants for medical research and training of health service personnel at the hospital. Finally, $500,000 to remain available until expended, is authorized to be appropriated for making grants to replace and upgrade the equipment and to rehabilitate the physical plant and facilities of the Veterans Memorial Hospital.

Comparative analysis of costs and workload

	1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
Medical care and treatment of veterans:				
Hospital care	$356,363	$780,000	$1,215,000	+$435,000
Travel	2,400	6,000	10,000	+4,000
Total	348,763	786,000	1,225,000	+439,000
Medical research and training grants		100,000	100,000	
Hospital equipment and maintenance grants		200,000	300,000	+100,000
Total costs (obligations)	348,763	1,086,000	1,625,000	+539,000
Unobligated balance lapsing	37,237			
Unobligated balance, start of year			−300,000	−300,000
Unobligated balance end of year		300,000		−300,000
Appropriation	386,000	[1] 1,386,000	1,325,000	−61,000
Pertinent patient-day data:				
Average number of patients	149	304	457	+153
Patient-days	54,261	110,960	167,262	+56,302
Cost per patient-day	$6.38	$7.03	$7.26	+$0.23

[1] Includes supplemental of $1,000,000.

JUSTIFICATION OF ESTIMATES

The per diem rate for medical care and treatment of veterans for the current year is based upon cost experience of the past year. The negotiated rate for 1967 was established at $7.43. The daily rate used, however, for the current year is $7.03. Past experience indicates an actual cost each year of a lesser amount than the agreed upon rate. Sub-contracts at facilities other than the Veterans Memorial Hospital tend to reduce the average daily rate.

In 1968, a nominal increase to $7.26 is projected as the cost per patient day. This is in line with actual trend experience from 1963 to the present. The increase in the number of patient days results from a full year's activity under Public Law 89–612 in 1968 as compared with only a partial year in 1967.

Medical care and treatment of eligible veterans is provided by the Republic of the Philippines at the Veterans Memorial Hospital in Manila, or at other facilities by contract. Also, treatment of leprosy cases is provided at the Central Luzon Sanitarium and at the Mindanao Central Sanitarium.

The Philippines Veterans Memorial Hospital in Manila was constructed from United States grants-in-aid totaling approximately $9.4 million.

The Veterans Administration has maintained an office in the Philippines since 1922, except for a period during World War II.

Prior to World War II, the office administered to approximately 7,500 claimants. The functions performed consisted mainly of assisting veterans of the U.S. Armed Forces and their dependents in applying for benefits to which they were entitled. After the war, the office was expanded into a regional office serving approximately 336,000 U.S. and Filipino veterans who served with the U.S. Armed Forces, and their dependents.

Since July 4, 1946, when the Philippines became an independent republic, the Veterans Administration Offices had been retained as provided by laws enacted by the Congress of the United States. Public Law 86–103, approved July 23, 1959, authorizes the maintenance of Veterans Administration Offices in the Philippines until June 30, 1970.

Legislative history

Public Law 80–865, approved July 1, 1948, set forth the "Grants-in-Aid" program to the Republic of the Philippines to assist in the hospitalization of Philippine Commonwealth Army Veterans for service-connected disability incurred while serving with U.S. Armed Forces. This Act also provided for the construction of the Veterans Memorial Hospital and not to exceed $3,285,000 per year for five years through June 30, 1953, as reimbursement for either contract hospitalization or expenses of operation of hospitals constructed under the Act.

Public Law 83–421, approved on June 18, 1954, extended the five-year period of reimbursement, as contained in Public Law 865, for an additional five years through June 30, 1958, and authorized $3,000,000 the first year and decreasing $500,000 each year. No change was made in the provision that funds would be used either for contract hospitalization or hospital operation.

Public Law 85–461, approved June 18, 1958, authorized modification and extension, for another five years through June 30, 1963, of the grants-in-aid program to the Republic of the Philippines. The law authorized that beginning July 1, 1958, the total of all payments for hospitalization plus cost of travel authorized in connection with hospital care was not to exceed $2,000,000 for any one fiscal year.

Public Law 88–40, approved June 13, 1963, extended the "Grants-in-Aid" program for another five years through June 30, 1968, at a cost not to exceed $500,000 for any one fiscal year.

Public Law 89–612, approved September 30, 1966, extended the program for another five years, through June 30, 1973, and expanded reimbursement for the medical care and treatment of Philippine Commonwealth Army veterans with service-connected disabilities to include payments for hospital care of Commonwealth Army veterans with non-service-connected disabilities, if financial need exists. This agreement is extended further, to give new Philippine Scouts, both service-connected and non-service-connected, the same coverage to which the Commonwealth Army veterans are entitled. The cost for this benefit shall not exceed $1.2 million for fiscal year 1967, nor 2 million for any one fiscal year thereafter. Also, $100,000 is authorized for each fiscal year for the next six years beginning with fiscal year 1967, for making grants for medical research and training of health service personnel at the hospital. Finally, $500,000 to remain available until expended, is authorized to be appropriated for making grants to replace and upgrade the equipment and to rehabilitate the physical plant and facilities of the Veterans Memorial Hospital.

The table on the following page shows the cost of the grants-in-aid program.

Fiscal year	Medical care and treatment of veterans		Construction of Veterans Memorial Hospital	
	Annually	Cumulative	Annually	Cumulative
1950				
1951	$165,575	$165,575		
1952	1,109,056	1,274,631	$200,000	$200,000
1953	2,169,663	3,444,294		200,000
1954	1,498,589	4,942,883	2,996,199	3,196,199
1955	2,148,134	7,091,017	4,403,273	7,599,472
1956	2,078,805	9,169,822	1,500,294	9,099,766
1957	2,000,000	11,169,822	290,269	9,390,035
1958	1,579,802	12,749,624	9,926	9,399,961
1959	1,041,109	13,790,733		9,399,961
1960	714,378	14,505,111		9,399,961
1961	498,890	15,004,001		9,399,961
1962	359,307	15,363,308		9,399,961
1963	307,354	15,670,662		9,399,961
1964	274,211	15,944,873		9,399,961
1965	326,843	16,271,716		9,399,961
1966	348,763	16,620,479		9,399,961

Public Law 85–461, approved June 18, 1958, adopted a more tightly controlled per diem method of payment. As provided by this law, per diem rates are to be jointly determined for each fiscal year by the two Governments to be fair and reasonable. The following table compares the negotiated rate with the actual average rate experienced in relation to the average daily patient load:

Fiscal year	Negotiated rate	Actual average	ADPL
1960	$10.25	$9.12	212
1961	9.23	7.78	173
1962	7.30	5.82	166
1963	4.96	4.64	179
1964	5.37	4.95	149
1965	6.67	6.08	146
1966	7.03	6.38	149
1967	7.43	[1] 7.03	[1] 304
1968	[1] 7.70	[1] 7.26	[1] 457

[1]Estimate.

Mr. EVINS. $1,325,000. This is to modernize and make improvements in the existing veterans hospital in the Philippines.

Mr. MONK. $500,000 of the money which we are going to ask for as a 1967 supplemental provided for that. The treatment cost in the hospital for 1968 is $1,225,000.

Mr. EVINS. It is up to $1,325,000.

Mr. MONK. We are asking for $100,000 authorized by the law for research and training grants.

Mr. EVINS. Right. That makes the total.

Mr. MONK. That makes the total.

CANTEEN SERVICE REVOLVING FUND AND SUPPLY ACTIVITIES AND FUND

Mr. EVINS. We discussed these revolving funds and canteen services. We shall place 6–3 through 6–5 in the record, and 6–11 through 6–13.

(The pages follow:)

CANTEEN SERVICE REVOLVING FUND

No appropriation by the Congress will be required for the operation of the Veterans Canteen Service during fiscal year 1968. The Veterans Canteen Service was established by Congress in 1946 to furnish at reasonable prices merchandise and services necessary to the comfort and well-being of veterans in hospitals and domiciliaries operated by the Veterans Administration (38 U.S.C. 4201–08). The $11,230,000 budget estimate (comprised of $7,058,000 for total working capital and $4,172,000 for investment in equipment) is submitted for the purpose of providing for the maintenance and operation of the Veterans Canteen Service during fiscal year 1968.

The Congress originally appropriated a total of $4,965,000 for the operation of the Veterans Canteen Service and no additional appropriations have been required. Funds in excess of the needs of the Service totaling $11,916,000 have been paid to the Treasury. Funds in the amount of $106,000 will be paid to the Treasury during fiscal year 1967. Contingent upon the operating results for fiscal year 1967, and the capital requirements for fiscal year 1968, the 1968 estimate anticipates a further payment to the Treasury of $73,000.

Capital requirements

At the end of fiscal year 1966, there were canteens in operation at all VA Hospitals and Domiciliaries. Capital requirements for operation of the Veterans Canteen Service for fiscal year 1968 are as follows:

1. Cash

(*a*) *Petty cash and change funds.*—The average sum of $926 per canteen is considered necessary for the purpose of making limited local purchases, paying incidental operating and housekeeping expenses, and providing adequate change requirements. Such funds are established in amounts commensurate with the size and requirements of each individual canteen. Total requirements, $150,000.

(*b*) *At the field station depositaries.*—It is estimated that the average sum of $10,309 per canteen in necessary for the maintenance of field station depositary accounts. Total requirements, $1,670,000.

(*c*) *At the field offices and central office.*—It is estimated that the capital requirements for five field offices and Central Office will amount to $1,180,000. This total will provide a portion of the cash for purchase of equipment and payment of outstanding accounts payable, accrued payroll, withholding taxes, retirement, etc.

2. *Accounts receivable, prepaid expenses and other assets*

It is estimated that accounts receivable, prepaid expenses and other assets will be $537,000.

3. *Inventories—Commodities for sale*

(*a*) *Retail departments.*—It is estimated that a retail inventory of $6,374,000 is required.

(*b*) *Food departments.*—It is estimated that a food department inventory of $305,000 is required.

(*c*) *Service departments.*—It is estimated that a service department inventory of $27,000 is required.

4. *Equipment*

Capital requirements for new hospital canteens, remodelings and replacement of worn-out equipment during fiscal year 1968 are estimated to be $786,000.

Operating results

It is expected that sales will amount to $59,981,000 in fiscal year 1968, and that a net income of $429,000 will be realized.

Personnel requirements

In the area of manpower control and utilization, the Veterans Canteen Service uses many of the techniques that are generally applied in commercial retail chain store operations. Major consideration is given to salary expense in relation to sales. Salary expense data are provided to management personnel periodically for each department in each canteen, as well as consolidated data for each field office and the total Veterans Canteen Service. These data are compared to the corresponding period for the previous year and to the budget. This has been and will continue to be an effective control.

Although the major control is salary expense in relation to sales, other means, such as, sales productivity figures per employee have been developed for the retail and food departments to determine trends. Studies will be continued and productivity data refined during the fiscal years 1967 and 1968.

It is estimated that a total of 2,746 permanent positions and 372 full-time equivalent of all other positions will be required in fiscal year 1968.

The increase of 65 permanent positions over fiscal year 1967 is required as follows:

Relocation hospital canteen at Puerto Rico	+11
New hospital canteen at Miami, Fla	+ 8
Replacement hospital canteen at Long Beach, Calif	+ 4
Additional employees at 41 canteens required for increased service	+42
Total	+65
The increase of 15 full-time equivalent of all other positions over fiscal year 1967 is required at canteens for increased service	+15

Function	1966 actual	1967 estimate	1968 estimate
CENTRAL OFFICE			
Director's office	2	2	2
Merchandising	6	6	6
Procurement	15	15	15
Accounting and auditing	14	14	14
Personnel and administrative	2	2	2
Subtotal	39	39	39

Supply Activities and Fund

General statement

The Supply Service is responsible for providing logistic support to all organizations in the Veterans Administration, and for the procurement of drugs, biologicals, official reagents and nonperishable subsistence for all civilian agencies. The program also provides supply support for medical and hospital supplies to the Department of Health, Education and Welfare; Department of Interior; Department of Justice; Department of State; Department of Agriculture; Post Office Department, and Government of American Samoa. Other activities receiving or having requested support for certain medical and hospital supplies are National Aeronautics and Space Administration; Tennessee Valley Authority; D.C. Government; Walter Reed Army Hospital; Job Corps Centers of the Office of Economic Opportunity; General Services Administration and Civil Service Commission. Supply depots, a Marketing Center, a publication depot and field station supply activities provide purchasing and warehousing facilities.

Its objective is to provide quality support to all programs in the VA and to assure for the agency the greatest return for every dollar spent for the acquisition, maintenance and utilization of supplies, equipment and nonpersonal services.

Program notes

Prior to fiscal year 1967 responsibility for the agency's supply program activities was assigned to two organizational elements within Central Office. The Chief Medical Director was responsible for all operational aspects of the program while the Supply Management Service of the then Office of the Assistant Administrator for Management and Evaluation was responsible for staff and evaluation aspects. In addition liaison personnel were employed by the Departments of Data Management and Veterans Benefits to coordinate supply functions within their programs.

Review and analysis of the program indicated a need for management improvements and the following actions were taken to assure that Supply Program objectives were met, at the lowest possible cost, without sacrificing effectiveness:

1. Supply Management Service functions and personnel were consolidated with Supply Service in the Department of Medicine and Surgery.
2. Positions of Supply Liaison Personnel within the Department of Data Management and Veterans Benefits were abolished and the responsibilities and functions transferred to Supply Service, Department of Medicine and Surgery.
3. Consolidation of all the Marketing Divisions was effected with the transfer of two divisional elements from the Somerville, New Jersey, Supply Depot to the Marketing Center, Hines, Illinois and the change of the Marketing Divisions for Motion Pictures and Books and Periodicals to the status of operating divisions within the Somerville Depot activity.
4. The Wilmington, California, Supply Depot was reorganized as a Sub-Depot and its administrative functions transferred to the Hines, Illinois, Supply Depot.

The program now provides—

1. A staff for promoting more effective and economical operations, developing plants, policies, standards, cost controls methods, and for the appraisal and evaluation of the supply program;
2. An operation which provides centralized direction, operating methods and technical review of the supply activities;
3. A system for agency supply standardization and cataloging, personal property management, property utilization and disposal, and for financing, control and management of inventories.
4. Centralized direction of field supply operations;
5. A national buying system for the procurement of supplies, equipment and services. National buying is designed to consolidate requirements and purchases of all items for which there is a price advantage in volume buying;
6. The management and operations of the VA Supply Depots for economical storage and distribution;
7. A service and reclamation program for the repair and reclamation of supplies and equipment nation wide, and for providing laboratory inspection and testing services for technical instruments, equipment and supplies. In addition, teams of skilled technicians, on a scheduled basis, conduct surveys of hospital medical equipment. They evaluate present condition,

effectiveness of maintenance, and life expectancy. Their findings and recommendations are reported to the field station head;

8. A national buying system for the procurement, printing and distribution of forms, form letters, publications (manuals, circulars, etc.) and other printed material as authorized by the Joint Committee on Printing;

9. Field station activities for the local purchase of all items for which there is no price advantage in volume buying and for the purchase of goods and services which are not made available from GSA or other mandatory sources. These activities also provide for storage and issue of supplies and equipment to field station users. They perform functions of supply accounting, utilization and disposal of property, equipment maintenance and supply fund administration. They furnish hospitals, outpatient clinics, regional offices, insurance centers, etc., with drugs, medical supplies and equipment, food, orthopedic appliances, engineering supplies and equipment, etc.; also contractural services such as equipment rental, maintenance and repair of office machines, laundry services, etc.

Supply fund financing

The Supply Fund finances, on a reimbursable basis, warehouse inventories and procurement of recurring need supplies and centrally acquired equipment throughout the Veterans Administration; the operation expenses of the VA supply depots including acquisition cost and depreciation of operating equipment; the Marketing Center; the cost of the Service and Reclamation program; and the cost of production, procurement and distribution of printed matter for the VA. Appropriations reimburse the fund for the cost of supplies and equipment provided and services rendered by the above specified activities, including related expense such as transportation, inspection and testing. The fund is expected to break even in FY 1968.

Appropriations financing

The following costs are direct charges to appropriations and are not financed by the Supply Fund:

1. Personal services and other expenses of the supply program in Central Office and field stations.
2. Nonpersonal services such as contracts for laundry service, office machine repairs, research (medical and prosthetic), etc.
3. Supplies and equipment purchased for direct delivery to user.

Workload

The total dollar volume produced in the Supply Program amounted to $256,389,462 actual FY 1966; $269,733,200 estimated FY 1967; and $290,339,690 estimated FY 1968.

General Post Fund

Mr. Evins. General post fund, page 6–21 and 6–22. Put those pages in the record.

(The pages follow:)

General Post Fund—Trust Fund

This fund consists of gifts, bequests, and proceeds of sale of property left in the care of the facilities by former beneficiaries; patients' fund balances; and proceeds of sale of effects of beneficiaries who die leaving no heirs or without having otherwise disposed of their estate. Such funds are used to promote the comfort and welfare of veterans at hospitals and homes where no general appropriation is available. (38 U.S.C., Chapters 83 and 85).

During fiscal years 1967 and 1968 it is estimated that cash expenditures from the fund will approximate $3,268,000 and $1,750,000 respectively, comprised of $1,945,000 and $1,285,000 for supplies and services, $55,000 in both years for set-

tlement of estates and claims and $1,275,000 and $410,000 respectively for recreational and religious facilities and equipment. The considerable increase in expenditures anticipated in fiscal year 1967 results from additional $1,252,000 funds available for general use from investment reserves during the latter part of fiscal year 1966. Most of this amount will be actually expended in fiscal year 1967. The expenditures are in accord with purposes for which the fund legally may be expended (Controller General's Decision B–125715, November 10, 1955), and the intent of the donors. Donors usually specify that their donations be used for designated recreational or religious projects or equipment purchases.

An invested reserve of approximately $1,070,000 in both fiscal years 1967 and 1968 will be maintained to meet claims for estate settlement which must be held in trust for a legal period of five years after the demise of intestate veteran beneficiaries. The revised level of retained investment will be maintained at approximately five times the previous years' experience for claim payments as proposed to the Controller General, since the previous levels of reserves in amounts of more than $2 million appeared to be excessive.

Cash receipts from donations and estates for each of the fiscal years 1967 and 1968 are estimated to be $1,800,000 and $1,750,000 respectively.

Statement of financial actions and condition

	1966 actual	1967 estimate	1968 estimate
Balances as of July 1:			
Equipment and facilities	$4,139,428	$4,944,000	$6,418,000
Investments	2,185,000	933,000	1,070,000
Cash	1,675,511	2,961,000	1,374,000
Total	7,999,939	8,838,000	8,862,000
Income during year:			
Equipment and facilities donated	201,931	199,000	200,000
Discounts or premiums on investments purchased	−430		
Interest on investments	73,934	18,000	28,000
Cash receipts from donations, estates, etc.	1,843,853	1,800,000	1,750,000
Total	2,119,288	2,017,000	1,978,000
Total balances plus income:			
Equipment and facilities	4,341,359	5,143,000	6,618,000
Investments	2,185,000	933,000	1,070,000
Cash	3,592,868	4,779,000	3,152,000
Total	10,119,227	10,855,000	10,840,000
Expenditures during fiscal year: [1]			
Supplies and services	1,213,428	1,938,000	1,285,000
Settlement of estates and claims	67,997	55,000	55,000
Total	1,281,425	1,993,000	1,340,000
Capital at end of fiscal year:			
Equipment and facilities	4,943,583	6,418,000	7,028,000
Investments	933,000	1,070,000	1,070,000
Cash	2,961,219	1,374,000	1,402,000
Total	8,837,802	8,862,000	9,500,000
Total expenditures and capital	10,119,227	10,855,000	10,840,000

[1] See the following table:

	1966 actual	1967 estimate	1968 estimate
Excludes net amounts expended for investments, and equipmen and facilities, which are included in comparable capital accounts	($649,776)	($1,412,000)	($410,000)

Construction of Hospital and Domiciliary Facilities

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	VETERANS' ADMINISTRATION			
	Personnel compensation:			
11.1	Permanent positions	4,549	4,469	4,414
11.3	Positions other than permanent	725	542	626
11.5	Other personnel compensation	53	29	29
	Total personnel compensation	5,327	5,040	5,069
12.0	Personnel benefits	353	347	344
21.0	Travel and transportation of persons	106	177	181
22.0	Transportation of things	14	21	21
23.0	Rent, communications, and utilities	76	76	76
24.0	Printing and reproduction	28	35	35
25.1	Other services	12,111	6,282	6,121
26.0	Supplies and materials	370	372	372
31.0	Equipment	3,046	3,012	3,012
32.0	Lands and structures	61,936	47,275	61,719
	Total cost funded	83,367	62,637	76,950
94.0	Change in selected resources	−39,929	−6,112	70,138
	Total obligations, Veterans' Administration	43,438	56,525	147,088
	ALLOCATION TO DEFENSE—ARMY—CIVIL			
11.1	Personnel compensation: Premanent positions	21	23	
12.0	Personnel benefits	2	2	
24.0	Printing and reproduction	2	2	
25.1	Other services	6	11	
25.3	Payments to revolving fund, Corps of Engineers—Civil	43	78	
32.0	Lands and structures	68	9	850
	Total cost funded	142	125	850
94.0	Change in selected resources	−68	1,089	−838
	Total obligations, Army—Civil	74	1,214	12
99.0	Total obligations	43,512	57,739	147,100

Personnel summary

	1966 actual	1967 estimate	1968 estimate
VETERANS' ADMINISTRATION			
Total number of permanent positions	479	458	478
Full-time equivalent of other positions	104	71	81
Average number of all employees	567	510	514
Average GS grade	9.3	9.3	9.3
Average GS salary	$9,822	$10,141	$10,125
ALLOCATION TO DEFENSE—ARMY—CIVIL			
Total number of permanent positions	2	2	0
Average number of all employees	2	2	0
Average GS grade	9.7	9.7	
Average GS salary	$9,497	$9,884	

Program and financing

[In thousands of dollars]

	Costs to this appropriation					Analysis of 1968 financing			
	Total estimate	To June 30, 1965	1966 actual	1967 estimate	1968 estimate	Deduct selected resources and unobligated balance, start of year	Add selected resources and unobligated balance, end of year	Appropriation required for 1968	Appropriation required to complete
Program by activities:									
1. Hospitals:									
(*a*) New	67,660	65,204	618	300	82	1,538	1,456		
(*b*) Replacement and relocation	511,890	127,299	51,047	32,185	44,278	131,573	121,262	33,967	135,819
(*c*) Modernization	141,937	45,157	12,722	9,256	12,109	18,738	6,629		56,064
(*d*) Other improvements	121,375	41,859	11,045	12,359	11,640	18,860	20,146	12,926	24,326
2. Domiciliaries	1,789	1,769	11	9					
3. Nursing homes	9,639	665	2,457	2,611	3,170	3,906	736		
4. Research facilities	24,940	2,327	3,742	3,872	4,544	9,979	8,565	3,130	1,890
5 Experimental hospital facilities	475	475							
6. Other facilities	6			6					
7. General administration	6,008		1,867	2,164	1,977			1,977	
Total program costs, funded	885,719	284,755	83,509	62,762	77,800	184,594	158,794	52,000	218,099
Change in selected resources [1]			−39,997	−5,023	69,300				
10 Total obligations			43,512	57,739	147,100				
Financing:									
21 Unobligated balance available, start of year			−73,476	−120,476	−114,862				
24 Unobligated balance available, end of year			120,476	114,862	19,762				
40 New obligational authority (appropriation)			90,512	52,125	52,000				
Relation of obligations to expenditures:									
71 Total obligations (affecting expenditures)			43,512	57,739	147,100				
72 Obligated balance, start of year			126,553	86,330	78,572				
74 Obligated balance, end of year			−86,330	−78,572	−148,672				
90 Expenditures			83,735	65,497	77,000				

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

	1965	1966	1967	1968
Unpaid undelivered orders	113,193	71,911	67,232	136,032
Advances	1,559	2,844	2,500	3,000
Total selected resources	114,752	74,755	69,732	139,032

Mr. EVINS. The committee will come to order.

We will consider this afternoon in the VA budget the requested funds for construction program, hospital and domiciliary facilities.

LONG-RANGE PROGRAM

Mr. Administrator, during the past several years—I believe about 8 years—we have established, upon your recommendation, a 12-year long-range program of major alterations, improvements, and repairs for the extention of the hospital program. How many years is this program?

Mr. DRIVER. It is a 15-year program. It started as 10; it went to 12. We have had some difficulty acquiring some of the sites in the program and some of the projects have fallen behind and our estimate of the situation is about 15 years, now.

Mr. EVINS. The original estimate was you could complete the job in about 10 years. It has now been stretched out to about 15.

Mr. DRIVER. That is right, sir.

Mr. EVINS. What year are we in?

Mr. DRIVER. This is the eighth year.

INVESTMENT IN FACILITIES

Mr. EVINS. How much is the total investment currently in our veterans' hospital program? We have a great investment and a proud investment.

Mr. MONK. Book value, Mr. Chairman, is about $2 billion.

Mr. EVINS. You always talk about book value but this is not the value of our vast hospital program.

Mr. DRIVER. Do you mean the facilities and lands?

Mr. EVINS. Yes, and equipment.

Mr. DRIVER. This is merely a bookkeeping figure. A market value would probably be many, many times that.

Mr. EVINS. I am sure the VA must have arrived at some value of the hospital system. How much investment do we have in our veterans' hospital program?

Mr. MONK. As far as costs go, we have about $2 billion. Replacement value would be three or four times that much, probably about $4.5 billion.

Mr. EVINS. In any event, we have the finest and the most extensive medical care hospital program in the VA of any hospital program in the world.

Mr. DRIVER. There is no question about that. When we get through with this program, we will have improved it. In the main we are laboring to bring up to par, or to locate in new locations where the veterans population is, hospitals built prior to World War II. There are some exceptions to that. As the committee knows, the veteran population has shifted, especially among the older age groups, and we are finding it necessary to introduce new facilities, especially in the southern part of the country.

1968 REQUEST FOR CONSTRUCTION

Mr. EVINS. How much do you propose to expand in this program for 1968?

Mr. MONK. We are asking for $52 million, Mr. Chairman, of which $2 million is for administration and $50 million is for projects.

Mr. EVINS. Heretofore we have been appropriating $90, $75, $80, or $85 million a year. This year it is considerably less.

Mr. MONK. This year it is the same as last year, $52 million. The year before it was a little over $90 million.

Mr. EVINS. This doesn't represent what your obligations will be by way of contract commitments; this represents expenditures?

Mr. MONK. This represents new money authorized.

OBLIGATIONS

Next year we intend to obligate $147 million.

Mr. EVINS. But you are going to actually spend about $50 million?

Mr. DRIVER. We will obligate $147 million.

Mr. MONK. We are going to ask you to appropriate $52 million, but with the carryover, unobligated balance, we will obligate next year——

Mr. EVINS. How much is your unobligated balance?

Mr. DRIVER. $115 million.

Mr. EVINS. All of this $115 million is pretty much earmarked. It is committed, in a way, for facilities that are planned and programed.

Mr. MONK. Very definitely, yes, sir.

Mr. EVINS. It is all planned and programed in committee?

Mr. MONK. That is right.

Mr. EVINS. And the $52 million to be appropriated is to be expended on some of these obligated——

Mr. DRIVER. Specifically designated projects.

Mr. MONK. That will be a part of the $147 million that we will obligate.

EXPENDITURE

Mr. EVINS. How much are you actually going to expend next year?

Mr. MONK. Our cash expenditure next year——

Mr. EVINS. 1968.

Mr. MONK. Yes. It will run about $77 million I would say. That is cash expenditure. Pay out on working projects.

Mr. EVINS. The expenditures are about $77 million, $147 million is to be obligated and you have about $115 million carryover.

Mr. MONK. Yes, sir.

Mr. DRIVER. That will bring our carryover down to about $20 million.

CONSTRUCTION PROJECTS

Mr. EVINS. Identify the projects to which this $50 million goes.

Mr. MONK. On page 7–5, Mr. Chairman, we are asking for new hospitals. An additional cost for the new hospital at Chicago. We had appropriated heretofore $21,893,000 and we are asking for $2,672,000.

Mr. EVINS. You are only asking for an appropriation of $2,672,000 for the new Chicago hospital?

Mr. MONK. Yes, sir. That is additional cost because we added some research facilities over and above the original plan.

San Diego, California, a new 1,040-bed hospital at a total cost of $30 million, of which we have had appropriated $1 million and we are asking for $29 million.

Mr. EVINS. This will be a wrap-up figure on the San Diego Hospital.

Mr. MONK. Yes, sir.

At Seattle, Wash., we are asking for planning money to add beds at the existing hospital, $1 million planning money, and we will be in later for construction money of $23,667,000.

Mr. EVINS. This is after 1968?

Mr. MONK. That is after 1968. We will have to have construction money after that.

Mr. EVINS. It will probably be 1969 or 1970.

Mr. MONK. That is right.

At Tampa, Fla., you have already given us $1,880,000 through 1966. You gave us $15,587,000 last year and we are asking for another $1,295,000 and we are planning to put this hospital under contract in 1968.

Mr. EVINS. That will be the wrap-up money on that one?

Mr. MONK. That is right.

Mr. EVINS. This is four hospitals you are going to continue to do work on in 1968 for a total of $33,967,000.

Now, you have other improvements. Just name them and give the totals.

Mr. MONK. At Chillicothe we are going to modernize the boilerplant for $1,221,000. We had planning money of $120,000.

At Columbia, S.C., cardio-pulmonary function laboratory, $196,000.

Los Angeles, Calif., smoke barriers and standpipe, $109,000.

Mountain Home, we are going to modernize the boilerplant and we are asking only for $100,000 planning money and we will ask subsequently for $1,200,000 to complete the project.

At West Haven, Conn., we have three projects. Fire sprinklers, $188,000; a new exterior wall surface for $2,281,000; clinic consolidation, $208,000.

MISCELLANEOUS PROJECTS

Then at various stations, about 48 stations, intensive care units for $6,825,000. This is the construction money that goes with the new medical service we talked about this morning.

Then miscellaneous projects costing from $25,000 to $100,000. We are asking for $1,298,000.

Mr. EVINS. "Other improvements," total $12.9 million?

Mr. MONK. Yes.

RESEARCH PROJECTS

For research facilities, we ask for $3,130,000.

Mr. EVINS. You explained those earlier, did you not?

Mr. MONK. These are the construction projects; seven construction projects.

Mr. EVINS. This is the $3,130,000?

Mr. MONK. That is right, for a grand total of $50,023,000.

SUMMARY OF REQUIREMENTS

Mr. EVINS. Place in the record pages 7–3 through 7–5.
(The pages follow:)

APPROPRIATION LANGUAGE

"For hospital and domiciliary facilities, for planning and for major alterations, improvements, and repairs and extending any of the facilities under the jurisdiction of the Veterans Administration or for any of the purposes set forth in sections 5001, 5002, and 5004, title 38, United States Code, including necessary expenses of administration, $52,000,000 to remain available until expended."

GENERAL STATEMENT

The Construction of Hospital and Domiciliary Facilities appropriation provides for (1) construction of new facilities, (2) modernization of existing facilities, (3) alteration and improvement of facilities under the jurisdiction of the Veterans Administration and (4) expenses of the Office of Assistant Administrator for Construction. It provides funds for architectural planning and acquisition of sites in addition to construction funds.

This request provides for the eighth annual increment under our long range construction program. Major requirements are for replacement of temporary military hospitals built during World War II and for replacement or modernization of facilities built prior to World War II.

Concurrent with replacement of obsolete facilities, beds are also being relocated to geographic areas of greatest veteran population concentration and in medical centers of such areas.

Other requirements of the program are for consolidation of out-patient clinics with hospitals, expansion of medical research space, establishment of nursing home beds, air conditioning existing hospitals, and other improvements throughout the hospital system to provide for new medical treatment programs and to correct plant deficiencies.

Summary of request, F.Y. 1968

An appropriation of $52,000,000 is requested for F.Y. 1968. A summary of the request by activity follows:

	1968 request
Construction projects:	
Replacement and relocation hospitals	$33,967,000
Other improvements at hospitals	12,926,000
Research facilities	3,130,000
Total, construction projects	50,023,000
General administration	1,977,000
Total request	52,000,000

The request for construction projects for F.Y. 1968 totals $50,023,000 or an increase of $23,000 over the $50,000,000 appropriated in F.Y. 1967. The table below provides a detailed listing of projects for which funds are requested. A more detailed description of each project is contained in the section entitled "Project Prospectus."

Construction projects for which funds are requested in 1968

[In thousands of dollars]

Location	Description	Total estimated cost	Appropriation			
			Distribution		Required	
			Available through 1966	For 1967	For 1968	After 1968
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Replacement and relocation:						
Chicago, Ill. (S.S.)	769-bed hospital	24,565	21,893		2,672	
San Diego, Calif	1,010-bed hospital and outpatient clinic	30,000	1,000		29,000	
Seattle, Wash	Additional beds	24,667			1,000	23,667
Tampa, Fla	720-bed hospital	18,762	1,880	15,587	1,295	
Subtotal (4 projects)		97,994	24,773	15,587	33,967	23,667
Other improvements:						
Chillicothe, Ohio	Modernize boiler plant	1,341		120	1,221	
Columbia, S.C	Cardiopulmonary function laboratory	196			196	
Los Angeles, Calif	Smoke barriers and standpipe	109			109	
Mountain Home, Tenn	Modernize boiler plant (design)	1,300			100	1,200
West Haven, Conn	Fire sprinklers	188			188	
West Haven, Conn	New exterior wall surface	2,381	100		2,281	
West Haven, Conn	Clinic consolidation	208			208	
Various stations	Intensive-care units	6,825			6,825	
Various stations	Fiscal year 1968 miscellaneous projects, $25,000 to $100,000	1,298			1,298	
	Fiscal year 1968 administrator's discretionary fund	500			500	
Subtotal (10 projects)		14,346	100	120	12,926	1,200
Research facilities:						
Denver, Colo	Research addition—10,000 net square feet	702			107	595
Madison, Wis	Research addition—16,000 net square feet	1,014	549		465	
Minneapolis, Minn	Animal research facility—2,907 NSF (design)	233			25	208
Oklahoma City, Okla	Research addition—15,082 net square feet	1,525	422	723	380	
Palo Alto, Calif	Research addition—10,000 net square feet	775			775	
Pittsburgh, Pa. (NP)	Research addition—8,000 NSF (design)	620			73	547
Washington, D.C	Research addition—20,000 net square feet	1,407		102	1,305	
Sub total (7 projects)		6,276	971	825	3,130	1,350
Grand total (21 projects)		118,616	25,844	16,532	50,023	26,217

CONSTRUCTION PROGRAM LEVEL

The amount of the annual appropriation does not adequately reflect the total level of activity of the construction program in any one year. While the appropriation requested is the same as was appropriated in 1967, the level of contract awards as reflected in obligations will increase by approximately $90 million to a total $147.1 million in 1968. The table on the following 2 pages shows estimated obligations for projects with major construction contracts awards scheduled for 1967 and 1968.

OBLIGATIONS BY PROJECT

Mr. MONK. On 7–6 and 7–7 we show what we plan to obligate by project and amount in 1967, a total of $57,739,000, and by project for 1968 with a total of $147,100,000.

Mr. EVINS. This is $57,739,000 for 1967.

Mr. MONK. And 147,100,000 for 1968, and for these projects listed on these two pages we will have to have additional appropriations in future years of $161,142,000.

Mr. EVINS. You have delays in Los Angeles and Chicago and you talk about projects approved by the President. I assume they have all been approved by the President.

Mr. MONK. They have all been approved.

FUNDING FLEXIBILITY

We have been having some difficulty with some of these sites as the Administrator mentioned earlier. We had money to build a thousand-bed hospital at Los Angeles. We have been dealing with the city for about 6 years now, trying to get this site cleared. We are involved there with a swap of land. Some land we own for some parkland the city owns, which we intend to build this hospital on. We have trouble in Chicago, getting our site in Chicago.

What we here propose, Mr. Chairman, is that if we continue to have difficulty to the point that we can't build these hospitals, we will have other hospitals that have been approved, for which we have not had an appropriation, that we would use the money—for example, appropriated for Los Angeles—and apply it to a hospital that has been approved, such as San Antonio, where we would have the plans ready and use that money and then come back to you and ask for the Chicago money again. We would thereby keep this unobligated balance down to a more reasonable figure.

Mr. EVINS. I don't think you should divert money appropriated to another project. It should be approved by project.

Mr. DRIVER. For example, in the ones we would substitute you would have already appropriated the planning money and we would have spent it. We would have spent $1 million or $2 million——

Mr. EVINS. On planning, but we hadn't authorized construction.

This is the same thing we discussed years ago with the Corps of Engineers. We plan but it is a construction project you commit yourself on and once that commitment is made, you go forward with it.

Mr. DRIVER. We are suggesting that we would identify the particular project that would be substituted if the delay continued, just to keep the carryover fund down.

Mr. EVINS. You have a $115 million carryover. Do you really need this additional $50 million now?

Mr. MONK. Yes, sir, we do, because, as you correctly stated earlier, every bit of that is earmarked for project money.

Mr. EVINS. As long as you keep it earmarked for these projects approved already, you can say the Congress has passed on it, the committee has approved it. Then if you start transferring funds, you are going to a have a question.

Mr. DRIVER. We are asking the committee really to approve it, Mr. Chairman.

Mr. EVINS. Which ones do you ask us for approval of transfer funds?

Mr. DRIVER. Let's take, for example, the hospital at Chicago. In the middle column, the first figure, Mr. Chairman. We plan to obligate $22 million there in 1968. We have had some difficulty with the school in terms of the site and the kind of facility. If this delay continued through the full fiscal year, we would like to suggest that we——

Mr. EVINS. You can use this $21 million where else?

Mr. DRIVER. At San Antonio, Tex., if the planning is finished.

Mr. EVINS. Is San Antonio listed here?

Mr. DRIVER. It is in the third column at $22 million, the fourth figure down. Now, if we had that kind of flexibility, this would permit us to go forward with a construction project even though it isn't the one that we mentioned in the fiscal year.

Mr. EVINS. Hasn't the President by directive, and verbally, told his administrators to slow down and stretch out some of these construction programs?

Mr. DRIVER. Yes, sir; and taking that all into account, we still come up with this picture. We have participated in that and have delayed some 1967 projects over to 1968, and 1966 to 1967, but even with that, we feel there is a likelihood that one or two of these projects, either Los Angeles, for example, San Diego, or Chicago South Side, might be delayed beyond the——

Mr. EVINS. There may be delays and you are asking for flexibility to transfer any of the money of these three to one or two other projects in which planning has been completed?

Mr. DRIVER. Yes, sir.

Mr. EVINS. But we have never appropriated first funds for construction yet?

Mr. DRIVER. No, sir; you haven't. We would be glad to come back to the committee and tell you about this if you want it.

Mr. EVINS. You generally come up with something anyway, so you better tell us about your plans. We will see what the situation is.

We won't include the lengthy tables, but the tables on 7–6 and 7–7.

(The pages follow:)

Obligations for projects with scheduled construction contract awards for Presidentially approved projects (costing $1,000,000 and over)

[In thousands of dollars]

Location	Fiscal year 1967 estimated obligations	Fiscal year 1968 estimated obligations	Future estimated obligations
Replacement and relocation:			
Chicago, Ill. (South Side)		21,936	
Columbia, Mo.	12,600		
Hines, Ill. (phase II)			18,697
Lexington, Ky.			9,929
Long Island, N.Y.			24,687
Los Angeles, Calif.		[1] 21,000	
Los Angeles, Calif. (reserve center)	1,100		
Northport, N.Y.		16,200	
San Antonio, Tex.			[1] 22,418
San Diego, Calif.		[1] 27,200	
Seattle, Wash.			23,867
Tampa, Fla.		17,075	
Modernization:			
Bedford, Mass.	2,225		
Coatesville, Pa.	1,300		
Do.		1,200	
Dallas, Tex.			[1] 8,707
Indianapolis, Ind.			9,450
Louisville, Ky.			6,430
Marion, Ill.	2,525		
Palo Alto, Calif.			3,858
Perry Point, Md. (phase III)		2,175	
Perry Point, Md. (phase IV)		2,800	
Phoenix, Ariz.			10,805
Tuskegee, Ala.			[1] 4,622
Waco, Tex.			11,400
Other improvements:			
Brooklyn, N.Y.	4,935		
Chillicothe, Ohio			1,291
Fort Wayne, Ind.		919	
Mount Home, Tenn.			1,230
St. Louis, Mo.			[1] 3,751
West Haven, Conn.		2,050	
Research:			
Boston, Mass.		1,150	
Chicago, Ill (research)		1,020	
Cincinnati, Ohio		1,060	
Madison, Wis.		[1] 940	
Oklahoma City, Okla.		1,305	
Washington, D.C.		[1] 1,200	
Miscellaneous projects and general administration	40,214	27,843	
Total obligations	57,739	147,100	161,142

[1] Projects which are scheduled for award near the end of the year.

The above table shows the year of obligation of the construction contract for all major projects which have been approved by the President. We have scheduled for construction contract award in 1968 those projects which are most advanced in planning at this time, and have requested the appropriation of funds accordingly. However, in a program of this size, unforeseen problems often arise that may delay construction contract awards. Two examples of recent delays are the Chicago (SS) and Los Angeles Hospitals. In both projects we have experienced a lengthy delay due to problems encountered in acquiring the site. While we believe these problems are being resolved satisfactorily, other problems may arise on other projects that could prevent us from meeting our planned award schedule. Some of our projects are scheduled for award near the end of FY 1968, and a delay of a few months would result in the award being deferred into the subsequent year.

At the same time we have in our program projects that have been approved by the President and for which design funds are available and working drawings will be completed late in FY 1968. We have also identified these projects with an asterisk in the column headed "future obligations." In the event there is a slippage in our 1968 obligation schedule, we plan to substitute projects from this list to the extent necessary to maintain our planned program level. We would request funds in a future budget request to cover the project that was reprogrammed.

The table on the following pages provide a summary of the financial status of all active construction projects.

Mr. EVINS. This is the only account where the funds are carried separate for hospital construction rather than general administration, otherwise.

Mr. MONK. Yes, sir.

GENERAL ADMINISTRATION

Mr. EVINS. General administration.

Mr. MONK. That is on page 7–57. That shows the breakdown.

Mr. ASHBRIDGE. The total required for 1968 is $1,977,000.

Mr. EVINS. Place pages 7–47 through 49 and 7–57 in the record.

(The pages follow:)

GENERAL STATEMENT

This section explains (1) the organization, total personnel costs and related benefits of the Office of the Assistant Administrator for Construction (Pages 7–47 through 7–55), and (2) the costs of the Office of Construction (not capitalized to construction projects) which are funded under the General Administration Activity (Pages 7–56 through 7–61).

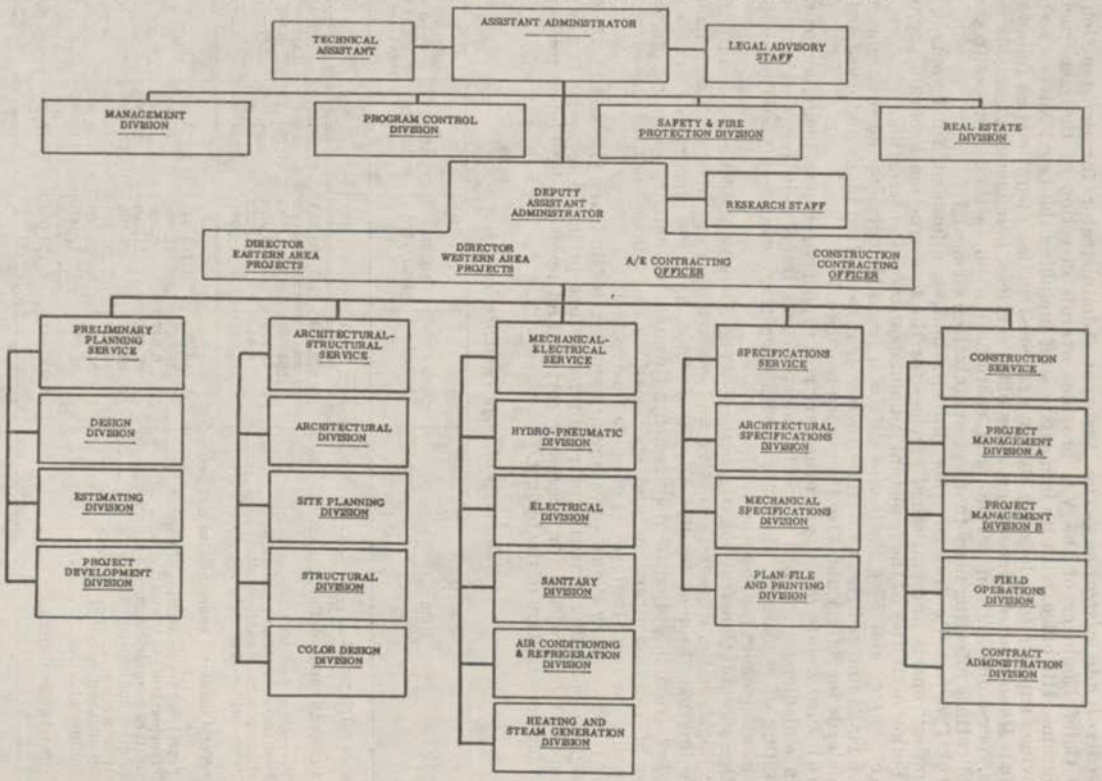
The salaries and related costs of personnel preparing and reviewing working drawings and specifications, supervising construction, and the labor force hired by VA for construction projects are funded as a part of the construction project. The salary and related costs of personnel preparing preliminary plans, the Legal Advisory Staff, the Safety and Fire Protection Division, and other Administrative personnel are funded under the General Administration Activity.

ORGANIZATION, PERSONNEL, AND WORKLOADS

The Veterans Administration Construction Program, which is based on requirements determined by the operating departments, is directed by the Assistant Administrator for Construction. He has three major areas of responsibility: (1) design and construction of Veterans Administration hospitals, domiciliaries and other facilities, including modernization and improvements of existing plant; (2) acquisition, utilization, and disposition of VA real property; and (3) staff responsibilities for safety of VA patients, the public and VA employees; and protection of VA property from fire.

The organization shown on the following page is one which is designed to make optimum use of VA personnel and to provide a flexibility in assignment of work which will keep planning, design and supervision of construction costs down to the lowest reasonable levels. Architects and engineers who are specialists in particular areas of the professions render services during all phases of the planning and construction process.

ORGANIZATION OF THE OFFICE OF THE ASSISTANT ADMINISTRATOR FOR CONSTRUCTION



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FUNCTIONS OF ORGANIZATIONAL ELEMENTS

The following functions are performed by the elements of the Office of Assistant Administrator for Construction.

General administration.—The Assistant Administrator for Construction as the Chief Engineer of the VA, provides overall direction of the construction program. His office, with its immediate staff including the Legal Advisory Staff, provides support for planning, design and construction operations as follows:

(*a*) *Management Division* provides office services, management analysis services, personnel liaison service and coordination on methods, procedures and publications affecting more than one organization element.

(*b*) *Program Control Division* provides budget, allotment, fund control, accounting reports and statistical services for the Construction Program projects, and other activities of the Assistant Administrator for Construction.

(*c*) *Safety and Fire Protection Division* provides agency-wide program guidance plans and policies as well as review of construction plans and construction standards for Safety and Fire Protection features.

(*d*) *Real Estate Division* provides for real property services, including acquisition and disposal of real property and property interest in fee, obtaining and granting of easements, and liaison with operating departments and other Government agencies for these activities.

Design and Construction Operations.—The Deputy Assistant Administrator for Construction directs the design and construction operations. These include coordination through Project Directors—each having a geographic area—of a project from inception of requirements through preliminary planning, preparation of working drawings and specifications and supervision of construction. The three principal categories of operations follow:

(*a*) *Preliminary Plans.*—Preliminary studies, preliminary plans and estimates based on operating department requirements are prepared to assist in the development of projects for necessary review and approval by higher authority and for presentation of the budget.

Summary of requirements by object

	Item	1966 actual	1967 estimated	1968 estimated	Increase (+) or decrease (−), 1968 over 1967
	Average employment	155.1	162	156	−6
11	Personnel compensation	$1,572,563	$1,665,200	$1,601,000	−$64,200
	Permanent positions	(1,564,262)	(1,651,750)	(1,590,000)	(−61,750)
	Positions other than permanent	(2,855)	(9,450)	(7,000)	(−2,450)
	Other personnel compensation	(5,446)	(4,000)	(4,000)	
12	Personnel benefits	113,617	118,000	114,200	−3,800
	Total personnel compensation and benefits	1,686,180	1,783,200	1,715,200	−68,000
21	Travel and transportation of persons	43,039	45,400	49,400	+4,000
22	Transportation of things	6,047	9,300	9,300	
23	Rent, communications, and utilities	21,464	21,300	21,300	
24	Printing and reproduction	24,222	26,000	30,000	+4,000
25	Other services	76,420	207,800	119,800	−88,000
26	Supplies and materials	34,570	20,000	20,000	
31	Equipment	14,067	12,000	12,000	
	Total obligations	1,906,009	2,125,000	1,977,000	−148,000

SELECTION OF ARCHITECT-ENGINEERS

Mr. EVINS. Mr. Ashbridge, how do you select your architects?

Mr. ASHBRIDGE. We have an architect-engineer selection board which keeps in its files the brochures and questionnaires submitted by architects all over the country. We have something of the order of 1,800 of these files on hand and when we are ready to select an architect for a certain project, we dig out the files pertaining to the architects

in that State. Sometimes we are able to cut it down a little closer and take a particular part of this State, depending on the number of engineers and architects there are available.

The architect-engineer selection board then goes over a spread sheet on which all the data are spread out on these architectural firms and their questionnaires——

STANDARD HOSPITAL PLANS

Mr. EVINS. Several years ago there was some advocacy on this committee of having what they call a standard form hospital and it was my view then that you never could have that because of terrain, climatic conditions, and other situations which vary with the location.

Mr. ASHBRIDGE. Yes; and particularly the medical requirements. Some of these hospitals are teaching hospitals, some are slanted in one direction, some in another, and the medical program determines the makeup of the beds. We have a different proportion of beds in some——

Mr. EVINS. Mr. Driver exhibited to the committee here earlier some photographs of the various types of VA hospitals, some of the new ones coming into being. Some are high rise, some are ranch type, some are circular in form or design. You don't really have a standard form for your hospitals.

Mr. ASHBRIDGE. We have been working toward standardization of the nursing units. The reason we went to this round one is that it cuts down the amount of corridor and the amount of travel from a nursing station to the farthest patient.

In many of our modern hospitals we do have a standardized nursing unit which we carry over from one hospital to another, but when we get into the ancillary facilities, the X-ray and the outpatients and all these 101 other things; that is where we run into a different problem. The formation of the terrain of the site, of course, makes a big difference, as you stated. On some we have a sloping site where we can get access at two or three different levels. In some places we have lots of room. In others like Chicago South Side, we are on a very restricted site where we have to go to a very high rise building. There are many things that determine the size and shape of the hospital.

HOSPITAL COSTS

Mr. EVINS. With all of these designs, you have a rather standard, uniform cost per unit? You have tried to arrive at some level to hold a reasonably firm——

Mr. ASHBRIDGE. The costs come out pretty much the same. They average out. We have a national average figure and that is adjusted to the different locations in different parts of the country.

Mr. EVINS. What is your cost per square foot in your hospitals today?

Mr. ASHBRIDGE. It varies quite a little bit. I have a list here. We have 10 projects that are substantially completed. Atlanta; Brecksville, Ohio; Charleston, S.C.; Downey, Ill.; Martinez, Calif.; Nashville, Tenn., and Cleveland, Ohio; Temple, Tex.; Washington, D.C.; and Wood, Wis.

Mr. EVINS. Those are old, Mr. Ashbridge. They have been completed and dedicated 10 years ago.

Mr. ASHBRIDGE. I know; but I wanted to give you the average cost on those. It is $34.55 per square foot.

Mr. EVINS. That was about 8 or 10 years ago.

What are your current costs per square foot?

Mr. ASHBRIDGE. We have seven under construction. Gainesville, Hines, Long Beach, Memphis, Miami, Oteen, and San Juan, and the average cost of those per square foot is $32.97.

Mr. EVINS. It has gone down about $2 per square foot in 6 or 8 years.

Mr. ASHBRIDGE. We have six projects that are proposed and the cost on those is up to a little over $38.

Mr. EVINS. Where is this?

Mr. ASHBRIDGE. Chicago South Side; Columbia, Mo.; Los Angeles, Calif.; Northport, N.Y.

Mr. EVINS. It is $38 per square foot?

Mr. ASHBRIDGE. Yes, sir; that is our average on these jobs that are now in various stages of design.

San Diego, Calif. and Tampa, Fla.

Mr. EVINS. How about San Juan, P.R.?

Mr. ASHBRIDGE. San Juan is $38.33.

Mr. EVINS. Is that your highest?

Mr. ASHBRIDGE. It is not the highest. It is one of the highest because a lot of the things have to be sent out from the continent to the island. All the structural steel and everything.

Mr. EVINS. Have you built one in Alaska?

Mr. ASHBRIDGE. We haven't one built in Alaska.

Mr. EVINS. You have an Army hospital there?

Mr. ASHBRIDGE. Yes.

Mr. EVINS. How about Hawaii?

Mr. ASHBRIDGE. They are also service hospitals out there.

Mr. EVINS. What was your cost per square foot in the Philippines when you built one there?

Mr. ASHBRIDGE. That I don't have, but we can supply it for the record.

Mr. MONK. That hospital cost $9,400,000 for 720 beds. That is fairly cheap.

Mr. EVINS. I had the impression it was about a $10 million hospital that we built in the Philippines.

Mr. MONK. $9.4 million.

Mr. DRIVER. There was a lot of difference there. It was open; there is no air conditioning, very few windows.

Mr. EVINS. It used to be $30 per square foot and now it is $38.

Mr. ASHBRIDGE. Yes, sir. The cost has been going up. The information that we have indicates that the construction cost is rising at a rate of between 3.6 and 4 percent a year.

We have in our presentation here a chart that shows that. It is on page 7–69, which shows the way the costs have been rising.

Over the period from 1952 to 1966 costs went up about 50 percent.

Mr. MONK. Just about 5 percent a year.

Mr. EVINS. Are we doing anything to try to hold this down with sharp pencil, with bargaining at the table?

Mr. ASHBRIDGE. We do everything we can during the design period to hold the costs down. We try to save the taxpayers' dollars as much as we can.

ARCHITECTURAL FEES

Mr. EVINS. Architectural fees have gone up. Do you allow them to set the fees or does Mr. Ashbridge set the fees?

Mr. ASHBRIDGE. We negotiate.

Mr. MONK. We negotiate the fees. The fee is based on the estimated cost of construction. As construction costs go up, the fees go up.

Mr. EVINS. What is the normal architectural fee for an average hospital if you can identify an average hospital?

Mr. ASHBRIDGE. It will run pretty close to 4 percent.

Mr. EVINS. Four percent of the total cost?

Mr. ASHBRIDGE. Yes. On some large hospitals it will run less than 4 percent, but on some of the more complicated jobs, such as modernization or adding air conditioning, it will run up to 6 percent.

Mr. EVINS. Do you have these figures costed out before you make a contract or do you allow them to come in and amend the contract and increase it?

Mr. ASHBRIDGE. They do not increase unless there is an actual change in the scope of the hospital. For example, Chicago South Side, where we added research floors, it meant a complete redesign of the hospital because we added two floors, and everything changed, the plumbing, foundations, the columns.

Mr. MONK. But it is a fixed-price contract when we negotiate it.

Mr. ASHBRIDGE. We negotiate a lump-sum fee, and while we have a curve which is a guide, it is not an exact science. It depends upon the location and complexity of the job.

WEST HAVEN, CONN., HOSPITAL

Mr. EVINS. You have had some difficulty with your West Haven, Conn., hospital. Are you proposing funds in this budget for three or four items?

Mr. MONK. Yes, to put a metal sheath on the outside to protect the hospital.

Mr. ASHBRIDGE. Also to protect the public from having bricks fall off, because there have been chunks of brick falling off the hospital.

Mr. EVINS. This is a modernization and improvement of existing facilities?

Mr. MONK. That is right.

Mr. EVINS. How much is recommended in this budget for that?

Mr. MONK. $2,281,000-plus

Mr. EVINS. Well, Mr. Ashbridge, you have built some beautiful hospitals, very functional hospitals, but you allow these contractors and architects to outsharp you. You are a sharp man, don't you let them up-bargain you. They want these contracts, they want these architectural fees, they will come to your bargaining table, they will come to you. Hold out on them a little bit.

Mr. ASHBRIDGE. They certainly do come to us.

Mr. EVINS. You do not have to go crawling to them. They will come and see you.

Mr. ASHBRIDGE. They do, indeed.

Mr. EVINS. We will let you have this $2 million and you will save it out of the architects and the contractors.

Mr. ASHBRIDGE. We will try.

Construction of State Nursing Homes

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Program by activities:			
	Grants for construction		965	3,850
	Change in selected resources [1]	2,291	2,967	63
10	Total program costs, funded—obligations (object class 41.0)	2,291	3,932	3,913
	Financing:			
21	Unobligated balance available, start of year		−209	−277
24	Unobligated balance available, end of year	209	277	364
40	New obligational authority	2,500	4,000	4,000
	Relation of obligations to expenditures:			
71	Total obligations (affecting expenditures)	2,291	3,932	3,913
72	Obligated balance, start of year		2,291	5,258
74	Obligated balance, end of year	−2,291	−5,258	−4,971
90	Expenditures		965	4,200

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1965, $0; 1966, $2,291,000 1967, $5,258,000; 1968, $5,321,000.

Mr. Evins. The last item is construction of State Nursing Homes.

Veteran's Cemeteries

Mr. Evins. I believe that is about all, gentlemen, except one or two things here. We have had a lot of discussion on the floor and elsewhere, it has been in the news, about the veterans cemetery policy. This is a bad situation, but tell us. We know it is not in your budget.

Mr. Driver. No, sir.

Mr. Evins. How many veterans cemeteries do you have, how many are going to be needed, what is required, what do you project? Give us something for the record.

Mr. Driver. Mr. Chairman, in this regard I think it should be understood at the outset that with very rare exception the Veterans' Administration does not run a cemetery program. This is run by the support service of the Department of the Army, the National Cemetery System. We do have 17 active cemeteries.

Mr. Evins. You have 17 cemeteries built and maintained by the Veterans' Administration?

Mr. Driver. We built only one. The others we took over.

Mr. Evins. Are veterans recognized in all 17 cemeteries?

Mr. Driver. Yes.

Mr. Evins. Seventeen of them?

Mr. Driver. Yes, sir.

Mr. Evins. They are called Veterans' Administration cemeteries?

Mr. Driver. Yes; going back to 1866.

Mr. Evins. You took them over from the Army?

Mr. Driver. Army posts, yes, sir.

Mr. Evins. Name them in the record.

Mr. DRIVER. All right. Bath, N.Y.; Bay Pines, Fla.; Biloxi, Miss.; Danville, Ill.; Dayton, Ohio; Fort Bayard, N. Mex.; Fort Lyon, Colo.; Hot Springs, S. Dak.; Houston, Tex.; Los Angeles, Calif.; Marion, Ind.; Mountain Home, Tenn.; Roseburg, Oreg.; Togus, Maine; Wadsworth, Kans.; Whipple, Ariz.; White City, Oreg.; Wood, Wis.; Kerrville, Tex.; Fort Meade, S. Dak.; Kecoughtan, Va.; Huntington, W. Va.; Knoxville, Iowa; Sheridan Wyo.

Mr. EVINS. Seventeen Veterans' Administration cemeteries. How much is the annual maintenance, upkeep and cost of these?

Mr. DRIVER. The costs of these cemeteries is an integral part of the engineering cost in the hospital. I do not know that we have it separately.

Do you have a figure broken out separately, Mr. Wise?

Mr. WISE. Not separately. I can dig out the total.

Mr. EVINS. The costs of these are covered in the administrative costs of the hospital nearby?

Mr. WISE. Yes, sir, medical care.

Mr. MONK. The engineering costs, primarily, for the grounds.

Mr. EVINS. Do you have any plans for building any more?

Mr. DRIVER. No, sir, we do not. And several of these cemeteries have already been closed for lack of space. The general rule is that the burials that take place here result from unclaimed bodies of veterans who die in a VA hospital, not from the burial of someone who would meet death in some other fashion.

Mr. EVINS. How many of them are being maintained today that are closed? In other words, how many are not operative and how many are operative?

Mr. DRIVER. Six are closed, with no gravesites available. The remainder have some gravesites and we have estimated closing dates on them that vary anywhere from 1999 to 1976, just depending on the acreage and the average number of burials per year. We have in these graves 131,000 graves used and there is a total number of graves in these cemeteries of 169,000. So we have some 38,000 left.

Mr. EVINS. It has been announced that Arlington National Cemetery was going to be restricted and this is of some concern to veterans' organizations. I am sure you will spell out your policy this year to the legislative committee so that this matter may be clarified.

Mr. DRIVER. Yes, sir. I understand this may be taken up. There is, as you know, a burial benefit of $250 to a person who bears the expenses of the burial of a veteran. This money goes in every single case, so that there is a uniform benefit in every death. In the case of burials in national cemeteries, because for the most part they are restricted to the areas where the Civil War was fought, the availability of gravesites in the national cemetery system is extremely limited in most parts of the country. Most veterans are not buried in federally operated cemeteries.

Mr. EVINS. In the Corps of Engineers appropriation last year, as I recall, the Senate included funds for the reopening of two cemeteries in which veterans and their families were urging that they be admitted;

and in conference it was disallowed pending settlement of the matter this year.

Mr. DRIVER. Yes, sir. I noticed in the announcement on Arlington that they announced that they were going to expand three or four cemeteries, one for example at Beverly, N.J., that had been closed.

TITLE INSURANCE

Mr. EVINS. The Comptroller General reports, to the committee, you could have saved some money in your veterans' housing program if you had followed sound insurance practices.

Mr. DRIVER. Yes, sir.

Mr. EVINS. Have you considered these recommendations of the Comptroller General?

Mr. DRIVER. We certainly did, Mr. Chairman. We have a difference of opinion with him in terms of the merits of the proposal.

Mr. EVINS. He said you could have saved $225,000 a year if the practice of obtaining title insurance was discontinued.

Mr. DRIVER. That is what they said.

Mr. STRATTON. We do not agree with them.

Mr. EVINS. If the practice of obtaining title insurance were discontinued, you could save $225,000 a year.

Mr. STRATTON. We don't agree with this, Mr. Chairman. We went out in 1962 and eliminated title insurance throughout the country over a period of 3 years except in Florida and Idaho, but we are acquiring and selling property so fast in Florida and the market is so demanding of good title that we have continued there to get title binders, rather than the more costly title insurance, and the GAO is recommending that we discontinue title binders which would amount to about $75,000.

Mr. EVINS. Now you said in other States you discontinued your title situation——

Mr. STRATTON. Yes, sir.

Mr. EVINS (continuing). To save money. But you did not follow that practice in Florida.

Mr. STRATTON. We changed from title insurance to title binders, Mr. Chairman.

Mr. EVINS. Why is Florida so distinct and unique?

Mr. STRATTON. The market is so volatile, we need binders to sell the properties. In Florida the seller is required to furnish good title to the buyer.

Mr. EVINS. The market is so what?

Mr. STRATTON. The market is so difficult there and the movement of properties is so frequent.

Mr. EVINS. Infrequent, you mean?

Mr. STRATTON. No, sir.

Mr. EVINS. You said this is where you have one of your heaviest loads, it is difficult to dispose of them, difficult to turn over.

Mr. STRATTON. Yes, this is correct, Mr. Chairman, but I am speaking of the overall market in Florida, and people there are suspect of

the title and we cannot sell the houses there that we have been selling unless we can give some assurance of reasonably good title and we do this through title binders.

Mr. EVINS. It is good to have a good title anywhere, but why is it you have special cause in Florida that you don't have in other States?

Mr. STRATTON. In Florida the general market has been very active for the last 10 years. This is the type of thing that generally makes titles suspect. Under the title binder procedure, the purchaser can obtain a title policy at a very favorable price. This helps us with our sales.

Mr. EVINS. Do you have title insurance in Kentucky, in Kansas?

Mr. STRATTON. No, sir.

Mr. EVINS. Do you have title insurance in New York?

Mr. STRATTON. No, sir.

Mr. EVINS. Do you have title insurance in California?

Mr. STRATTON. No States, except in Florida and Idaho. In Florida we buy title binders which costs about one-third of a title policy.

Mr. EVINS. Why do you disagree with the Comptroller General?

Mr. STRATTON. We disagree because if we discontinued having title binders and if you couldn't give customers assurance of good title, we would not be able to market these houses. Also, our operating costs would be increased under the GAO recommendation.

Mr. DRIVER. It is our opinion if we follow his recommendation we will end up by building up the inventory in the State of Florida.

Mr. EVINS. You have already built up your inventory.

Mr. DRIVER. We have been selling some of them as you noticed the other day. We have been bringing down the overall total every year for 4 or 5 years and we would hate to have a big buildup in Florida. It is the judgment of our housing people that what we are doing contributes to a good market and what GAO recommends would be detrimental.

Mr. EVINS. Do you and your division chiefs agree with the Comptoller General on any of their recommendations?

Mr. DRIVER. Yes; we do. We have adopted some of them. Quite frankly, the Comptroller General has a staff working full time in the VA and we find their services useful in many cases.

REDUCTION OF 1968 BUDGET

Mr. EVINS. You are recommending an increase of $169,721,000 out of over $6.5 billion in the budget. How much do you want to recommend that you withhold from your bill at this time?

Mr. DRIVER. We feel we would be doing you a disservice if we recommend anything, Mr. Chairman.

Mr. EVINS. You are not going to tell us anything?

Mr. DRIVER. No, sir. We feel we have got this down to a very realistic presentation.

Mr. EVINS. You have an increase of 4,956 jobs over last year.

Mr. DRIVER. Yes, sir; but almost everyone is associated with patient care where we feel it is fully warranted and I hope in the record we have pointed out the reasons for that.

Mr. EVINS. You made a good statement. You have had good justifications. You have pleaded well. You make good lawyers as well as good advocates and good Administrators. There has been much new legislation and an upsurge of veterans.

Mr. DRIVER. Yes. This is just making it essential that we come in for these increases. I can tell you that we have tried to hold them down every nickel we can and there was this year, as there has been traditionally, a very extensive screening in the executive branch before they got to the committee.

Mr. EVINS. Mr. Administrator, we thank you and your fine team. We wish you good luck. Thank you very much.

THURSDAY, FEBRUARY 23, 1967.

INTERSTATE COMMERCE COMMISSION

WITNESSES

WILLIAM H. TUCKER, CHAIRMAN
PAUL J. TIERNEY, VICE CHAIRMAN
RUPERT L. MURPHY, COMMISSIONER
ABE McGREGOR GOFF, COMMISSIONER
CHARLES A. WEBB, COMMISSIONER
JOHN W. BUSH, COMMISSIONER
MRS. VIRGINIA MAE BROWN, COMMISSIONER
BERNARD F. SCHMID, MANAGING DIRECTOR
ERNEST WEISS, ASSISTANT MANAGING DIRECTOR
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GEORGE J. LOTITO, ASSISTANT BUDGET AND FISCAL OFFICER
H. NEIL GARSON, SECRETARY
BERTRAM E. STILLWELL, DIRECTOR, OFFICE OF PROCEEDINGS
THADDEUS W. FORBES, DEPUTY DIRECTOR, OFFICE OF PROCEEDINGS
MATTHEW PAOLO, DIRECTOR, BUREAU OF ACCOUNTS
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EDWARD H. COX, DIRECTOR, BUREAU OF TRAFFIC
JAMES T. CORCORAN, CONGRESSIONAL LIAISON OFFICER
ROBERT L. CALHOUN, LEGISLATIVE COUNSEL

Salaries and Expenses

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	19,064	19,883	20,147
11.3	Positions other than permanent	3		
11.5	Other personnel compensation	66	31	31
	Total personnel compensation	19,133	19,914	20,178
12.0	Personnel benefits	1,397	1,514	1,543
21.0	Travel and transportation of persons	619	643	668
	Payment to interagency motor pools	168	150	150
22.0	Transportation of things	26	24	24
23.0	Rent, communications, and utilities	412	423	450
24.0	Printing and reproduction	171	136	136
25.1	Other services	282	292	302
25.2	Services of other agencies		14	18
26.0	Supplies and materials	208	203	205
31.0	Equipment	135	97	110
99.0	Total obligations	22,551	23,410	23,784

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	1,988	1,988	2,016
Average number of all employees	1,953	1,938	1,958
Average GS grade	9.0	9.0	9.1
Average GS salary	$9,909	$10,183	$10,245

Mr. Evins. The committee will come to order. We will resume our hearings this morning with the officials of the Interstate Commerce Commission. We have with us Chairman William H. Tucker, Vice Chairman Tierney, Commissioner Murphy, our old colleague and friend, Commissioner Abe McGregor Goff. We are glad to see him. We have also Commissioner Webb, and Commissioner Bush—he was the Chairman recently and doesn't have to work as hard now—and Mrs. Virginia Mae Brown, Commissioner. Commissioner, we are glad to see you and we welcome you.

Mrs. Brown. Thank you, Mr. Chairman.

Biographies of Chairman Tucker and Commissioner Brown

Mr. Evins. I don't know whether we had put in the record before the biography of Mrs. Brown, and her background and experience. I believe that should be supplied along with that of the Chairman.

Mr. Tucker. We will furnish that, Mr. Chairman.

(The information follows:)

William Humphrey Tucker, Chairman, Interstate Commerce Commission. Appointed to the ICC by President John F. Kennedy on March 24, 1961, took oath of office April 3, 1961, for a term expiring December 31, 1967.

Born in Boston, Massachusetts, on September 8, 1923, son of William Humphrey Tucker and Marion (Thomas) Tucker; married to former Caroline E. Aitken of Boston; two daughters, Karen, 17, Sandra, 13.

Attended Boston Public Schools, Boston University's College of Liberal Arts and School of Law; Editor of BU Law Review; received LLB Cum laude, Boston University 1949.

U.S. Army 1942–45 as parachutist with 505th Parachute Regiment of 82nd Airborne Division; overseas 1942–1945 in 82nd Airborne's campaigns in Sicily, Italy, Normandy, Holland, Ardennes and Central Europe.

Practices law in 1949–1961 in Athol and Boston, Massachusetts; specializing in transportation and labor law; admitted to practice before State and Federal Courts, U.S. Supreme Court and ICC.

Vice Chairman of ICC in 1966; served on all three divisions of the Commission; Chairman of the 1965 ICC Policy and Planning Committee.

Organizations and Memberships: Judge Advocate, 82nd Airborne Division Association (National President 1953); President, 82nd Airborne C-47 Club, Inc.; Association of U.S. Army; Athol Post 102 American Legion (Past Commander); Massachusetts and Federal Bar Associations; National Pilots Association and Parachute Club of America; Commissioner, Massachusetts Parachuting Commission, 1960; National Alumni Council of Boston University; Chairman, Friends of Boston University Football; Washington Athletic Club (Board of Governors 1963); Congressional Country Club; Stone Horse Yacht Club (Harwichport, Massachusetts).

Resides at 5109 Brookeway Drive, Washington, D.C. 20016, and Neel Road, Harwichport, Massachusetts.

Virginia Mae Brown was nominated by President Lyndon B. Johnson as the first woman member in the history of the Interstate Commerce Commission in March 1964. Her nomination was confirmed by the Senate and she took her oath of office in a White House ceremony on May 25, 1964, for a seven-year term to expire December 31, 1970.

Born November 13, 1923, in Pliny, West Virginia, the daughter of Felix M. and Hester (Crandall) Brown, Commissioner Brown was educated in the public schools of Putnam and Mason Counties and is a graduate of West Virginia University and the West Virginia College of Law. She taught at Winfield High School, Putnam County, for a year and a half before entering law school. After receiving her law degree she served as Law Clerk to the Attorney General of West Virginia until she was appointed in 1949 as Executive Secretary to the West Virginia Judicial Council, the first woman to serve in this capacity in the United States. In 1952 she was appointed Assistant Attorney General, the first woman to be appointed to that position in West Virginia. She was reappointed to that position and served until January 1961 when she was appointed counsel to Governor William Wallace Barron. In May 1961 she was appointed Insurance Commissioner of West Virginia, the first woman to be appointed Insurance Commissioner in the United States.

In September 1962 Commissioner Brown was appointed as a Member of the Public Service Commission, the first and only woman to be appointed to this Commission in West Virginia. She served in this capacity until her appointment to the Interstate Commerce Commission.

Commissioner Brown is a member of the Putnam County Bar Association, the West Virginia State Bar, and the American Bar Association. She is married to Mr. James V. Brown, an attorney. They reside with their two children, Victoria Anne (Vicki), age 10, and Pamela Kay (Bubbles), age 6, in River Towers, Alexandria, Virginia.

Mr. EVINS. We have also Mr. Bernard Schmid, Managing Director. He has a lot of power and authority down there. We have also Mr. Ernest Weiss, the Assistant Managing Director, along with Mr.

J. Neil Ryan, the Budget and Fiscal Officer, George J. Lotito, Assistant Budget and Fiscal Officer, and Mr. Garson who is the Secretary. You and the Secretary and the Managing Director don't overlap any, you just work together well.

Mr. SCHMID. We try to.

Mr. EVINS. We have Mr. Bertram Stillwell, who is Director of the Office of Proceedings. This is where they do the work. Mr. Forbes is the Deputy Director of the Office of Proceedings; Mr. Matthew Paolo, Director, Bureau of Accounts; Mr. Margolin, Director, Bureau of Economics; Mr. Bernard A. Gould, Director, Bureau of Enforcement. This is the area that remains for the Commission to enforce the laws. Also George A. Meyer, Director, Bureau of Operations and Compliance; Mr. Robert D. Pfahler, Director, Bureau of Railroad Safety and Service; Mr. Cox, Director, Bureau of Traffic; Mr. James T. Corcoran, Congressional Liaison Officer. Where is Mr. Corcoran?

Mr. CORCORAN. Right here, sir.

Mr. EVINS. Oh, yes; he comes around to see us. Glad to see you. And Robert L. Calhoun, Legislative Counsel.

This is a very distinguished group, Mr. Chairman, and we welcome you as Chairman and your group, and we shall certainly be pleased to hear you.

Mr. TUCKER. Thank you, Mr. Chairman. By your leave, I have a brief statement.

Mr. EVINS. You may proceed as you wish.

GENERAL STATEMENT

Mr. TUCKER. Very well.

Mr. Chairman and members of the subcommittee, my name is William H. Tucker. I am the present Chairman of the Interstate Commerce Commission and have served in that capacity since January 1 of this year.

At the outset, I think we should outline the impact of the new Department of Transportation on our budget. The Commission will transfer all its functions in connection with rail and motor carrier safety, locomotive inspection, and explosives and other dangerous articles to the Department of Transportation. In accordance with the committee's request, we have furnished a statement showing by function, the number of positions and amounts excluded from the Commission's budget. Excluding $5,069,400 and 430 positions that are to be transferred to the Department for these functions, the President's budget provides $23,784,000 and 2,016 positions to the Commission for those functions remaining with it. This represents an increase of $374,400 and 28 positions over the adjusted appropriation for the current fiscal year.

Mr. Chairman, that statement with regard to the transfer of functions is separate and perhaps it may go in the record as an appendix to my statement.

Mr. EVINS. It may be included. We want to go into this in detail for the record, Mr. Chairman.

Mr. TUCKER. As far as the budget comparison figures are concerned, Mr. Chairman, the committee will note that fiscal 1968 is compared

with an adjusted fiscal 1967. We have taken the $5 million and the 430 positions and adjusted them as against fiscal 1967 to give the committee a proper comparison.

The additional $374,400 includes an increase of $213,380 for 28 additional positions, $125,000 for cost of within-grade salary advancements, $35,056 for personnel benefits, $24,600 for travel for additional positions and an increased number of hearings, and $56,564 for other objects of expenditure covering increased costs in communications, printing, equipment, office supplies, and miscellaneous expenses. These increases are offset by a decrease of $80,200 due to one less compensable day in 1968.

Of the 28 additional positions provided for in the budget allowance, 20 are to be located in the Office of Proceedings.

We will discuss this a little bit more later on, Mr. Chairman.

The principal function of the Office of Proceedings is to process all formal and informal proceedings arising or initiated under the Interstate Commerce Act dealing with the activities of rail, motor and water carriers, brokers and freight forwarders.

Of much concern has been the unprecedented volume of proceedings the Commission has had to contend with in recent years. The number of formal cases received in fiscal year 1966 increased 21 percent over those received in fiscal year 1965 and 36 percent over those received in fiscal year 1964. At the end of fiscal year 1966, we had a pending caseload of over 8,000 cases.

FORMAL PROCEEDINGS

Mr. EVINS. Does that mean all types of cases before the Commission?

Mr. TUCKER. All formal proceedings.

Mr. EVINS. I notice in your budget you claim motor carrier cases are declining somewhat.

Mr. TUCKER. We have experienced some leveling off, but I don't think we want to say that we reached a point where it has leveled off.

Mr. EVINS. Overall, it is still increasing?

Mr. TUCKER. It is. I would like to go away from my statement for just a moment here, Mr. Chairman, to point out to the committee that during the calendar year 1966 the Commission closed 10,227 cases which was the greatest number in our history, 6.2 percent more than were closed in the previous year. During the same year we had receipts of 10,156 cases, that is calendar 1966, 18.4 percent more cases than were received as recently as 1964, just 2 years previous. We did have an outstanding record, Mr. Chairman, If I may use that term, for case closings in 1966.

Getting to the leveling off trend, as I point out, while we are experiencing a leveling trend as a result of new procedures as I will discuss a little later, and increased productivity, we see little hope of reducing this backlog to manageable proportions without an increase in our staff.

Mr. EVINS. Mr. Chairman, you have had some of your functions transferred to the Transportation Department and last year you had the highest budget ever in the history of the Commission. We have

given you more personnel, more money, and then you tell us it is hard to get this backlog to manageable proportions. I believe under your chairmanship it will be done.

Mr. TUCKER. Well, Mr. Chairman, the Commission will continue to make its utmost effort. Of course, we are taking out functions and we are also giving up $5 million, Mr. Chairman; so our budget is coming down rather rapidly.

The procedural and organizational changes in recent years previously reported to the committee, Mr. Chairman, substantially aided the Commission in its case processing procedures. Even these improvements, however, could not cope with the rapid increase in workload, and again I refer to case filings, Mr. Chairman, and the Commission has continued to explore new means to expedite case processing, day by day.

During fiscal year 1966, we developed a new form for motor carrier licensing applications which requires applicants who intend to rely upon the evidence of public witnesses, to have affidavits signed by the prospective witnesses, indicating their willingness to support the application.

We have changed the rules of practice to require applicants in motor carrier licensing cases to notify the Commission within 30 days after protests are filed, that they intend to continue to prosecute their applications.

Another change during the year had the effect of increasing the number of cases disposed of without oral hearings. After careful screening, all unopposed applications are now assigned for handling under modified procedure without oral hearing. Opposed cases in which an oral hearing is not considered necessary for their proper disposition are assigned directly to employee review boards for disposition. The board's decisions, however, are subject to appeal at the Commission level.

It is anticipated that these improved case-handling procedures will reduce the number of new applications filed and, as a result of increased productivity, we will dispose of a larger number of cases during fiscal year 1968. However, the amount of additional work which we can reasonably absorb as a result of increased productivity of our present staff will be far below that which is necessary to carry out our legislative mandate without subjecting the transportation industry and the public to unreasonable and costly delays.

The heavy caseload experienced in recent years with respect to rail and motor carrier unification applications and applications of railroads for abandonment or extension of their lines is also continuing. Although the Commission has issued reports in two of the largest railroad mergers ever to come before the Commission, work on these proceedings must continue well into fiscal year 1968. In addition to this work, other large rail acquisition proceedings having a far-reaching economic impact are pending. Because of the magnitude and complexity of the decisions involved in these proceedings, each requires many more man-hours than the average proceeding. Just as important, however, is the fact that the Commission's workload is directly related to the growth of our national economy. This is par-

ticularly true with respect to applications for motor carrier operating authority which now comprise approximately 85 percent of our formal docket. The results of a recent study showed that there is a very high degree of correlation between the growth of the gross national product and the number of motor carrier operating authority applications filed during the last 10 years.

One of the biggest single problems connected with this increased caseload is how to handle the important cases promptly, while maintaining the parties' rights to present all of relevant evidence, and still meet the Commission's duty to see that fully adequate records are established.

Procedural and organizational changes can help to reduce backlogs and speed up work just so much. We must have staff increases to reduce the backlogs to levels where prompt, due process is provided.

Except for one defense mobilization position formerly financed by the Office of Emergency Planning, the remaining seven positions—that is, out of the 28 additional ones requested, Mr. Chairman—are to be located in our Bureau of Accounts and Economics.

The additional positions requested in the Bureau of Accounts are for more cost analysts. In connection with that, Mr. Chairman, we are reducing in this budget another position, providing for an increase in the cost analyst area of the Commission's responsibility.

These positions are needed to develop new cost formulas and modify existing ones because of the many changes in rates, as well as novel features, that are continuing to be sought by carriers.

The additional positions requested in the Bureau of Economics are needed to expand the capabilities of our Section of Mathematics and Statistics. The increase in positions will help reduce time required to complete and expand the application of mathematics, probability sampling and control to our work and meet stringent time schedules and growing demands of the Commission.

There are many other major problems that will confront the Commission during fiscal year 1968. Some of the most important of which are small shipments, freight car shortages, and transportation by agricultural cooperatives.

The amount requested in our budget estimate is essential if the Commission is to carry out its congressional mandates. We earnestly seek favorable consideration of our budget request for fiscal year 1968.

That concludes my statement, Mr. Chairman.

PROPOSED DEPARTMENT OF TRANSPORTATION

As I said, we have broken down, analyzed the functions and jobs being transferred to the Department of Transportation. This is entitled "Effect of the Department of Transportation Act on Functions and Responsibilities now assigned to the Interstate Commerce Commission." I would submit that for the record, Mr. Chairman.

Mr. EVINS. Thank you, Mr. Chairman, for a very excellent statement. It is very concise and to the point. We shall include in the record this additional information regarding the functions and personnel to be transferred to the new Department of Transportation.

(The information follows:)

EFFECT OF THE DEPARTMENT OF TRANSPORTATION ACT ON FUNCTIONS AND RESPONSIBILITIES NOW ASSIGNED TO THE INTERSTATE COMMERCE COMMISSION

The functions, powers and duties now vested in the Commission that will be transferred to the Department of Transportation are enumerated in Sections 6(e) and (f); and 8(d)-(f) of P. L. 89-170 "Department of Transportation". These transfers are briefly summarized as follows:

Sections 6(e) and (f) transfer to the Secretary of Transportation the functions of the Interstate Commerce Commission (ICC) relating to the administration and enforcement of the various railroad, motor carrier, and pipeline safety laws. Also transferred are the ICC functions with regard to safe transportation of explosives and other dangerous articles. In addition, the Secretary is given the ICC's functions of setting geographical limits of standard time zones in the United States and awarding medals of honor.

Section 8(d), (e) and (f) amend various sections of the Interstate Commerce Act and the Fair Labor Standards Act of 1938, and the Federal Explosives Act to make the necessary changes to implement the transfers in Sections 6(e) and (f).

The Secretary receives the same authority as the ICC to administer, execute and enforce the functions transferred to him as provided by Section 4(d) of the Act.

The functions of the ICC transferred to the Department of Transportation are now performed primarily by the Sections of Explosives and Other Dangerous Articles and Motor Carrier Safety and the Motor Carrier Safety Inspectors of the Bureau of Operations and Compliance; the Sections of Locomotive Inspection and Railroad Safety of the Bureau of Railroad Safety and Service. Other organizations of the Commission which perform support services for the functions transferred to DOT are: Office of the Managing Director, Office of Proceedings and the Bureau of Enforcement.

The following paragraphs show for those organizations which perform functions to be transferred, the positions and funds which will be transferred to DOT.

Office of the Managing Director

This office provides support services relating to administrative services, personnel, budget, payroll, fiscal and automatic data processing to the activities which will be transferred:

	Authorized 1967		Transferred to DOT		Authorized 1967 after transfer	
	Positions	Amount	Positions	Amount	Positions	Amount
Budget and fiscal	29	$252,684	1	$5,883	28	$246,801
Personnel office	20	215,864	1	5,886	19	209,978
Administrative services	72	528,793	3	15,811	69	512,982
Systems development	59	581,424	4	19,322	55	562,102
Total	180	1,578,765	9	46,902	171	1,531,863

Office of Proceedings

The activities of this Office which relate to functions transferred involve the handling of matters arising under the Standard Time Zone Act, and the processing of applications, formal investigations and rulemaking procedures relating to motor carrier, railroad and pipeline safety, and to the transportation of explosives and other dangerous articles.

	Authorized 1967		Transferred to DOT		Authorized 1967 after transfer	
	Positions	Amount	Positions	Amount	Positions	Amount
Section of hearings	144	$2,882,397	1	$23,179	143	$2,859,218

Bureau of Enforcement

The activities of this bureau which relate to functions which will be transferred involve the handling of court enforcement activities and administrative proceedings instituted for the purpose of adding, deleting or modifying safety regulations, motor carrier and railroad safety violations and determining fitness of carriers as to safety.

	Authorized 1967		Transferred to DOT		Authorized 1967 after transfer	
	Positions	Amount	Positions	Amount	Positions	Amount
Departmental	45	$607,939	2	$31,044	43	$576,895
Field	62	820,492	5	52,562	57	767,930

Bureau of Operations and Compliance

The activities of this bureau which relate to motor carrier and pipeline safety, and to transportation of explosives and other dangerous articles will be transferred to DOT.

Office of the Director and Field Service Staff.—These activities perform administrative direction and service to the Sections of Motor Carrier Safety and Explosives and Other Dangerous Articles, and to the field Motor Carrier Safety Inspectors:

	Authorized 1967		Transferred to DOT		Authorized 1967 after transfer	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of Director and field service staff	13	$178,537	4	$45,968	9	$132,569

Section of Motor Carrier Safety.—The functions of this section will be transferred to DOT. This section proposes revisions and additions to the safety regulations and interprets these regulations concerning the qualifications and hours of service of drivers, and the safety of operation and equipment of motor carriers. The section receives and analyzes reports made by the field staff bearing upon compliance with the Commission's Safety Regulations; receives and analyzes reports of accidents submitted by motor carriers; and hours of service reports submitted by carriers. It recommends changes in the Explosives and Other Dangerous Articles Regulations.

	Authorized 1967		Transferred to DOT		Authorized 1967 after transfer	
	Positions	Amount	Positions	Amount	Positions	Amount
Section of motor carrier safety	38	$310,704	38	$310,704	----------	----------

Section of Explosives and Other Dangerous Articles.—The functions of this section will be transferred to DOT. This section proposes revisions and additions to the Explosives and Other Dangerous Articles Regulations and interprets the regulations as appropriate. The section reviews and analyzes reports made by

the industry and by the field staff bearing upon compliance with the Commission's regulations contained in Parts 71–90, Code of Federal Regulations.

	Authorized 1967		Transferred to DOT		Authorized 1967 after transfer	
	Positions	Amount	Positions	Amount	Positions	Amount
Section of explosives and other dangerous articles	15	$177,581	15	$177,581	----------	----------

Field Staff.—The activities of this Staff which are transferred to DOT are as follows:

The field staff encourages and counsels the carriers in furtherance of their safety programs to advance (1) safe operation and maintenance practices, (2) driver qualification requirements, and (3) observance of maximum hours-of-service of drivers. Failing in obtaining voluntary safe operations, the staff prepares and submits the facts to enforce the Commission's safety regulations in truck and bus operations all to promote safe transportation of passengers and property and on behalf of all users of the highways.

	Authorized 1967		Transferred to DOT		Authorized 1967 after transfer	
	Positions	Amount	Positions	Amount	Positions	Amount
Field staff	415	$4,461,167	116	$1,163,958	299	$3,297,209

Bureau of Railroad Safety and Service:

The existing railroad safety functions of this bureau will be transferred to DOT. These include all functions performed by the Sections of Railroad Safety and Locomotive Inspection.

Office of Director.—This office performs administrative direction and services for the Sections of Railroad Safety and Locomotive Inspection.

	Authorized 1967		Transferred to DOT		Authorized 1967 after transfer	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of Director	14	$168,974	10	$109,459	4	$59,515

Section of Railroad Safety.—The functions of this section will be transferred to DOT. The Section of Railroad Safety is charged with the duty of enforcing various enactments of Congress providing for the safety of employees and travelers on railroads in the United States. The statutes which are administered by the section are: The Safety Appliance Acts, including the Power or Train Brakes Safety Appliance Act of 1958; the Ash Pan Act; the Sundry Civil Appropriations Act of 1908 relating to investigation of safety appliances or systems intended to promote the safety of railway operation including inspection of postal mail cars and/or examination of the construction, adaptability, design and condition of all such cars used on any railroad in the United States; the Accident Reports Act; the Hours of Service Act; the Signal Inspection Act; the Medals of

Honor Act which provides for the award of life-saving medals to persons, who by extreme daring endanger their own lives in saving or endeavoring to save lives upon any railroad within the United States; and the transportation of explosives and other dangerous articles by railroad.

	Authorized 1967		Transferred to DOT		Authorized 1967 after transfer	
	Positions	Amount	Positions	Amount	Positions	Amount
Departmental	31	$321,695	31	$321,695		
Field	98	1,521,554	98	1,521,554		
Total	129	1,843,249	129	1,843,249		

Section of Locomotive Inspection.—The functions of this Section will be transferred to DOT. The Section of Locomotive Inspection is charged with the adminstration of the Locomotive Inspection Act enacted to promote safety of employees and travelers upon railroads by making it unlawful for any carrier to use or permit to be used on its line any locomotive unless the locomotive and all parts and appurtenances thereunto appertaining having been inspected as required, and are in proper condition, safe to operate, and comply with the approved rules and regulations established under the Act. The primary function of this section is to determine that required inspections of locomotives are made by the carriers; that defects disclosed by those inspections are repaired before the defective locomotive is returned to service; that general design, construction and repair practices comply with the requirements and promote maximum safety in order that accidents and casualties be minimized by the elimination of unnecessary hazards.

	Authorized 1967		Transferred to DOT		Authorized 1967 after transfer	
	Positions	Amount	Positions	Amount	Positions	Amount
Departmental	18	$169,593	18	$169,593		
Field	83	1,095,254	83	1,095,254		
Total	101	1,264,847	101	1,264,847		

I wish at this time you would highlight for the committee basically what functions you are transferring and how this will affect the Commission. Don't give us all the details, but just tell us basically what your Commission is going to lose.

Mr. TUCKER. We are transferring those functions, Mr. Chairman, that relate to the Commission's safety responsibility. Most of the personnel that are being transferred come from our present Bureau of Operations and Compliance. Most of the positions, I would say roughly, are safety positions in that bureau.

Mr. EVINS. Locomotive inspection work is being transferred?

Mr. TUCKER. Yes, sir. I was getting to that. The Bureau of Railroad Safety and Service, we will transfer the locomotive inspection work and the rail safety work in its entirety. We will also transfer the Section of Explosives and Dangerous Articles.

Mr. EVINS. You are getting rid of the Dangerous Articles and Explosives. Will this provide smoother sailing?

Mr. TUCKER. Well, we hope so, Mr. Chairman. Those are the three large employee areas which are being transferred and they come principally from the two bureaus, the Bureau of Operations and Compliance, and the Bureau of Railroad Safety and Service. We are transferring attendant or support positions, for example I think five from the managing director's office, one hearing examiner, I believe, who deals with safety cases, seven from the Bureau of Enforcement, all of whom are related to safety work, Mr. Chairman.

Mr. EVINS. This new Department of Transportation is to be created soon. It was heralded as a $5 billion industry. Transportation is one of the biggest concerns of the National Government. It is contemplated that this Department will have a budget of around $5 billion ultimately. It really hasn't affected the Interstate Commerce Commission very much. It hasn't dismembered the Interstate Commerce Commission?

Mr. TUCKER. No, Mr. Chairman, it hasn't.

Mr. EVINS. You are not being absorbed and you are not losing too much.

Mr. TUCKER. Well, we are losing an important responsibility, Mr. Chairman. But we have testified that that responsibility is appropriate to the concept of an Executive Department of Transportation.

Mr. EVINS. When does this transfer actually become effective? When are they going on board with the new Department of Transportation?

Mr. TUCKER. It was scheduled for March 1, tentatively, Mr. Chairman. We now expect that that date could be April 1 or possibly April 16, which would be the statutory period of time by law when the Department has to come into effect. We have made preparations for this, Mr. Chairman.

Mr. EVINS. You have funds to take care of your personnel through 1967 and whenever they are transferred over to the Department of Transportation they become the financial obligation of the new Department; is that correct?

Mr. TUCKER. That is correct, Mr. Chairman.

Mr. EVINS. Well, why would you need to submit a supplemental for 1967 when you are going to lose 440 employees?

Mr. SCHMID. Mr. Chairman, when we transfer the personnel we transfer the funds appropriated to date. We don't keep that money. That money goes to the Department of Transportation.

Mr. EVINS. You are going to give them the money and the personnel?

Mr. SCHMID. They get the 430 people and all the money that supports them and all the related costs, the Budget Bureau has seen to that.

Mr. EVINS. The locomotive inspection work will be transferred and the inspection service?

Mr. TUCKER. That is correct.

Mr. EVINS. With respect to fire and explosives, if there is any gasoline or explosive transported, any investigation of an incident or accident would no longer be the responsibility of the Interstate Commerce Commission?

Mr. TUCKER. Generally, it wouldn't be, Mr. Chairman. There might be fitness aspects of that. I don't want to give an unqualified answer. There might be fitness aspects to do with the carrier other than its safety posture that we could become involved in.

Mr. EVINS. It is very difficult to divorce and separate regulation from safety and enforcement, isn't it?

Mr. TUCKER. We find that it will require careful coordination, Mr. Chairman, and we have set up coordinating programs. We don't expect it to be an easy transition, but we are confident it will work, Mr. Chairman.

Mr. EVINS. There seems to be a little overlap between the CAB and FAA on airplane accidents; one investigates and the other receives the report and makes the ruling. How does the Interstate Commerce Commission propose to coordinate its work with the new Department of Transportation?

Mr. TUCKER. Mr. Weiss has been handling a task force dealing with several coordination programs, Mr. Chairman. Might we have him comment on that?

Mr. EVINS. Yes. How are you going to work out your problems with the new Department?

Mr. WEISS. In the case of the CAB, the CAB determines the probable cause of accidents in the air. They have separated that accident determination cause function from the FAA because the FAA runs the airports. There might be a conflict of interest if the FAA determined what the accident cause might be. For example, conceivably, if air controller working for FAA could be at fault, the FAA might find the cause to be something else. Therefore, DOT will have a separate Board to determine cause of accident.

Mr. EVINS. Does a railroad accident or bus accident come under the jurisdiction of the Department of Transportation? Will they make the investigation?

Mr. WEISS. Yes. The Department of Transportation will make all the investigations of accidents in the motor, rail, and pipeline areas.

Mr. EVINS. All types of investigations will be conducted by the new Department of Transportation?

Mr. WEISS. Yes. There will be a Federal Railroad Administration in DOT which will investigate all rail accidents. There will be a Federal Highway Administration that will investigate all highway accidents. However, the National Transportation Safety Board might pick up certain spectacular or very unusual or very serious accidents which it wants to investigate, itself. But normally, considering that there are 68,000 accidents a year reported to the Interstate Commerce Commission, it is expected almost all of those will continue to be investigated by the administrations within DOT.

Mr. EVINS. Within what?

Mr. WEISS. Within DOT. That is, the highway accident investigations will be made by the Federal Highway Administration and the rail investigations will be made by the Federal Railroad Administration. The Board, however, can reserve the right to itself to pick up any accidents it wants to investigate.

Mr. EVINS. The Department of Transportation, or DOT as you call it, will investigate all types of accidents, rail and surface?

Mr. WEISS. That is right, yes, sir, and air and water.

Mr. EVINS. And they will make the decisions?

Mr. WEISS. That is correct, sir.

Mr. EVINS. And the Interstate Commerce Commission will not have any responsibility or anything to do with this?

Mr. WEISS. As the Chairman said, Mr. Chairman,—as Chairman Tucker said, Mr. Chairman, with respect to enforcement the Commission has to make a finding of fitness in cases where it grants certain rights to applicants. ICC will have a very close coordinating function with DOT to receive from it information about the safety experience with respect to certain motor carriers.

Mr. EVINS. When a truck line is franchised, you make a finding as to its fitness?

Mr. WEISS. Yes, sir.

Mr. EVINS. That is on file and you provide it to them?

Mr. WEISS. When there is a new application from a motor carrier, or for an extension of his existing rights, DOT will provide to the Interstate Commerce Commission—and this has been worked out by agreement—specific information about the experience with that carrier up to date, whether his accident experience is good, whether he has the proper safety program, whether the company makes sure that the drivers don't drive more hours than they should, and so forth. Furthermore, if the Department of Transportation finds on its own investigation or through reports which it receives that a particular carrier has a very poor safety record, it may and should ask the Interstate Commerce Commission to consider revoking or suspending that carrier's rights. That is provided for by the Department of Transportation Act and also by specific agreement with the Department.

FIELD PERSONNEL

Mr. EVINS. Well, with these safety people that you have in the field and your regional supervisors, do you feel that there is some duplication now? You won't need all these supervisors out in the field, since the Department of Transportation is going to supervise safety.

Mr. TUCKER. Well, our people in the field, Mr. Chairman, in the motor carrier area, are substantially concerned with that gray area of illegal carriage and certain other economic responsibilities of the Commission.

We have applied a measurement in man-hours related to the number of people that should work strictly on safety. For example, most of these people work now part time on safety, part time on illegal carriage. What we will have left in the field in the motor carrier area are supervisory personnel and inspectors that will deal with the gray area problem.

Mr. EVINS. Most of these people who will be transferred to the Department of Transportation are in the headquarters office or are they in the field?

Mr. TUCKER. Most of them are in the field, Mr. Chairman. I believe we have a ratio of about two-thirds to one-third.

Mr. SCHMID. 128 in Washington and 302 in the field. What we did, Mr. Chairman, was to identify the precise amount of time that our people in the field, both supervisors and safety inspectors, spent on safety work, the balance being on the economic regulatory side.

Mr. EVINS. If you had an employee in the field who worked part time on transportation safety and part time on something else, did you give him a preference as to which department he preferred to remain with?

Mr. SCHMID. Here is the way we did that: It is true we did have some people, many of our supervisors who spend up to 15 percent of their time on safety work and the balance on regulatory work. When we identified that, we circulated our entire field to find out who would like to transfer and who would not. Of course, we had to temper that with the geographical locations but we worked it out, I think, to everyone's satisfaction.

Mr. EVINS. It wasn't really a matter of transferring en bloc, it was giving them a preference?

Mr. SCHMID. Ninety-five percent of the people who are transferring automatically fell into the slot to move over to DOT. It was the remaining 5 percent that we are talking about that we had to work with our own people and with DOT.

Mr. EVINS. Ninety-five percent of those are in the field, are they?

Mr. SCHMID. No. What are those figures?

Mr. WEISS. Thirty-seven percent of our field employees are transferring and 8 percent of our employees in Washington are transferring.

Mr. EVINS. This is going to give the Commission more time to devote to its legal proceedings and to its railroad mergers, monopoly cases; is that right, Mr. Chairman?

Mr. TUCKER. I am not sure we will have more time, Mr. Chairman, because we have given up that time that relates to the safety function but we are going to give those areas as much time as we possibly can.

Mr. EVINS. In the past year you have had two or three big railroad consolidations, two or three mergers?

Mr. TUCKER. Very big.

RAILROAD MERGERS

Mr. EVINS. Are you allowing these railroads to merge as they want to or what does the Commission do in those cases?

Mr. TUCKER. Well, we have a formal proceeding, Mr. Chairman, and a record and we make findings in accordance with section 5 of the Interstate Commerce Act and each case is on its own merits, generally.

Mr. EVINS. One merger proposal was approved and one was denied last year; is that right?

Mr. TUCKER. One was denied last year, Mr. Chairman.

Mr. EVINS. They had a story in the paper some months ago that in a few years there would only be about two or three railroad companies in the Nation, one in the East, one in the South, and maybe one in the West; that the ICC would allow them all to merge. Are there any big plans before the Commission in that area?

Mr. TUCKER. No. As I said, we treat each merger case on its own merits and its own perspective. The law applied is that there is no presumption for or against rail merger application. Whether or not there will be a very limited amount of systems would be a matter of individual viewpoint, not only related to trends of cases before the Commission but the economic trends in the Nation and question of intermodal and intramodal competition.

RAPID-RAIL IMPROVEMENT

Mr. EVINS. Mr. Chairman, what is the prospect for rapid-rail improvement, new types of transportation that we have been interested in developing in this country? When is this going to come about?

Mr. TUCKER. Well, as you know, Mr. Chairman, the technological research aspects of that have been in a special office in the Under Secretary of Commerce and will be in the Department of Transportation. We are very much interested in following that because it immediately relates to some of our eastern rail problems.

Mr. EVINS. Are you saying this is going to be the responsibility of the Department of Transportation now?

Mr. TUCKER. Yes. The research on technological development is in the Department of Transportation. We are greatly concerned with this from the carrier posture situation, the health of the rail carriers, its obligation to render service under the local law and under the Interstate Commerce Act, and, of course, we are hopeful that we will see the development of much improved, perhaps a new type of rail passenger situation in America.

Mr. EVINS. Mr. Boyd says in speeches and we have been talking to Mr. Boyd recently, that by this fall they are going to have some rapid rail from Washington to other eastern cities in operation.

Mr. TUCKER. Well, I understand that is true. In New England they are testing a United Aircraft jetpowered train between Boston and Providence on quick runs also between Boston and New York. I understand that will go into operation in July. Perhaps some of your colleagues know more about this.

Mr. EVINS. The Interstate Commerce Commission has been in business 75 years. You have been promoting the transportation policy for this country. You are the pioneers. You are the first independent agency. You are the people with the creative thoughts.

Apparently after 75 years they say you haven't been able to solve all the problems. To show the needed imagination they had to create a big new department. I still don't think this big new Department will have more expertise, more knowledge in this field than your Commission has.

Mr. TUCKER. Well, Mr. Chairman, we have never shown any desire to give up the responsibility of the rail industry development within our jurisdiction. That is our economic responsibility. I would suggest or submit, Mr. Chairman, that the new department will have an enormous amount of research capability, not only technologically but marketingwise that I personally think will be tremendously helpful to the country in seeing what kind of rail picture we should have.

Mr. EVINS. Doesn't the Interstate Commerce Commission have this information in its reservoir of files?

Mr. TUCKER. We have the economic information, Mr. Chairman, but we don't have the marketing-analyses-type thing as well as the technological research capability. And I don't believe we have ever had that. I think the Commission, if I may say so, Mr. Chairman, has contributed a great deal to this in some of its cases, particularly in the *New Haven* case. Back 5 or 6 years ago the chairman might recall the Commission suggested that some form of subsidy might be pro-

vided or might be in order for congressional consideration. But again, that was related to the economic situation of the carriers. We have just never been given either the resources or the responsibility by law.

Mr. EVINS. The Interstate Commerce Commission is sort of the grandfather of all transportation. You have been administering the "grandfather clause" rights. You have allowed the railroads to merge, allowed them to abandon their lines, allowed them to discontinue types of service, and it has all been—I won't say all, but a great deal has been what the railroads wanted. They have been able—maybe not with the Commission but with the courts—to carry their position. So they have declined in numbers, they have declined in the amount of passenger traffic business. Yet the railroad is basic to this country, it is very essential to mass transportation. The population is increasing and people have to move and travel. The airlines can't carry them all. The Interstate Commerce Commission comes up and says, "We don't have authority to require them to do this; we don't have the power to make them do this." Your function is a negative one: "We won't allow you to do what you have applied for." But you haven't positively said what you must do. You think the new Department of Transportation is going to do this more creatively?

Mr. TUCKER. I relate my remarks on that to the technological and marketing research areas. I would point out to the chairman that we watch these things closely. We consider the cases on their merits and we have developed policies in cases which I think have contributed. Going back again to the *New Haven* case, we had a situation where there were 243 trains involved. The Commission authorized the discontinuance of something like 30 out of those 243 trains. Along with that, the Commission discussed at length, at considerable length, such things as the aspects of public support and the aspects of research that are now developing in this rail passenger picture. I think we are in the middle of a lot of these things.

Mr. EVINS. What the Commission allowed them to do or forced them to do is abandon certain uneconomic services which probably they filed applications for, and then you made them loans, and the Commission made them a loan after they were in bankruptcy. You really helped the railroads, really tried to assist them.

Mr. TUCKER. I would agree with that, Mr. Chairman; we have assisted them within the area of our responsibility as much as we can, particularly in that difficult period beginning in 1957.

Mr. EVINS. All of the loan finance authority has expired, has it?

Mr. TUCKER. Yes, it has. The loan record is what I would call good so far as payment and payment prospects are concerned. We could furnish the committee with an exhibit on that. Out of a great number of loans, as the chairman might recall, we only have three that might be called difficult or shaky.

IMPROVEMENT OF SERVICE

Mr. EVINS. I think Commissioner Goff and others on the Commission know of my interest in passenger service being continued by the railroads. If we can build a speedy line we can improve the mass transportation system, and it is needed. If we can encourage the railroads to do this, we should. I think I saw an ad recently that prob-

ably was an appeal to passenger traffic to Florida. It said "We have nurses, stewardesses, we have attractive young ladies." It said "We have dining cars, we have a movie aboard, we have recreation, try our expert service to Florida. You will like it." This seems to me to be an imaginative way of the railroad going after the passenger business. There is only one that I see doing this. Can the Commissioner do anything to encourage other railroads to provide service like this?

Mr. TUCKER. Well, we can't do anything to encourage in a positive way.

Mr. EVINS. Why can't you?

Mr. TUCKER. We can within our economic responsibilities encourage them to give safe and adequate service. We don't have any real promotional function in that area, Mr. Chairman.

Mr. EVINS. You have the authority for research, we have given you research money to improve transportation and you are supposed to be carrying out the declared transportation policy of the country. What is the declared transportation policy of this country?

Mr. TUCKER. Well, that is in section 1 of the act, Mr. Chairman; it is our job to encourage and foster the maintenance of sound and adequate transportation for the country in terms of national defense and other enumerated items. We do that to the best of our ability, Mr. Chairman, and we certainly bring this policy to bear in every case, in every problem we have. We don't have the same promotional authority that——

DISCONTINUANCE OF SERVICE

Mr. EVINS. Your Commission can encourage sound and adequate service. When the railroad files an application to abandon, they indicate that they have so many digits, so many factors, so many passengers hauled during a certain month, during a certain quarter, and they say this is uneconomic. Then you just look at the economics and the figures, the cold figures, and you decide that this is not sound and adequate transportation and you allow them to abandon the line?

Mr. TUCKER. Well, not quite that.

Mr. EVINS. Not that simple, I am sure.

Mr. TUCKER. We do look at the economics, but we also look at the passenger demand in terms of public convenience and necessity. A great many of these discontinuance cases that have resulted in discontinuance, very few people use the trains. Some of them are borderline, but there are others——

Mr. EVINS. They say there are very few people riding the trains. But I have found times when you could hardly get a seat. You would call and you couldn't get a berth. They would tell you that you have to make reservations in advance. I have gotten off of the Southern in Knoxville at 4 a.m. and there were 8, 14, 15 people getting off. Yet the Southern says "We need to abandon more passenger service." Can't the Commission take the good old Southern by the hand and guide them and influence them a bit?

Mr. TUCKER. Well, as I say, we have laid out some policy in the *New Haven* case that we think will be helpful and is helpful now.

Mr. EVINS. Mr. Chairman, I have always asked the Commission to be more aggressive and more imaginative.

Mr. TUCKER. Yes.

Mr. EVINS. We want to try to help you with appropriations and personnel, and we want to back this Commission. We think it is important. We think you have a very vital role. But I really believe that one of the reasons for the creation of this new Department of Transportation is that the Commission hasn't done all that the mass population of our country needs and demands. I believe that is one of the reasons. I could be in error in this concept. You might have some general discussion here. I have examined your budget. This is an interesting budget. It is well made up.

LESS THAN CARLOAD SHIPMENTS

I have had a lot of complaints about less than carload lots. For instance, a small shipper wants to ship his manufactured products, maybe furniture, whatever it might be, and the railroads say they won't take it. They say, "unless you give us a whole carload, we won't even stop at this little town any more." Does the Commission take any positive action with respect to the railroads in this area?

Mr. TUCKER. Yes, sir. We have taken on a very active policy. This is a critical problem generally, the problem of small shipments and small shippers. We have recommended that the Congress give us the authority to establish through routes and joint rates.

Mr. EVINS. You have been in business 75 years and you come back and say that Congress hasn't done its job?

Mr. TUCKER. Well, I hadn't finished, Mr. Chairman. We have recommended that legislation which we think will be helpful if passed, but we have also formed a special committee of chairmen of divisions 1, 2, and 3. We are into that very actively right now. I wonder if Commissioner Murphy would give you an idea of what the committee is doing now. He is the chairman of our special committee.

Mr. EVINS. We will be glad to hear him. Suppose, Commissioner, that a small manufacturer wants to ship his product and the railroads say they won't take it unless he gives them a whole carload. How do you solve that problem, Mr. Murphy?

Mr. MURPHY. The ad hoc committee to which the Chairman has referred is primarily dealing with motor carrier less than truckload small shipments. The rail carriers have closed stations and some of them have abandoned less-than-carload lots traffic entirely. The committee at the present time is working on the situation as it relates to motor carriers less-than-truckload service primarily, which is where we get the greatest number of complaints that we are receiving.

Mr. EVINS. If we didn't have the trucklines, we couldn't have any transportation at all. We couldn't get our products shipped.

Mr. MURPHY. From some of the complaints that we get, the public is claiming they don't even have it with that. That is the purpose of the committee, to study ways and means of correcting the situation which has progresively grown worse each year.

The committee, and I think I can speak for it, is still in the stage of trying to get moving and get a reasonable report back. It has approached the problem on a three-pronged basis. One is the need for change in the present provisions of the act as it relates to motor car-

rier through routes and joint rates. This isn't anything new. The situation has existed since the act was first enacted. It has been brought to the attention of Congress on numerous occasions. We have had it in our legislative recommendations on numerous occasions. In my opinion, the basic problem will never be corrected until we do get authority to prescribe through routes and joint rates in connection with motor carrier service.

The second legislative phase, as I see it, is our request for a modification of the statutory provisions as they relate to the authority of the Commission to suspend or revoke a motor carrier's authority.

The second approach we are attempting is something immediate to alleviate the situation to the extent we can under the present conditions. Of course, the third step will be the overall, long term and that will depend, as to the approach we will have to follow, on whether we get the legislative changes we have requested.

Mr. EVINS. Your study is mostly concerned with less than truckload, not with less than carload lots on the railroads.

Mr. MURPHY. That is true.

Mr. EVINS. Has the Commission had any authority with respect to ordering less than carload shipments on the railroads?

Mr. TUCKER. We don't have authority, complete authority on through routes and joint rates with the railroads, Mr. Chairman.

Mr. EVINS. You are asking for it with respect to the truck lines?

Mr. TUCKER. Yes, and railroads as well.

Mr. EVINS. The railroads, too?

Mr. TUCKER. Yes, sir; that is right. But we haven't had the volume of the problem or the complaints anywhere near that in the rail carrier part as we have had in the truck area. That presents the most pressing area.

Mr. EVINS. If the truckline is franchised from northern Ohio to southern Ohio and in the course of its franchise there are a couple of small towns with small products they want to ship, the Commission has no power to tell this truckline to stop by this industry to pick up his freight and deliver it in its franchised area.

Mr. TUCKER. Yes. If they are certified to serve that particular area on regular routes then they are supposed to serve them. If they don't, we have authority to go in and take enforcement activities. The particular problem which we are running into now which Commissioner Murphy referred to is the truckline that operates between our A and B, and it will pick up from its own customers small, unattractive shipments and when it goes to interline that with another truckline between points B and C, the other truckline doesn't engage in any interline tariff or withdraws from that tariff, and in many of those cases we don't have the authority now to require the second truckline to carry the merchandise between points B and C. The through route and joint rate authority would give us that right to require the through shipment.

TARIFF INCREASE

Mr. EVINS. You have authority to deny them their tariff increases?

Mr. TUCKER. That is true. All of the enforcement aspects——

Mr. MURPHY. I question whether, under the present provisions, we do have the authority. The act says they may establish these. If

carriers come in and establish that they need an increase on what they are doing, I don't think you can deny it. This is the very thing we are trying to get to now, Mr. Chairman.

Mr. EVINS. They are chartered and franchised to operate in a certain territory and they don't pick up this freight traffic. Then they file an application for freight increase. When that application comes in, the Commission certainly has the authority to deny their application for an increase?

Mr. MURPHY. Not if he establishes the need for it.

Mr. EVINS. You can show there is an existing need that has been called to the Commission's attention that certain industries want to get their products shipped and they have refused to ship them. These industries also have a need. Can't you call that to their attention rather forcibly?

Mr. MURPHY. If we can get the manpower. But you have another problem here. We do not have the authority to say that you are going to establish a through route, that is, interchange the traffic with the second carrier. He can do it if he wishes or he can refuse. Carriers can publish a tariff providing for interline and then have a falling out that is unknown to the shipper and stop interlining. As I have said before, it is a sort of a "public be damned" attitude. They can cancel out their interline.

Mr. EVINS. That is the main role of the Commission; the public interest. We do not like it when the carriers disregard the interests of the public.

Mr. MURPHY. That is what we are trying to approach in this legislation. It has been brought up numerous times. If it was left up to me, we would be prosecuting 50 cases right now. We don't have the manpower.

Mr. EVINS. That is a very good statement for the record.

Mr. MURPHY. We are confronted with this: They know you don't have the manpower to follow it through. We have case after case where the carrier has published tariff provisions that they ignore. But we are running down as many of them as we can. However, there is a limit on what you can do through the Enforcement Branch, with the limited personnel we have. Our committee is developing some things that are quite revealing. You would be surprised that they go on.

I will say this: We need some authority in the act, where we can say "publish it," compel them to publish it and enforce the application of what they publish in the tariffs. We also need some relief.

Mr. EVINS. I want to go on record as saying I am in support of the position which the Commissioner has just advocated that they need this legislation. I hope that will be called to the attention of the legislative committee.

Mr. TUCKER. We certainly appreciate that comment.

Mr. EVINS. Mr. Wyman?

Mr. WYMAN. I was going to ask if they have requested this of the legislative committee.

Mr. TUCKER. We have.

Mr. MURPHY. On numerous occasions.

Mr. EVINS. We passed the Transportation Incentive Act; we passed

many things which you have recommended but you never seem to have enough.

Mr. MURPHY. When I was representing industry on the other side, I came to Washington urging that something be done on this very thing, and the Commission urged numerous times that legislative changes be made because we, the shippers, were suffering. We need it.

Mr. EVINS. Mr. Chairman, you just keep on persevering and you will win your golden point one of these days. Patience and perseverance are what it takes.

Mr. MURPHY. We have two bills directed to this problem, S. 571 and S. 573. The former provides for through routes and joint rates, and the latter deals with the suspension and revocation of certificates. We have two bills in particular, S. 571 and S. 573, the one dealing with the suspension and revocation of certificates.

Mr. TUCKER. We are hoping they will be introduced in the House any day.

Mr. EVINS. Very fine. One other subject we can talk about is this boxcar shortages.

BOXCAR SHORTAGES

They have passed new legislation giving you incentive payments to shuffle these around and move them where they are needed. What has been the result since this new law was passed?

Mr. TUCKER. Shortly after the law was passed, Mr. Chairman, we started a proceeding called Ex Parte 252, the purpose of which would give us a record to determine temporary per diem schedules that would provide the incentive that the law intended. We have had hearings on that, rather voluminous hearings, to say the least. The hearings aren't finished yet. I couldn't represent to the committee that we would finish that proceeding, as heavy as it is, and as difficult and complex as it has become, in the very near future.

As soon as we have finished we hope it will give us a little help and alleviate the shortage. I would not want to stay it is going to provide the ultimate answer, but it will help.

Mr. EVINS. Even without the incentives, where there is a transportation crisis, such as the Wheat Belt in the Midwest during the shipping season, or in the Florida Fruit Belt in the wintertime, or in the steel industry, it would seem that the Commission should inform the railroads of the need for shipment of excess boxcars from certain areas. With the railroads' management and personnel, this could be done almost automatically. But we have to pass legislation to pay them a little more to move the cars around. Each line wants to keep it exclusively for themselves. They do not want to look at the needs and requirements of the national transportation picture.

Mr. TUCKER. The purpose of the legislation is to provide an incentive for some of these railroads to order boxcars or freight cars that they are not ordering, where some of them are railroads that terminate more traffic than they originate. That is the purpose of the legislation. As far as our work goes, it really is not a service function. We have to start with the fact that we are short freight cars in America, and our job is to stay on the ball, watch every trend, be ready to issue staff orders and Commission level orders immediately, work night and day and get as many hours out of every man we have.

Mr. EVINS. Do you have any information that the major railroad lines are buying or ordering increased boxcars, and if so, how many?

Mr. TUCKER. Our information is that they are not ordering as they were last year. We have been advised that this is because of the suspension of the investment tax credit.

Mr. EVINS. Giving the Commission more legislation, a larger appropriation, more personnel, and relieving it of some of its safety inspection services, you should be able to devote more time to these national transportation policies in the big cases.

Mr. TUCKER. On personnel, Mr. Chairman, we have not actually increased in personnel. In the car service area we do not have any increased personnel or increased personnel or manpower availability over last year. I trust the chairman might let me put on the record here the tremendous work that Brother Bush did last year, personally supervising our service effort on freight car shortages. It is just a matter of hard work, the ability to see a trend and get on top of a crisis, issue orders that will move cars around to areas that are needed as quickly as possible. That does not answer the fact that we are short of freight cars in America.

Mr. EVINS. I think Mr. Bush is a wonderful man. He is a great Chairman.

Mr. TUCKER. In this area, he certainly is.

WORKLOAD FACTORS

Mr. EVINS. I want to place in the record pages IV and V.

(The pages follow:)

WORKLOAD FACTORS

Applications for permanent motor carrier authorities received during fiscal year 1966 totaled 8,681 or an increase of 36.6 percent (2,328) over the 6,353 received during 1965. This is the fifth consecutive year that receipts of motor carrier applications have increased. A total of 3,672 such applications were received in 1961. In five years there has been an increase in receipts of more than 136 percent. During fiscal year 1966 we disposed of 6,767 permanent motor carrier authority cases as compared to 5,784 in fiscal year 1965, an increase of 983 cases or approximately 17.0 percent. Our pending cases in this category, however, increased from 4,741 at the end of fiscal year 1965 to 6,838 at the end of fiscal year 1966, an increase of 2,097 or approximately 44.2 percent. In order to cope with this alarming increase, the Commission continued to explore new means to expedite the case processing. It is hoped that our recently adopted motor carrier application form will curtail somewhat the percentage increase of new filings during fiscal year 1968, and that approximately 9,200 new applications, or about 1,300 less than indicated by present trends, will be received. Even at this level, receipts will continue to exceed dispositions by a substantial margin unless our present staff is augmented. Other procedural improvements include increasing the number of opposed motor carrier licensing matters to be processed under modified procedure, i.e., without oral hearing. These cases will be assigned for preparation of a report to an attorney-adviser, thereby increasing the proportion of the operating authority caseload to be handled by the non-hearing examiner staff. With the increased number of filings, the number of petitions which are handled by the attorney-advisers also continues to increase. Although some of the necessary increase in output can be accomplished through improved productivity of our present staff resulting from continued improvement in case-handling procedures, the remainder of the increase in production can only be achieved through increased staffing. The heavy caseload experienced in recent years with respect to rail and motor carrier unification applications and applications of railroads for abandonment or extension of their lines is continuing. Although the Commission has issued reports in two of the largest railroad unifications ever to come before the Commission, work on these proceedings must continue well into fiscal year 1968. In addition to this work, other large rail acquisition proceedings having a far-reaching economic impact are pending.

Because of the magnitude and complexity of the decisions involved in these proceedings, each require many more man-hours than the average proceeding. Also, motor carrier finance cases handled have been more vigorously contested than formerly, and in a substantial number, questions of fitness were raised. These factors add to the records and the man-hours required for processing the cases. The 1968 budget provides funds to increase our staff of attorney-advisers, clerks and stenographers to handle the increased workload and to reduce the pending caseload to a reasonable level.

The volume of our enforcement cases continues to increase. These proceedings involve rate matters, rule-making and carrier fitness qualifications, as well as so-called "gray area" cases involving unlawful leasing, "buy and sell" schemes, fictitious shipper associations, etc. An increased workload will result from new legislation, and court decisions during the past fiscal year which were not in accord with Commission findings.

While the number of authorized motor carriers under the Commission's economic jurisdiction has not changed materially, the number of vehicles operated and number of tons of property transported has increased steadily. The growth of unauthorized transportation has been alarming to the regulated motor carriers because of loss of revenue and the resultant effects on their economic health. Because of widespread complaints against the practices of this type of carriers, it is necessary to determine in each case whether they are in fact private or exempt carriers. These investigations are usually complex and time-consuming.

In our cost finding activity, carriers are continuing to seek changes in rates and install new and novel service features. This has increased the demand for the development of transportation cost formulas and modification of existing ones. The 1968 budget includes funds for additional cost analysts to provide for the development of current transportation cost data for use in Commission proceedings.

The Office of the General Counsel has continued to experience a heavy workload, both in litigation involving Commission orders and in non-litigation work. A further up-surge in court cases is anticipated as a result of the increased filings of motor carrier cases. Also, we will undoubtedly be engaged in massive rail unification cases that will have a far-reaching impact on our workload in both fiscal years 1967 and 1968.

The Commission's research activities are becoming increasingly important. These studies are generally of considerable scope and complexity and usually involve examination and evaluation of economic developments in transportation as they relate to the national economy, the public interest, and the Commission's policy objectives. The increasing complexity of regulatory problems, as well as the dynamic nature of technological developments in transportation and the nation itself, has exerted a strong demand for transportation research. There is need to enlarge our activities in the field of transportation research and expand the capabilities of our Section of Mathematics and Statistics. The 1968 budget includes additional positions to strengthen these activities.

The nation's freight car shortage has assumed gigantic proportions and is exerting an adverse effect on the nation's economy. Public Law 89–430 (incentive per diem) assigned the Commission responsibility, after hearing, to set rates for the use of freight cars that will provide just and reasonable compensation to freight car owners, contribute to sound car service practices, and encourage the acquisition and maintenance of a car supply adequate to meet the needs of commerce and the national defense. To meet statutory requirements and to promulgate such rates, extensive investigation and hearings must be conducted. The law requires that the incentive per diem rates, once set, must be adjusted as the supply of freight cars changes. We must keep currently informed on the car supply situation since the law provides for the incentive rates to be applied only to cars found in short supply. Several interested organizations and groups, including the Council of Economic Advisors, have concluded that recent price increases in certain commodities have resulted from inadequate transportation due to boxcar shortages.

The funds requested in the Commission's budget for 1968 must be made available to the Commission if, pursuant to the National Transportation Policy, it is to (1) promote adequate, economical and efficient service and foster sound economic conditions in transportation and among the several types of carriers; and (2) to encourage the establishment and maintenance of reasonable charges for transportation services, without unjust discrimination, undue preference or advantages, or unfair destructive practices.

Mr. EVINS. Then let us go back to pages I, II, and III. You show your workload factors there. This is all very interesting reading.

Applications for permanent motor carrier authority received during the year, total 8,681, an increase of 36 percent. Somewhere else in the budget I notice a statement in which you said that the overall motor carrier work had shown a slight decline. One place you say it is increasing and somewhere else in your budget you say it is down. Then you say this is the fifth consecutive year that the receipts have increased. In order to cope with this increase, the Commission continues to explore new means to expedite the case processing. You can handle a lot of these cases pretty expeditiously, can't you?

Mr. TUCKER. We are constantly working on new techniques to handle cases more quickly, Mr. Chairman. Could I go back to the increase comparison? I think my reference was to our looking for a leveling-off trend rather than a decrease trend. I do not want to suggest to the committee that it is leveled off. We do see a leveling-off trend to some extent that would relate to some of the things we did last year, such as requiring the shipper affidavits, and so forth. As far as coping with this, we are developing constantly or looking at new techniques. We are doing this right now.

Mr. EVINS. You say some of this increase in output can be accomplished through improved productivity. Then you speak about the applications for abandonment or for extension of a line. Hasn't this leveled off a bit in the last year?

Mr. TUCKER. I do not believe so. If anything, I think it has gone up.

Mr. EVINS. How many applications were filed last year for abandonment and how many applications for abandonment are pending?

Mr. FORBES. We had 120 applications, we granted 92, denied five, dismissed eight.

Mr. EVINS. How many are pending?

Mr. FORBES. We have pending about 64 right now, sir.

Mr. EVINS. The volume of your enforcement work continues to increase, the statement says, involving rate matters, rulemaking, carrier fitness, gray-area cases, and unlawful leasing. I imagine this is a constant problem with the Commission.

Mr. TUCKER. Yes, sir.

Mr. EVINS. One carrier working out a side arrangement with another.

Mr. TUCKER. Things like that, Mr. Chairman. It continues to be a problem.

Mr. EVINS. You also state that increased workload will result from new legislation and court decisions. Then on the next page you have about five areas I think worthy of mentioning. The growth of unauthorized transportation has been alarming. My question is, Why hasn't the Commission done something about this?

Mr. TUCKER. We have, Mr. Chairman. We are working constantly.

Mr. EVINS. But you say the growth of unauthorized transportation is alarming?

Mr. TUCKER. Some of that relates to the economic situation in different parts of the country. We have coped with this to the extent of all

of our resources. As a matter of fact, most of the people that are left in our field force will be dealing with this a hundred percent of the time.

Mr. EVINS. Another heavy load is cost-finding activity. The 1968 budget includes funds for additional cost analysts to provide for the development of transportation data costs for us in Commission proceedings. Can you get any of this information from your files?

Can you get any from the new department?

Mr. TUCKER. We expect to; but we would develop a cost-finding function in the Commission from the standpoint of personnel that would relate to the increasing complexity of rate cases. We get new types of rate proposals all the time. This is an area that we feel we have to beef up personnelwise.

Mr. EVINS. Office of General Counsel work, litigation involving Commissioner orders is increasing. You mention the massive rail unification cases. We know those are big and time consuming.

RESEARCH ACTIVITIES

No. 4 is the research activities of the Commission. Research is going to be conducted by the new Department of Transportation largely, is it not?

Mr. TUCKER. I referred to technological and marketing research in connection with rail passengers. Our research is mathematical and statistical in nature, Mr. Chairman, and enables the Commission to maintain the expertise which we require for all of these cases.

Mr. EVINS. You have conducted research on the railroad industry and on the bus and truck industry. You have most of the facts in your files, have you not?

Mr. TUCKER. We have a great deal of facts in our files, Mr. Chairman.

Mr. EVINS. What specific types of research are you proposing to conduct next year?

Mr. TUCKER. May Mr. Margolin give the answer?

Mr. MARGOLIN. I want to say that the Commission is exercising more imagination in looking ahead. We recently completed a staff study which involved the question of air-truck coordination and competition. Here is a situation where the airlines are developing more and more air cargo which can have some effect on the trucking industry. So the Commission asked us to look at this particular problem and see what the situation is now and what problems might be developing in the future.

We are trying to look ahead. Also, for next year; actually we are conducting it now, we are examining rail intramodal competition. This has to do with the developing railroad situation and what might have developed as a result of merger activities and other possible effect on rail competition such as those stemming from rate practices.

Mr. EVINS. Does your research show where there are mergers there is generally a lessening of competition and a lessening of service?

Mr. MARGOLIN. We are going to examine these problems to find out whether such is the case or not. In the area of railroad mergers, we are very active in helping the hearing examiners. Since these cases

are increasingly complex, more and more economic evidence is being adduced or brought to the hearing by the parties. As the examiners are hearing these difficult cases they need assistance from economists to take a look at the traffic estimates, the diversion potentials; the forecasts on revenues, earnings, and savings. In a number of these major cases we have supplied economists to work with the hearing examiners.

Mr. EVINS. You can show there is more industry in an area, you can show there is more population in the area and more products produced, and yet you find they have closed the railroad stations. They have merged and abandoned this one and will just operate in the central cities.

Mr. MARGOLIN. The parties that come to the Commission make their own representations. The question in many instances is: Who is bringing the proper facts to bear, and these have to be evaluated and an interpretation made for the benefit of the examiner. We do the same type of work for the Commission itself in merger proceedings of this kind.

Mr. EVINS. Your research program for next year is to have figures available for the Commission and the examiners?

Mr. MARGOLIN. The Commission and the examiners. Once the new Department gets underway fully, they will be doing research for their overall broad policy purposes. We have to follow and evaluate that to see how this may have an impact on the Commission's regulatory responsibility, to interpret such studies and to make their significance known to the Interstate Commerce Commission.

Mr. EVINS. Besides the research you speak about the Nation's freight car shortages. We have discussed this. Several industry organizations and groups including the Council of Economic Advisers have concluded that recent price increases in certain commodities have resulted from inadequate transportation due to a boxcar shortage. That is the finding. We knew that.

Mr. TUCKER. Yes, sir.

Mr. EVINS. Mr. Boland, do you have any general questions?

Mr. BOLAND. No, Mr. Chairman.

Generally speaking, I would want to compliment the Commission on what it has done in this area. I think you have a very difficult responsibility, fulfilling the letter of the law and providing a safe and adequate and sound transportation policy and system for the Nation. This is not an easy thing to do. When particular routes are cut back or services cut back in the areas, this is the Commission that gets soundly whipped by everybody because it does not provide the transportation for every village and hamlet that wants it. So it is not a very easy task for the Commission. I think, as was indicated here by the chairman, the decisions which you reach have a far-reaching economic impact on the Nation as they do upon a lot of the localities that are involved. I think the Commission gives due regard and respect and consideration to this. There is no question about it.

I have always felt that this Commission, as are a number of the regulatory agencies, is awfully close to the people. As a result there is a tremendous human impact upon individuals. Because of this, it perhaps is subjected to the spotlight of publicity and perhaps subjected to an area of criticism that a lot of the other regulatory agencies do not get, I believe this Commission has done an outstanding job. As I say, it is a difficult task. When you start to consider huge

mergers that have such a tremendous impact upon the Nation, upon our defense structure, it does require an awful lot of time and effort and brilliance. Everytime that this Commission opposes a merger or has hearings or trials concerning mergers and acquisitions, you are always faced with perhaps the highest priced legal talent in the Nation. I have always been very proud of the way that our trial lawyers and examiners and analysts have handled some of these problems.

MOTOR CARRIER TRANSPORTATION

In the matter of motor carrier transportation, this is a difficult job. As the Chairman pointed out on page V, he is concerned about the growth of unauthorized transportation which has become alarming to the regulated motor carriers. I would dare say you have had considerable investigations here and that perhaps the investigation that you have conducted over the past year or the past years is just about all you can do with the staff you have. So sometimes the responsibility rests with us rather than the Commission. What about the number of investigations you had last year in this area?

Mr. TUCKER. I personally want to thank you on behalf of the Commision on your observations regarding our work. We appreciate that very much.

In the motor carrier area, we have some figures on page 146. Perhaps Mr. Meyer can give you the trend.

Mr. MEYER. We were running about 1,300 investigations last year. Of that number about half were safety, which goes over to the Department of Transportation. The other half involved unlawful transportation, but they took about 70 percent of the time of our staff to do the job. They are more difficult. It takes time to dig them out and run them through. That is about the way we are running. About 600 or 700 unlawful transportation in that area each year and that is about as many as we can make with what we have to do it with and with the complexity that becomes really more difficult every year.

Mr. BOLAND. The regulated motor carriers want the investigation completed tomorrow or yesterday. So you do have some problems. Let me say my general comments with respect to the ICC are shared by all members of this committee.

As long as I have been serving on this committee I think this is precisely the feeling of the members on both sides, Republicans and Democrats, feel toward it; I think this has been amply demonstrated in the appropriations that have been provided by the committee during the years I have been on it and the years that my chairman has been on the committee, too. Just looking at this budget, of course, can give one a pretty good idea of what your problems are. Looking at the merger cases of the *Penn-Central* case, when may that be resolved? It may take a year or so?

Mr. TUCKER. It is before the Supreme Court.

Mr. BOLAND. You have something to do with it?

Mr. TUCKER. We are still hearing matters involving conditions with respect to three railroads. That is in process right now.

Mr. BOLAND. The transfer of the particular functions from your Commission to the Department of Transportation, this will assist your Commission in doing its job a little better, will it not? You get rid of one area of responsibility. This will assist the Commission in perhaps doing a better job.

Mr. TUCKER. In a way you might say so, in the sense that we are now concerned basically with our economic regulatory posture rather than having a safety posture. We do not have any more resources. We are not asking for any more resources than we had in the past related to what we will have left.

Mr. BOLAND. How much of the time was the Commission occupied with reference to the safety aspect that is now leaving your Commission sometime in April? How much time would the Commission itself give to this aspect of your responsibility.

Mr. TUCKER. In terms of manpower we made a measurement. At the Commission level it would be pretty hard to pick up how much time we have devoted to safety matters.

Mr. SCHMID. The figures roughly are in two parts. Our safety inspectors devoted 85 percent on safety matters. Our supervisors spent possibly 15 percent of their time. When you weigh those two things together, that is where we came out in determining the total number of people that is going to the new Department, leaving only those people who have in the past and will continue to devote their time to investigations concerning economic regulations.

Mr. BOLAND. There has been criticism expressed over the attitude of the Commission with respect to mergers. Speaking for myself, it would seem to me that the Commission has responsibility for providing a very sound transportation system for the Nation, particularly with reference to railroads. It seems to me what the Commission has done over the years is precisely this. If you get rid of some of the weak lines, this is good for the Nation. This is good for the transportation system and the railroads.

The Nation is probably better off with some strong and healthy railroads. This has been one of our problems. The economic pattern of the Nation has changed in the years that this Commission has been in business, and there have to be changing concepts and opinions on the part of the Commission. I do not think I can quarrel too much with the Commission on some of the things it has done. I commend them for the dedication and the spirit with which they have joined in some of the issues they have faced in the years that I have been on this committee.

Mr. TUCKER. Thank you.

Mr. EVINS. Mr. Giaimo?

Mr. GIAIMO. Mr. Chairman and Mr. Tucker, let me say I, too, want to pay my respects and compliments to you and your predecessor, Mr. Bush, and the other members of the Commission for the work you are doing in this area. This is probably the toughest domestic problem we have outside of our economic problem concerning the poor and social problems. This whole problem of transportation is getting worse rather than better. It is the responsibility of all of us.

Although the ICC may stand criticism from various people, and certainly as it does in my part of the country, the fact is that it is trying to do the best it can in a particularly difficult situation and a crisis situation which confronts all of us, those of us in Congress, and your Commission, and private and public bodies. We must try to find some solutions and to get a modern and viable type of transportation system particularly in rails and other types, because of the in-

crease in our urban areas and because there is choking of highways in ingress and egress to urban centers. I think we are all going to have to work together to try to find some solutions to this. I do pay my respects to you and the members of the Commission and to all of the people of your staff. I do have some general questions.

COMMISSION'S BUDGET ESTIMATES

First of all, I am a little uncertain as to your overall budget, where you show $23,784,000 and then you state that excludes the $5 million and the 430 positions. Does that mean the $5 million is going to come out of this $23,700,000?

Mr. TUCKER. No. The budget is predicated on after transfer. The 1967 fiscal comparative figure you are looking at we adjusted by that $5 million, so you would have the comparison in the budget.

Mr. GIAIMO. In effect, there is a substantial increase in this budget.

Mr. TUCKER. No. The increase is $374,400.

Mr. GIAIMO. These 430 positions that are being transferred to the Department of Transportation, that is going to leave you with how many positions for this year?

Mr. TUCKER. 2,016.

Mr. GIAIMO. So they are already taken out. You would have had 2,016, plus approximately 400.

Mr. TUCKER. Yes.

Mr. GIAIMO. If there was no transfer you would have had an expenditure need of $23,784,000 plus $5,069,400.

Mr. TUCKER. That is correct.

Mr. GIAIMO. So there is in a sense a large increase here. In other words, if there was no new Department and no new transfer you would be keeping these 430 positions plus your additional functions for safety?

Mr. SCHMID. Mr. Congressman, the same figures were taken out of the 1967 figures. You have to keep that in mind. For comparison purposes, we took it out of the 1967 figure and the 1968 figure.

Mr. GIAIMO. Then you have answered my question.

Mr. TUCKER. The 1967 figure is not an actual figure. It is an adjusted figure.

PIPELINE SAFETY

Mr. GIAIMO. I did want to make it clear to anyone who might read this report that there is not an increase of $5 million and 430 positions. Are you losing control over pipeline safety? Does that go into the Department of Transportation?

Mr. TUCKER. Yes, it does.

Mr. GIAIMO. Has your Department done any study of this in the recent past as to the serious question which seems to arise as to whether or not there is real safety in these pipelines which are crisscrossing our Nation?

Mr. MEYER. Yes; we have a proceeding now to determine regulations which should be prescribed for pipelines. Mainly, it involves pressure and the kind of piping and what is required and what is safe and that is in the mill now.

Mr. GIAIMO. I received a number of complaints which I had not received before concerning pipelines which are in existence in my area. Now that the builders and the construction industry is moving into more rural areas they are running into these problems. They are finding in some instances that they are practically on top of the ground and at times they have come dangerously close to being hit and having explosions. It does create a real safety problem which I think someone better look into because these are high-pressure lines, as I understand it, and there could be explosions.

Mr. MEYER. You are exactly right and that is one of the purposes of this proceeding, to determine the gage of the pipe and the pressure they ought to be limited to. That is all involved in this case. That is a responsibility just given to the Commission in the last session of Congress. I think we were given the responsibility September a year ago.

Mr. GIAIMO. The information I have received on these complaints has been of a serious nature. In many instances they are just sitting there either on the ground or an inch or two or less than a foot below, creating a real dangerous problem. One other area that concerns us in the East is this Penn-Central merger and the problems of the New Haven Railroad. I wonder if you would care to bring us up to date on the problems of the New Haven, which seems to be a pace setter and certainly an outstanding example of the desperate conditions in which our rail industry finds itself at the present time. Could you bring us up to date on the financial and other conditions of the New Haven?

NEW HAVEN MERGER

Mr. TUCKER. As far as the merger posture is concerned, when the Commission authorized the Pennsylvania and New York Central to merge, it ordered the inclusion of the New Haven Railroad. That order of inclusion was subject to the development of a plan for the terms of inclusion. The hearings on the particular terms and plans that might be attendant to the inclusion of the New Haven in the Penn-Central began January 16. I think I can say they have progressed quite well.

The Commission has retained the case and inasmuch as a hearing examiner report will be waived, the examiner will work directly with the full Commission, I believe that hearings in that matter will terminate by June. It has been assigned to the administrative control of Commissioner Webb.

Mr. WEBB. The hearings are currently underway.

Mr. GIAIMO. These hearings are for what purpose?

Mr. WEBB. For the purpose of determining what terms and conditions of inclusion are fair and equitable to all concerned. The examiner has heard the testimony of the New Haven Railroad and the New York Central and Pennsylvania are putting on their case now. That will be followed by the case to be presented by the bondholders. If the schedule moves as the examiner hopes, the hearing should be concluded in time to permit the Commission to have oral argument late in June. It is a very difficult case and there are a number of novel legal problems. Essentially the bondholder interests are contending that the price agreed upon by the New Haven and Penn-Central is not enough.

Mr. TUCKER. Going back to your question again, we have the question of hearing conditions related to other so-called small railroads, where the hearing stage is terminated and we are in the pleading stage. We expect in the near future we will make a determination there. I did want to mention, Mr. Chairman, Commissioner Webb's response in connection with the New Haven, because that does represent the Commission's current policy of assigning a Commissioner for direct-level administrative supervision or expediting, or whatever you will, major cases. We like to get away from any time-lag whatsoever, of course, in cases that are still in the public eye. As to the last part of your question dealing with the financial posture of the New Haven, their cash flow, I understand, is not too good right now. They are surviving. I would not want to go beyond that. They are surviving from day to day. I do not think their cash picture is too good. Naturally, by way of what we said——

Mr. EVINS. Where did all the money from these four or five loans go? After bankruptcy you made financial assistance through the court.

Mr. TUCKER. The loans made after bankruptcy are pretty well secured, Mr. Chairman. We have trustee receipts for those. They are not a problem.

Mr. GIAIMO. The ICC guaranteed before bankruptcy?

Mr. TUCKER. We did. We had a default of $14 million.

Mr. GIAIMO. What was your overall guarantee? Wasn't it about $30 million?

Mr. TUCKER. $35 million.

Mr. FORBES. $23 million for the railroad. $12 and a half million for the trustees.

Mr. TUCKER. So it is $35 million.

Mr. GIAIMO. I interrupted you. You were completing your answer.

Mr. TUCKER. No, that was the answer, Mr. Giaimo.

Mr. EVINS. Commissioner Webb and the courts are going to get the New Haven running yet. Commissioner, we wish you good luck, you and the judge.

Mr. WEBB. Thank you very much.

NEW HAVEN DISCONTINUANCE CASE

Mr. GIAIMO. On the discontinuance proceedings, as I understand it at the present time under the present law the burden of proof is on those who do not want to see a particular line discontinued to come before you and show cause why it should not be discontinued. Is that the way it works?

Mr. TUCKER. In my personal opinion there is no burden of proof under the present law. It is a rather interesting law.

Mr. EVINS. The Commission has lots of flexibility and latitude.

Mr. TUCKER. We have had that argued in cases. Usually as a practical matter the railroads will take on the burden of proof from their economic posture. They submit a direct loss situation by way of exhibits. I really do not think that the law has established the burden of proof. Practically speaking, in most cases that I have known about the railroad assumes the burden of proof. If it is a big case they

usually make clear that they are not assuming it because the law directs them to.

Mr. GIAIMO. Are we saying they are assuming the burden of proof on the economic aspects but not on the public necessity and convenience.

Mr. TUCKER. No, they usually put in as their case, you might say, passenger statistics.

Mr. GIAIMO. There is some thinking in Congress, I am sure you are familiar with it, that there ought to be some legislation which would put the burden of proof definitely on those who wish to discontinue the service rather than on the public at large.

Mr. TUCKER. I would like to say that the Commission has under consideration now possible proposals to amend section 13. It is easy to understand with this type of law we all have different viewpoints as to how it has worked in the past and how it might be improved. We are right in the middle of that. I would rather not get into the particular issues. One of the issues that we are studying in connection with any legislative proposal is the burden of proof element.

Mr. GIAIMO. That is good. Thank you, Mr. Chairman.

Mr. EVINS. Mr. Pryor of Arkansas?

Mr. PRYOR. No questions, Mr. Chairman.

Mr. EVINS. Mr. Wyman?

COMMISSION'S POLICY

Mr. WYMAN. Chairman Evins has spoken of the relationship of the ICC to originating changes in policy in the transportation field. Do you feel that the Commission should have more explicit authority under legislation to implement an aggressive policy in the transportation field?

Mr. TUCKER. I do not feel personally the Commission should have a more positive promotional responsibility, Mr. Wyman in the sense that the CAB had. I think prior to the Department of Transportation we had a rather hazy promotional area with respect to all of the agencies that dealt in transportation. I personally feel that the promotional and planning governmental function on transportation is now where it should be, in the Department of Transportation.

In that sense, I do not feel that is the kind of responsibility I would look for in the Commission. I think the Commission has even a stronger responsibility to make its view known and its expertise known on economic matters that relate to the act. For example, I think the Commission will continue to make up its legislation program as times and people and economic things change and make those known directly to the Congress and that sort of thing.

Mr. WYMAN. Might it not be a little incompatible perhaps to have a responsibility for originating policy and also a regulatory responsibility?

Mr. TUCKER. I believe we have a direct definable responsibility for the economic regulation of surface transport. I do not think the Commission will hesitate to exercise that, although we may get areas that might overlap. I think that coordination will work out fine with the Department of Transportation.

Mr. WYMAN. Newsweek, last week, reported that the Teamsters Union was asking for a 92-cent-an-hour-salary increase over the next 3-year period, which is approximately a 25-percent increase. Depending upon what happens to this, no doubt the trucking companies will be in for a rate increase before you. What will be the Commission's policy with regard to this in light of the President's request that prices be held down?

Mr. TUCKER. The Commission's policy on that will be the result of casework and individual records, Mr. Wyman. I would be rather hesitant to suggest that we look forward to that rate increase with any idea of policy right now. We will have rate cases coming up, and if there are any wage increases, they will certainly be a factor to be considered.

Mr. WYMAN. They will become a part of the rate base?

Mr. TUCKER. The cost to the carrier of transporting its freight will be part of the picture.

UNAUTHORIZED TRANSPORTATION

Mr. WYMAN. There has been quite a lot of talk this morning about unauthorized transportation and its regulation by you in the enforcement field. Could you give us a few examples of what this kind of thing is? What is this type of unauthorized transportation?

Mr. TUCKER. Perhaps Mr. Meyer could give you a more definitive answers than I could as to what we are currently running up against.

Mr. WYMAN. I am trying to find out what you are faced with.

Mr. TUCKER. Perhaps Mr. Meyer might give us a day-to-day idea and then the overall big issues we face.

Mr. MEYER. Of course. Unlawful transportation is transportation without operating authority, which takes the traffic away from the regulated carriers. Some of this takes the form of getting a load and hauling it for a fixed charge and nothing complicated about it. Others will enter into a lease agreement. They will purport to lease their vehicles to the shipper and make it seem to be private carriage rather than unlawful transportation. That is the kind that is difficult to unravel.

In other cases, they will actually issue a bill of sale and seek to make the goods appear to be the property of the truckowner or truck operator. That is what we call the buy-and-sell operations. Those become quite involved too. Then there are the agricultural co-ops. In many of the cases which have been before the Commission they were not bona fide agricultural co-ops, but were transporting a vast amount of tonnage under the guise of being an agricultural co-op. All of those things go in to make the total of the unlawful transportation picture.

Mr. WYMAN. If a private company manufacturing a product uses its own trucks to ship across State lines to deliver that product, does this require regulation by you?

Mr. MEYER. It does not.

Mr. WYMAN. It does not?

Mr. MEYER. No, sir. If it is its own goods and the operation of the trucks and transportation is in furtherance of or incidental to their main business, which is manufacturing, wholesale or what have you, they require no operating authority of any kind from the Commisson.

Mr. WYMAN. In the enforcement section, do you receive information about these alleged unlawful incidents from competing carriers or from individuals who are aggrieved? How do you first get the flag?

Mr. MEYER. We get complaints from authorized carriers. We get complaints from some shippers who think their competitors are getting their goods hauled by one of these unlawful operators by much less than they who are using the authorized carriers. In our inspection programs in our safety checks on the highway we get a lot of information on the unlawful transportation. In our routine inspections and our visiting carriers we get a lot of it. From the State regulatory commissions, the State police. They pick up these trucks out on the highway and if they seem to be transporting interstate traffic and it is not clearly a private carrier or authorized carrier they pass that on to us. All in all, we come up with some 40,000 to 45,000 pieces of information which may or may not indicate unlawful transportation. That is really the raw material from which we build these unlawful transportation cases. Almost half comes from safety work which goes to this Department of Transportation. That is another area where considerable coordination will have to be worked out to keep that information flowing if we are to continue to do as much on unlawful transportation as we have in the past.

Mr. WYMAN. Thank you.

ADDITIONAL POSITIONS

In your request for 28 additional personnel, 125,000 of the 374,000 is for cost of within-grade salary advancements. Is this under statute or a matter of discretion with the Commission?

Mr. TUCKER. Within-grade salary advancements is by law. We have no choice there.

Mr. WYMAN. So there is nothing we can do about that?

Mr. TUCKER. I am not sure about that figure. I want to check that.

Mr. SCHMID. That is correct. The 28 positions would cost us $213,380. The within-grade advancement would be required even if we did not get those positions. We would still need the $125,000.

Mr. WYMAN. If you did not get those positions the 125,000 would not be applicable?

Mr. SCHMID. That is correct.

Mr. WYMAN. In those 28 additional positions, with the war on and with the problem before this committee not only with regard to your agency, but with regard to lots of others of trying to hold the line of the terrific cost for the war, couldn't you ask your present employees to take on this additional work?

Mr. TUCKER. May I say in a sense we have been pretty much concerned with the cost of our defense situation. Throughout the past year we did our best to increase the present productivity and quality. The bulk of these 28 people, 20 of them relate to the proceedings area where we really cannot exercise any control over the applications filed; the increased applications for motor carrier licensing. In that sense, as we say, it would be a most difficult thing for us to keep our case-time average within proportions as the case filings go up without those people.

Mr. WYMAN. If the case-time average were to be decreased somewhat by present case-time-study workers increasing their load in your opinion would this operate harmfully to the critical evaluation of the cases on an individual basis?

Mr. TUCKER. That is right. We could hurt things the other way by not getting cases out in proper time. I do want to say over the past 6 years I think we have had an increase of 1.4 percent in number of employees and we have had an increase of almost double in caseloads. Is that correct?

Mr. SCHMID. In the last 5 years it has trebled

Mr. TUCKER. But we only had a 1.4 percent increase in the number of employees in the Commission. I am just submitting to you that we think we have really gotten more mileage, so to speak, out of everybody, including ourselves, at the Commission.

Mr. SCHMID. Mr. Wyman, I am a little concerned that you may have the wrong understanding of one item. A little bit ago you indicated that you thought the $125,000 was related to the 28 positions. What I want to point out is that if we do not get the 28 positions, we will still need the $125,000 because the cost of within-grades applies to the 2,000 people.

Mr. WYMAN. That is what I was trying to find out. The $35,000 and $24,000 for travel and for personnel benefits, do those two items relate to the 2,000 employees overall or just to the 28 positions?

Mr. SCHMID. The bulk relates to the 28 positions.

Mr. WYMAN. How about the $56,000 for other objects of expenditure?

Mr. SCHMID. A good portion of that relates to the new positions. There is some increase in here for travel money to step up our hearing schedules. The bulk is related to the new people.

Mr. WYMAN. Thank you.

Mr. EVINS. In this connection, how about the terminal leave situation? If a man retires or resigns or decides to transfer to DOT, how do you handle the terminal leave situation?

Mr. SCHMID. The cost of that terminal leave will be the responsibility of DOT.

Mr. EVINS. What about others retiring?

Mr. SCHMID. We pay for that; very much so. That is a rather costly item.

Mr. EVINS. There is no saving on terminal leave?

Mr. SCHMID. No, sir; it is a costly item to us.

Mr. EVINS. How much this year?

Mr. RYAN. About $180,000.

TRUCKLINE BANKRUPTCIES

Mr. EVINS. The trucklines have taken a lot of business from the railroads and some of the railroads have been merging and a few are in bankruptcy. What is your interpretation with respect to the bankruptcies of trucklines? You have not found many of those in bankruptcy?

Mr. TUCKER. No; we have not had any trend of substance of trucklines in bankruptcy, sir.

Mr. EVINS. They are in the black? They are in the profit columns?

Mr. TUCKER. It appears they are doing quite well, except in New England.

Mr. EVINS. The trucklines are having problems, too, even in New England where they have the great industry and masses of people.

Mr. TUCKER. It is a high-terminating area. More heavy traffic and more revenue-producing traffic comes in by rail and by truck than goes out from the electronic industry and tool industries.

Mr. EVINS. Generally speaking, you do not have as many trucklines in decisions as you do railroads.

Mr. TUCKER. Generally, no. I am not sure I want to say that the railroads are anywhere near the situation they were economically 7 or 8 years ago. They have picked up a great deal.

Mr. EVINS. Spell it out for the record. I think it is very good to have for the record, that the railroads are paying dividends, they are making profits. They have good bonds and good stocks. The railroads are not near as bad off as they cry, are they?

Mr. TUCKER. I would want my comparison to relate to the situation back in the late fifties. They are a great deal better off.

Mr. EVINS. During the depression we all suffered, all types of business.

Mr. TUCKER. No, I would say you are correct, Mr. Chairman, with regard to the fact that the railroads are in pretty good shape generally. We do have several problem railroads that we are particularly concerned about, again in New England and Northeast and a few in other parts of the country. On the whole, the railroad industry is in pretty good shape.

RAILROAD MERGERS

Mr. EVINS. The Chairman has just submitted here a list of cases considered by the Commission in railroad mergers since 1959. They list some consummated and others pending. Here is one consummated, Norfolk and Western and the Virginian. That one has been settled.

Mr. TUCKER. That is right. That exhibit shows the exact status of every rail merger case since 1959.

Mr. EVINS. Here is the Delaware, Lackawanna & Western Railroad and an Erie Railroad. This started in 1959 and it was consummated in 1960. Here is the Missouri-Kansas-Texas, they merged. That has been consummated.

Mr. TUCKER. Might I suggest, Mr. Chairman, that the mergers you mentioned were fairly small ones in comparison to the ones before us today? There have been really only three or four larger ones that have been completed by the Commission.

Mr. EVINS. We will place this list in the hearings.

(The list follows:)

Status of railroad mergers since 1959–66

		Filed	Hearings	Briefs date	Ex. report	Ex. date	Reply date	Oral arg.	Date of div. or Comm. decision	Date of pet. recon.	Date of action on petition
20599	Norf. & West. R. Co. & Virginian Ry. Co.	Apr. 6, 1959.	1959, June 15–19, 24, 29 (7 days).	None	None	None	None	None	Oct. 8, 1959.	None	None; consummated Dec. 1, 1959.
20707(1)	Del., Lackaw. & West. R. Co.-Erie R. Co.	July 1, 1959.	1959, Sept. 29–Oct. 8, 15–16, 19–22.	Nov. 23, 1959.	Mar. 30, 1960.	Apr. 29, 1960.	May 19, 1960.	July 20, 1960.	Sept. 13, 1960.	Oct. 13, 1960.	Mar. 15, 1961; consummated Oct. 17, 1960.
20751	Mo.-Kans-Tex. R. Co.-MKT of Tex.	Aug. 3, 1959.	None	None	None	None	None	None	May 31, 1960.	None	None; consummated July 1, 1960.
21108	Minn., St. Paul & Sault Ste. Marie, Wis.-Ctral R. Co., Duluth, S. Shore & Atlantic R. Co.	May 3, 1960.	1960, Aug. 2-3 (2 days).	do	do	do	do	do	Nov. 30, 1960.	Jan. 5, 1961.	Mar. 6, 1961; consummated Dec. 30, 1960.
21115	Chic.-N. West. Ry. Co.-Minn. & St. Louis Ry. Co.	May 12, 1960.	Aug. 1, 1960 (1 day).	do	do	do	do	do	Oct. 13, 1960.	Nov. 10, 1960.	Mar. 10, 1961; consummated December 1960.
21160(2)	C. & O. Ry. Co.-B. & O. R. Co.	June 14, 1960.	37 days	Jan. 15, 1962.	May 1, 1962.	June 5, 1962.	July 3, 1962.	1962, Oct. 23–24.	Dec. 17, 1962.	None	None: consummated Feb. 4, 1963.
21215(4)	Seaboard Air Line R. Co.-ACL R. Co.	July 22, 1960.	32 days	Oct. 30, 1961.	Aug. 24, 1962.	Dec. 7, 1962.	Jan. 28, 1963.	May 7-8, 1963.	Dec. 2, 1963.	Jan. 13, 1964.	Mar. 4, 1964; pending court action.
21261	So. Pac. Co.-Tex. & New Orl. R. Co., El Paso So. Ry. Co.	Sept. 1, 1960.	None	None	None	None	None	None	Sept. 12, 1961.	Oct. 30, 1961.	Jan. 25, 1962; consummated October 1961.
21313	Ill. Central R. Co.-L. & N. R. Co.	Oct. 10. 1960.	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1).
21314	So. Pac. Co.-Western Pac. R. Co.	Oct. 12, 1960.	50 days	May 1, 1962.	Aug. 27, 1963.	Feb. 5, 1964.	June 8, 1964.	Oct. 20, 1964.	Denied, Jan. 27, 1964.	None	None.
21334	A.T. & S.F. Ry. Co. West. Pac. R. Co.	Oct. 25, 1960.	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(1).
21400(3)	So. Ry. Co.-Cent. of Ga. Ry. Co.	Dec. 15, 1960.	13 days; 26 days (reopened hearing).	Nov. 30, 1961.	Feb. 21, 1962.	Mar. 23, 1962.	Apr. 12, 1962.	June 25, 1962.	Nov. 7, 1962.	Jan. 4, 1963.	June 10, 1963; consummated June 17, 1963.

See footnotes at end of table.

Status of railroad mergers since 1959–66—Continued

		Filed	Hearings	Briefs date	Ex. report	Ex. date	Reply date	Oral arg.	Date of div. or Comm. decision	Date of pet. recon.	Date of action on petition
21459	Pa. R. Co. Lehigh Valley R. Co.	Jan. 30, 1961.	4 days	May 18, 1961.	July 21, 1961.	Aug. 21, 1961.	Sept. 11, 1961.	None	Apr. 4, 1962.	None	None; consummated June 30, 1962.
21892	Ill. Central R. Co., Chicago & Eastern Ill. R. Co.	Dec. 26, 1961.	(3)	(3)	(3)	(3)	(3)	do	Denied, Feb. 16, 1965.	do	None.
21843	Chicago, Milw. St. Paul & Pac. R. Co., Con.-Wash., Idaho & Montana Ry. Co.	Nov. 13, 1961.	None	None	None	None	None	do	Apr. 18, 1962.	do	Do.
21974	Georgia & Fla. Ry. Co., Ga. Fla. R.	Feb. 20, 1962.	Sept. 10–13, 1962 (4 days).	Oct. 25, 1962.	Dec. 27, 1962.	Feb. 4, 1963.	Feb. 25, 1963.	do	Mar. 29, 1963.	Apr. 15, 1963.	May 3, 1963; consummated June 1, 1963.
21978	C. & Northwestern Ry. Co., Live Oak, Perry & Gulf R. Co., South Ga. Ry. Co., Ga. & Fla. Ry. Co.	Mar. 1, 1962.	(4)	(4)	(4)	(4)	(4)	do	do	None	None.
21989(7)	Pa. R. Co.-New York Cen. R. Co.	Mar. 9,	128 days	June 1, 1964.	Feb. 26, 1965.	July 14, 1965.	Aug. 16, 1965.	Oct. 20–21, 1965.	Apr. 6, 1966.	June 27, 1966.	Sept. 16, 1966.
22274(5)	Tex. & Pac.-Kans.-Okla. & Gulf Midland Valley Okla. City-Ala-Atoka.	Sept. 28, 1962.	12 days	June 10, 1963.	Oct. 30, 1963.	Jan. 6, 1964.	Feb. 6, 1964.	None	June 22, 1964.	July 21, 1964.	Aug. 19, 1964; consummated Sept. 25, 1964.
22288	Norfolk & Wn. Ry. Co.-Control-Norfolk Franklin & Danville Ry. Co., Atlantic & Danville Ry. Co.	Oct. 4, 1962.	None	None	None	None	None	do	Oct. 29, 1962.	Nov. 27, 1962.	Dec. 21, 1962.
22285	Illinois Central R. Co., Chicago Memphis & Gulf R. Co.	Oct. 1, 1962.	do	do	do	do	do	do	May 2, 1963.	None	None; consummated Sept. 30, 1963.
22329	Atchison, Topeka & Santa Fe Ry. Co., Calif. Ariz. & Santa Fe Ry. Co.	Oct. 25, 1962.	do	do	do	do	do	do	Feb. 26, 1963.	do	None; consummated Aug. 28, 1963.
22306	Reading Co., Lehigh Coal & Navigation Co., Lehigh & Susquehanna R. system.	Oct. 15, 1962.	do	do	do	do	do	do	Feb. 28, 1963.	do	None; consummated May 9, 1963.
22308	Lehigh Coal & Navigation Co., Nesquehoning Valley R. Co., Tresakow R. Co.	do	do	do	do	do	do	do	do	do	Do.

21206	NYC R. Co. Bos. & Albany R. Co.-Ware River R. Co., Pittsb. & No. Adams R. Corp., Beech Creek Ext. R. Co.	July 19, 1960	do	do	do	do	do	do	Feb. 9, 1961	do	None; consummated Apr. 3, 1961.
21478	Gt. No., No. Pac., Chic. Burl. & Quincy.	Feb. 17, 1961	82 days	Jan. 4, 1963.	Aug. 1, 1964.	Jan. 15, 1965.	Mar. 15, 1965.	June 16-17 1965	Denied, Mar. 31 1966.	June 27, 1966.	Jan. 4, 1967.
21510*	N. & W., NY Chic. & St. L.	Mar. 17, 1961.	15 days	July 9, 1962.	Apr. 9, 1963.	Nov. 15, 1963.	Dec. 19, 1963.	Oct. 23, 1963; Apr. 22-23, 1964.	June 24, 1964.	Aug. 12, 1964.	Aug. 19, 1964; consummated Oct. 15, 1964.
*Petitions for inclusion filed by Erie-Lack, Del. & Hudson & Bost. & Maine-Pending.			Reopened, 25 days	Sept. 19, 1966.	Dec. 22, 1966.	Mar. 1, 1967.	Apr. 1, 1967.	Will be held Apr. 14, 1967.			
21511	N. & W., Wabash R. Co.	Mar. 17, 1961.									
21512	N. & W. Connecting Ry. Co.	do									
21920	N. & W., Akron, Canton & Youngstown.	Jan. 10, 1962.	(5)	(5)	(5)	(5)	(5)	(5)	June 24,		
22235	N. & W., Pitts. & W. Va.	Aug. 21, 1962.									
21542	Belt Ry. Co. of Chicago-West. Ind. R. Co.	Mar. 22, 1961.	None	None	None	None	None	None	Aug. 9, 1961.	None	None; consummated Aug. 15, 1962.
21564	SoPac. Co-Ctl.-Portland Tr. Co.	Apr. 11, 1961.	Aug. 15-16, 1961 (2 days).	do	do	do	do	do	Dec. 19, 1961.	do	None.
21700	Det. Tol. & Ironton R. Co., Ann Arb. R. Co.	July 28, 1961.	Nov. 8, 1961 (1 day).	Dec. 1, 1961.	Mar. 28, 1962.	Apr. 27, 1962.	May 17, 1962.	do	Dec. 18, 1962.	Jan. 28, 1963.	May 8, 1964; consummated Aug. 28, 1963.
21755(6)	Mopac R. Co., C. & E. Ill. R. Co.	Sept. 19, 1961.	34 days	Oct. 1, 1962.	Sept. 19, 1963.	Jan. 6, 1964.	Feb. 24, 1964.	Jan. 14, 1965.	Feb. 16, 1965.	Mar. 29, 1965.	Aug. 6, 1965: effective date postponed indefinitely.
22382	Atchison, Topeka & Santa Fe Ry. Co., Okla. City-Ada-Atoke.	Dec. 18, 1962.	(5)	(5)	(5)	(5)	(5)	None	June 22, 1964.		
22465	Atchison, Topeka & Santa Fe Ry. Co., Gulf Colo. & Santa Fe, Panhandle & Santa Fe, Kansas City, Mexico & Orient.	Feb. 14, 1963.	3 days	Dec. 2, 1963.	Mar. 26, 1964.	May 8, 1964.	June 8, 1964.	Sept. 23, 1964.	Feb. 18, 1965.	Apr. 2, 1965.	June 11, 1965; consummated Aug. 1, 1965.

See footnotes at end of table.

Status of railroad mergers since 1959–66—Continued

		Filed	Hearings	Briefs date	Ex. report	Ex. date	Reply date	Oral arg.	Date of div. or Comm. decision	Date of pet. recon.	Date of action on petition
22688	Chicago & N.W., Chicago, Rock Island & Pacific.	July 5, 1963.	Began May 4, 1966.	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
23285	Union Pac.-Chicago Rock Island & Pac.	Sept. 10, 1964.	----								
23595	Southern Pac. Co., Chicago, Rock Island & Pac.	Apr. 15, 1965.	----								
23919	Atchison Topeka & Santa Fe & Chicago & North Western-Chicago Rock Island & Pac.	Dec. 13, 1965.	----								
22634	So. Ry. Co.-Agreement-Atlanta & Charlotte Air Line Ry. Co.	May 29, 1963.	None	None	None	None	None	None	June 13, 1963.	None	None.
22621	B. & M. Corp.-B. & M. R.	May 21, 1963.	do	do	do	do	do	do	Sept. 30, 1963.	do	None; consummated Apr. 30, 1964.
22705	St. L-SF Ry. Co.-St. L. SF & Tex. Ry. Co.	July 12, 1963.	do	do	do	do	do	do	Oct. 28, 1963.	do	None; consummated Jan. 1, 1964.
22718	St. L.-SF Ry. Co.-NE Okla. R. Co.	July 25, 1963.	do	do	do	do	do	do	Dec. 17, 1963.	do	None; consummated Jan. 14, 1964.

22951	Mopac Tex. & Pac., Tex. & Mopac Ky. Co.	Jan. 28, 1964.	[8]	[8]	[8]	[8]	[8]	[8]	[8]	[8]	[8].
23178	C. & O., B. & O. Western Md.	June 24, 1964.	9 days	Apr. 12, 1965.	July 27, 1965.	Sept. 20, 1965.	Nov. 10, 1965.	Feb. 9, 1966.	[8]	[8]	[8].
23388	C. & NW., CGW	Nov. 13, 1964.	22 days	Oct. 22, 1965.	Feb. 16, 1966.	May 2, 1966.	May 31, 1966.	Oct. 12, 1966.	[8]	[8]	[8].
23566	C. & O., Chic. So. Shore & So. Bend.	Mar. 24, 1965.	4 days	Apr. 18, 1966.	Sept. 8, 1966.	None	None	None	Nov. 10, 1966.		
23832 23833	N. & W. R. Co., C. & O.	Oct. 11, 1965.	[8]	[8]	[8]	[8]	[8]	[8]	[8]	[8]	[8].
23935	St. L. SoWstrn So. Pac., Alton & So. R.	Dec. 20, 1965.	17 days	Jan. 30, 1967.	[8]	[8]	[8]	[8]	[8]	[8]	[8].
24075	Mopac RR. Co., Alt. & So. R.	Mar. 22, 1966.									
24148	Ch. & E. Ill. Ry.-Alton & So. R.	May 11, 1966.	[9]	[8]	[8]	[8]	[8]	[8]	[8]	[8]	[8].
24178	Mopac.-ATSF Ry.	May 31, 1966.	[8]	[8]	[8]	[8]	[8]	[8]	[8]	[8]	[8].
24182	CM. & NW. Transp. Co.-C. & NW. Ry. Co.-CMST. P & Pac. RR. Co.	June 6, 1966.	[8]	[8]	[8]	[8]	[8]	[8]	[8]	[8]	[8].

[1] Pending (awaiting court act on on F.D. 21215).
[2] Consolidated with F.D. 21314.
[3] On consolidated record with F.D. 21755.
[4] On consolidated record with F.D. 21974.
[5] On consolidated record with F.D. 21510.
[6] On consolidated record with F.D. 22274.
[7] On consolidated record, pending.
[8] Pending.
[9] On consolidated record.

JUDICIAL REVIEW OF FOLLOWING FINANCE DOCKETS

(1) F.D. 20707: Erie Railroad Co.—Merger—Delaware, Lackawanna & Western; *Brotherhood of Maintenance of Way Employees* v. *U.S.*, (USDC ED Mich., CA #20575, 189 F. Supp. 942. Sustained 12/7/60, 366 U.S. 169. Affmd. 5/1/61).

Albert Fried, et al. v. *U.S.* (USDC SDNY CA #60 Civ. 4092, 212 F. Supp. 886. Sustained 12/18/62).

(2) F.D. 21160: C&O—Control—B&O; *Brotherhood of Maintenance of Way Employees* v. *U.S.* (USDC ED Mich., CA 23467, 221 F. Supp. 19. *Sustained 8/763*, 375 U.S. 216. Affmd. 12/9/63).

(3) F.D. 21400: So. Ry. Co.—Control—Central of Georgia; *Railway Labor Executives' Assn., et al.* v. *U.S.* (USDC ED Va., CA #3004, 226 F. Supp. 521. *Sustained 1/31/64*, 379 U.S. 199. Vacated & Remanded 12/7/64). *Southern Ry. & Central of Ga.* v. *U.S.* (USDC ED Va., CA #3276, Vacated & Remanded per mandate of Supreme Court in above case, 1/27/65).

(4) F.D. 21215: Seaboard Air Line—Merger—Atlantic Coast Line R.R.; *Florida East Coast Ry. Co.* v. *U.S.* (USDC MD Fla., CA #64-64-J, 242 F. Supp. 14. *Set aside 5/13/65*, 382 U.S. 154, Jdgmt. below vacated & remanded to *D. Ct. 11/22/65*, 259 F. Supp. 993, *Sustained 6/8/66*, Now pending in Supreme Court.

(5) F.D. 22274; Texas & Pacific—Control—Kansas, Okla. & Gulf Ry., *Kansas City So. Ry. Co. et al.* v. *U.S.* (USDC WD Mo., CA #15159-3. Filed on 9/3/64. Still pending in court. No briefs filed as yet).

(6) F.D. 21755; Missouri Pac.—Control—C&EIRR; *Illinois Central RR.* v. *U.S.*, (USDC ND Ill., CA 65C1393; 8/4/66, sustained (*no citation*). 1/9/67, affirmed per curiam (no citation)).

(7) F.E. 21989: Pennsylvania RR—Merger—New York Central RR; *Erie Lackawanna RR., et al.* v. *U.S.* (USDC SDNY, CA #66 Civ. 2860, 2903, 2914, et al. 1/9/67. Argued before Supreme Court. No decision as yet.)

Mr. EVINS. Here is the Seaboard & Atlantic Coast Line still pending in the Court.

Mr. TUCKER. In the Supreme Court, yes, sir.

Mr. EVINS. Is that the one case you have testified to earlier that is pending in the Court or is there another case?

Mr. TUCKER. No. We have two cases now that are in the Court. The Pennsylvania-New York Central and the Seaboard-Coast Line.

Mr. EVINS. In both of those cases the Commission approved the merger and some competing railroads or the public are protesting.

Mr. TUCKER. In one of them the Department of Justice is involved.

Mr. EVINS. Both of them?

Mr. TUCKER. The Department of Justice is involved in both of them.

Mr. EVINS. This has been a very interesting discussion.

We are all interested in our Nation's transportation and overall transportation policy. If I might make an observation, I feel in the future we are going to look to the ICC for regulations, saying stop, look and listen, you cannot do this, and the Department of Transportation's general concept is going to be imaginative, creative and forward looking. I think overall the ICC, and I could be wrong, has had two basic concepts, two mandates from Congress. Not only to stop illegal practices, but to have a positive and affirmative policy in developing transportation. This is also borne out in the loan finance concept. Your function in the future will be less, I would think, in the creative field. Let us take a look at pages II and III, the jobs that are to be transferred to the Department of Transportation. In 1967 you had 1,988 employees.

EMPLOYMENT AND EMPLOYEES TRANSFERRED TO DEPARTMENT OF TRANSPORTATION

In 1968 in your budget you propose 2,016, an increase of 28. But detailed below on page II it shows the services of the employees to be

transferred. In 1968 it is estimated at 2,016 positions, an increase of 28, but excluded from this group are the following: Three from the section of Administrative Services. You are going to continue your Administrative Services in the ICC, but three personnel preferred to transfer over. Is that how you happened to lose those three?

Mr. TUCKER. No, sir. The people going for administrative services are people that directly relate to the safety function that we have transferred.

Mr. EVINS. These are the ones directly related to safety?

Mr. TUCKER. That is right. They might not have directly related but the number of manpower-hours in the office of the Managing Director required us to give up an equivalent amount.

Mr. EVINS. The majority of their time was consumed in safety activities?

Mr. TUCKER. In terms of number of people rather than individuals.

Mr. EVINS. You are going to continue your Budget Section and Administrative Section and your Personnel Office and you will also have Systems Development?

Mr. TUCKER. Yes.

Mr. EVINS. In the Office of Proceedings you are only going to transfer one?

Mr. TUCKER. One hearing examiner.

Mr. EVINS. What is the nature of this one hearing examiner in the big Department?

What is he going to do?

Mr. STILLWELL. He handles the rail safety work in cases involving rail safety.

Mr. EVINS. You mean you only had one hearing examiner in the ICC concerned with the rail safety?

Mr. STILLWELL. No; that is not correct.

Mr. EVINS. Why are not more transferred?

Mr. STILLWELL. The people who did the underlying work are transferred. When they had cases involving hearings they submitted them to the Office of Proceedings.

Mr. EVINS. How many hearing examiners in the past—and you have had a large number and you have always maintained that you had a lot of safety cases—were concerned with hearing safety matters?

Mr. STILLWELL. One, for the most part.

Mr. EVINS. You did not have much of a problem then?

Mr. STILLWELL. That is rail safety and not motor safety.

Mr. EVINS. One in the budget out of 29. Only one out of 20 in personnel is transferred and only one out of 29 in hearing examiners is transferred.

Mr. SCHMID. Mr. Chairman, talking about the one hearing examiner, actually we have about a hundred hearing examiners.

Mr. EVINS. And you are going to transfer only one?

Mr. SCHMID. Because one hearing examiner's time is devoted to handling safety cases. Here we are transferring one position because it is the equivalent of the time spent on this type of hearing.

Mr. EVINS. Only one out of the staff is devoted to personnel.

Mr. SCHMID. Here our personnel of about 20 people, the equivalent of one of that 20 in terms of man-hours in connection with the safety personnel is transferred.

Mr. EVINS. The same thing is true of the Bureau of Enforcement. Your function is basically enforcement, carrying out the law and you are going to transfer seven over to the Enforcement Section.

Mr. SCHMID. Here, again, here is a question of the equivalent of seven positions, representing lawyers and clerical people devoting time to railroad and motor carrier safety. Now, these aren't all the attorneys in the Division. We have some 30 attorneys there. This represents the equivalent of seven full-time positions devoted to safety work.

Mr. EVINS. Would you say that this represents about the total equivalent?

Mr. SCHMID. Yes, sir.

Incidentally, the Budget Bureau has, in effect, reviewed this rather carefully and concurred in our estimates.

Mr. EVINS. The Bureau of Operations and Compliance, 173, now this is a big operating section of the Interstate Commerce Commission. Compliance is one of your main fortes. You are taking 173 out. Is this going to cripple you?

Mr. SCHMID. No; because all these people were devoting their time to safety.

Mr. EVINS. With what is the Bureau of Operation and Compliance, that is its remaining personnel, going to be concerned?

Mr. SCHMID. The investigation of economic regulatory functions of the Commission. The same type of thing that Mr. Meyer explained to you a little bit ago, is what we would do.

Mr. EVINS. The Department of Transportation is going to be concerned with economic matters more than they are enforcement matters.

Mr. TUCKER. Well, we don't know about that. We are concerned with what responsibilities we still have under the act, unauthorized carriage, and so forth, Mr. Chairman. The remaining people will be concerned with that.

Mr. EVINS. The Bureau of Railroad Safety and Service, 101. This is the equivalent of 101 in this department who were concerned with safety?

Mr. SCHMID. Mr. Chairman, that one was a little more clean cut because we had three functions in there. They are railroad inspection, car service, and locomotive inspection. So here it was rather easy to identify exactly the people that will go over. What remains is our car service function.

Mr. EVINS. How many will remain in the car service field?

Mr. SCHMID. Ninety.

Mr. EVINS. Tell us what your remaining car service people will do. Are you going to change this name to Bureau of Safety?

Mr. TUCKER. We have under consideration, Mr. Chairman, a structural proposal. We haven't worked out the fine points but we have it under consideration now.

Mr. EVINS. Your concept of this safety is transferred over to the Department of Transportation, and the Interstate Commerce Commission remains now with the Bureau of Safety. It is really not safety, it is car service.

Mr. TUCKER. We are right in the middle of a plan to realine these functions, Mr. Chairman. It would be a matter of weeks before we have it finished.

Mr. EVINS. On this matter of consolidation——

Mr. TUCKER. May I say, Mr. Chairman, as soon as we have that finished, which will be within a week or two, we would be glad to furnish it to the chairman. I plan to come up and see the chairman about that.

Mr. EVINS. You are very kind. Let us take a luncheon break until 1 o'clock and come back.

AFTERNOON SESSION

Mr. EVINS. The committee will come to order.

COMMISSIONERS AND THEIR OFFICES

Let's place in the record pages 4, 5, and 6.

(The pages follow:)

COMMISSIONERS AND THEIR OFFICES (ACTIVITY NOS. 1 AND 6)

This function includes the Commissioners, their private secretaries, attorney-advisers and the stenographic and clerical help required in their offices.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison 1967 with 1968
Positions	102	102	103	+1
Personnel compensation	$1,331,678	$1,368,899	$1,390,189	+$21,290
Personnel benefits	96,872	102,689	104,292	+1,603
Total personal services and benefits	1,428,550	1,471,588	1,494,481	+22,893
Travel	16,467	15,000	15,000	0
Total	1,445,017	1,486,588	1,509,481	+22,893

The increase of $22,893 for personal services and benefits is primarily for the one additional position requested and cost of within-grade salary advancements.

The 1968 budget provides 103 positions for these offices, which is one more than currently authorized. The 103 positions required for 1968 are separated by categories as follows:

Commissioner	11	Private secretary	10
Legislative attorney	2	Special assistant	3
Liaison officer	1	Secretary-stenographer	12
Attorney-adviser	35	Clerk-stenographer	14
Defense coordinator	1	Clerk and typist	12
General attorney	1		
Confidential assistant	1	Total	103

The 1968 budget includes one position for activities previously financed from "Civil defense and defense mobilization functions of Federal agencies," Office of Emergency Planning.

Commissioners have individual responsibility for the preparation of final reports in assigned cases. These cases generally are those which have been the subject of an oral hearing and which require a division or Commission report. The attorney-advisers review reports and memoranda submitted to the Commissioners for their action and perform such other duties as are directed by the Commissioners. The secretary-stenographers take dictation from the Commissioners and maintain the files in their offices. The clerk-stenographers take dictation from the examiners and handle such other work as may be assigned by the examiners or by the private secretary.

OFFICE OF THE MANAGING DIRECTOR

Managing Director's Office (Activity No. 7).—The Managing Director is the chief official in charge of the internal management of the Commission's staff organization. Under policies established by the Commission, he administers, plans, manages, directs, and coordinates the administrative activities of all bureaus and offices, and supervises the activities relating to the Commission's budget, personnel, and administrative and central stenographic services. Under the Office of the Managing Director are the Section of Administrative Services, Budget and Fiscal Office, Personnel Office and the Section of Systems Development.

The following tables shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison 1967 with 1968
Positions	22	22	22	0
Personal compensation	$292,329	$289,981	$290,652	+$671
Personnel benefits	21,828	22,312	22,362	+50
Total personal services and benefits	314,157	312,293	313,014	+721
Travel	12,283	11,690	11,690	0
Total	326,440	323,983	324,704	+721

The increase of $721 for personal services and benefits results primarily from the cost of within-grade salary advancements.

The 1968 budget provides 22 positions for this office which is the same as currently authorized. These positions are separated by categories as follows:

	Departmental	Field	Total
Managing director	1		1
Assistant managing director	1		1
Regional manager		7	7
Special assistant	1		1
Administrative assistant	2	7	9
Secretary	2	1	3
Total	7	15	22

COMMISSION ORGANIZATION

Mr. EVINS. Let's take a look at your organizational chart on page 219 in the back. We have had a discussion of overall policies, programs, and personnel. Now your Commissioners have 106 personnel in their offices. Directly under that is the Office of the Managing Director with seven personnel. He reaches out in all ways. The Office of General Counsel reports directly to the Commission and sometimes through the Managing Director. The Office of the Secretary reports also to the Commission and sometimes through the Managing Director. But under the Secretary you have the Section of Dockets with 93, the Secretary's Office with 24, Mails and Files with 24, and Section of Reference Services with 18. Over here under the Managing Director he has an Assistant Director and a special assistant, and he has a Budget and Fiscal Office with 28. He also has a

Section of Administrative Services with 69, a Personnel Office with 19, and a Section of Systems Development with 55. We will take a little look at the Systems Development. But isn't there some duplication in the Office of the Managing Director and the Office of the Secretary? Can't there be any further streamlining and consolidation here, Mr. Chairman?

Mr. TUCKER. Well, right now we are looking into that. We did go over this 2 years ago, Mr. Chairman. I don't think there is any overlapping at the present time. The Section of Dockets and the Section of Reference Services, really the work there relates to our proceedings work and the Secretary's statutory function. The Section of Mails and Files, of course, relates a great deal to the case filings and that kind of thing. Perhaps Mr. Schmid can amplify on that.

Mr. EVINS. Isn't the Administrative Service related to the Office of the Secretary? He gives administrative services.

Mr. TUCKER. Well, the Administrative Services, their principal thrust is housekeeping, Mr. Chairman; support functions. We have a large printing and duplication function in there and other services that I don't believe relate very much at all to the Secretary's functions.

Mr. SCHMID. No; that is right, Mr. Chairman. You see, the Secretary has specific responsibilities such as those referred to by the chairman.

Mr. EVINS. Couldn't the Secretary run the Administrative Services as well as the sections he now has? You direct all these other operations here, accounts, proceedings, economics, they come under your table of organization, report through to you.

Mr. SCHMID. I was going to say managerial functions generally come under the Managing Director, whereas the Secretary has specific responsibilities which, although some are managerial, others are not. For instance, the Section of Dockets, they prepare the service list and serve the Commission's orders.

Mr. EVINS. Somewhere in your justifications I see where you are going to abolish some of your docketing of applications when they come in. Before they stamped it, gave them numbers. Now you are going to discontinue that. How are you going to keep up with it? Are you going to lose the identification of your cases?

Mr. TUCKER. I didn't understand it that way.

Mr. EVINS. That is in there.

Mr. WEISS. It might be in the chapter on the Bureau of Traffic, Mr. Chairman, page 191.

Mr. EVINS. Let's see if that is right on 191. No, it is not there.

Mr. WEISS. Here it is, page 197. I wonder if that is it.

Mr. EVINS. Yes. "Effective July 1, applications received will no longer be assigned an ICC application number. Our control cards are filed alphabetically in the name of the carriers or agents filing the applications in numerical or date order."

Mr. TUCKER. Mr. Cox?

Mr. COX. I think that is just a matter of bookkeeping, really. We will put it on cards instead of a docket number. But that is only in special-permission application cases. That is not these formal cases we are talking about.

Mr. EVINS. Applications received will no longer be assigned a number. You always give a docket number to a case when it comes in, don't you?

Mr. COX. That is right. Now we will just treat it as any other file.

Mr. GOFF. That is just in the Bureau of Traffic?

Mr. COX. Yes.

Mr. GOFF. It has nothing to do with these other cases.

Mr. EVINS. Applications coming in after July 1, you are not going to docket them. What does that mean?

Mr. TUCKER. Well, that is related to the Bureau of Traffic only, Mr. Chairman. As Mr. Cox points out, there will be a different procedure with respect to particular applications and filings but that would only relate to a very small amount of filings at the Commission.

Mr. EVINS. You are still going to continue your docketing?

Mr. TUCKER. Yes, sir.

Mr. COX. We will still handle them.

Mr. TUCKER. Which is a very important function.

Mr. SCHMID. All our formal cases will continue to be docketed as they have in the past. This change applies only to the special permission orders which comes under the jurisdiction of the Bureau of Traffic.

Mr. GOFF. Tell them what kind of cases those are, Mr. Cox.

Mr. EVINS. Isn't a lot of this under the Managing Director?

Mr. SCHMID. No. That is under the Director, Cox; all of that traffic work. The Secretary has the responsibility for docketing the formal cases.

Mr. EVINS. All formal cases are docketed?

Mr. SCHMID. That is right.

Mr. EVINS. Aren't all informal cases also?

Mr. SCHMID. All the files on those cases are maintained in the Secretary's office.

Mr. EVINS. What do you do besides formal and informal cases?

Mr. TUCKER. We don't docket anything other than formal cases.

Mr. EVINS. But you give it a number so you can identify it?

Mr. SCHMID. That is correct.

Mr. EVINS. Is this under Mr. Schmid or Mr. Cox?

Mr. COX. Under me, sir. This has reference to special permission applications which are filed for waiver of the requirements of the act to permit publication on less than ——

Mr. EVINS. Maybe I shouldn't have read that fine print.

Mr. COX. We assign those applications an application number. Now, we are just going to discontinue it and cut short some of our recordmaking and list the applications on cards.

Mr. EVINS. It looked to me as though one docket section could keep account of all the applications and cases that come before the Commission.

Mr. TUCKER. That would be our Section of Dockets, Mr. Chairman.

Mr. EVINS. Now, the Office of Proceedings, this is your big division?

Mr. TUCKER. Yes.

Mr. EVINS. This reports through the Managing Director, 445 people. Then we have the Bureau of Accounts, 180 people; the Bureau of Economics, 53 people; the Bureau of Enforcement, 43 people. This is under the General Counsel, isn't it, the Bureau of Enforcement?

Mr. TUCKER. No, Mr. Chairman. Might I just suggest there, that even though there are lines drawn here from the Managing Director to all of these functions, the Managing Director exercises only managerial relationship. For example, the Office of Proceedings reports directly to me as Chairman of the Commission. The Director of Proceedings, the General Counsel, and the Secretary report directly to me. They all have a managerial and housekeeping and support relationship to the Managing Director, also.

Mr. EVINS. I was trying to take a look to see if we couldn't relieve the Managing Director of so many responsibilities and to give some of his to the Secretary.

Mr. TUCKER. What I was suggesting is he doesn't have all those, Mr. Chairman.

Mr. EVINS. The Bureau of Enforcement reports directly to the Chairman and the Commissioners?

Mr. TUCKER. The Bureau of Enforcement and the other regulatory bureaus report through the Managing Director to the Vice Chairman at the present time, Mr. Chairman. The Vice Chairman exercises administration in that area.

Mr. EVINS. The same for the Bureau of Operations and the Bureau of Traffic?

Mr. TUCKER. That is correct, Mr. Chairman.

Mr. EVINS. The Bureau of Traffic has 252 personnel and here are two more bureaus, Railroad Safety, four; I though that went to the other department.

Mr. TUCKER. Well, this is our present chart, Mr. Chairman. As I say, within a couple of weeks we will have a new organizational chart.

Mr. EVINS. This Section of Car Service, this is going to be your section which consolidates those two?

Mr. TUCKER. This will be the remainder after the transfer, transfer of the safety functions, Mr. Chairman.

Mr. EVINS. Now, your Personnel Office has 19. Isn't there a section in the law which says your number of personnel employees shall not exceed a ratio of 1 to 135.

Mr. SCHMID. That is correct.

Mr. EVINS. You take cognizance of that, Mr. Schmid?

Mr. SCHMID. Yes, we do. And we have that ratio. In the Personnel Office you have such things as a nurse, and three or four others who are excluded.

Mr. EVINS. What is the ratio of personnel to overall employees within the Commission?

Mr. SCHMID. Let me preface that by saying that the nurse and the training programs which are an adjunct to the Personnel Office are not part of that ratio. We can put this in the record. I can assure you we are within that ratio.

Mr. EVINS. How many are in the Bureau of Personnel?

Mr. RYAN. Nineteen in the Personnel Office.

Mr. EVINS. How does that figure out to your total?

Mr. SCHMID. If you subtract four, a nurse and three other people, that leaves 15.

Mr. EVINS. Why do you take them out?

Mr. SCHMID. They are attached to the Personnel Office for overall administration but they are not part of that ratio. That is not con-

sidered part of the Personnel operation. A nurse takes care of a lot of people.

Mr. EVINS. Well, that ought to be in the Personnel Service Bureau, then, and not in Personnel. Or it should be in Medical and Health.

Mr. RYAN. Yes. Under the definition as we understand it they are not included as working in connection with the Personnel activities under the act.

Mr. SCHMID. We are about 140 to 1.

Mr. EVINS. It is a matter of interpretation.

Mr. TUCKER. We will check that, Mr. Chairman, and supply you with the exact figures, the proper ratio.

(The information follows:)

Personnel Ratios

Under personnel ratio legislation (Section 302 Independent Offices Appropriation Act of 1967) of 1:135 four positions are not included: (1) head nurse, (2) training officer, (3) clerk-stenographer, (to training officer), and (4) personnel specialist for executive reserve activities. The remainder of our positions (15) are under the personnel ratio.

The 1968 position ceiling of 2016 (exclusive of executive reservists) would allow 15 positions on the basis of 1 to 135. (135 x 15=2025). Personnel activities for executive reservists 805 include appointment consultations, Civil Service Commission clearances and reports, issuances of appointment letters, certificates and ID cards, and separation actions—without regard to a small amount of training participation.

In summary, the 19 positions assigned to the Personnel Office are distributed as follows:

Regular positions	15
Not subject to ratio limitation (nurse and 2 training positions)	3
Handling executive reservists activities	1
Total positions	19

Prior to Fiscal Year 1960 personnel engaged in training activities were included under the personnel ratio of one to one hundred and thirty-five (See Section 107 P.L. 85–844 Independent Offices Appropriation Act 1959). However, beginning with fiscal year 1960 (See Section 106 P.L. 86–255 Independent Offices Appropriation Act 1960) and up to the present time personnel engaged in training activities have been excluded from the personnel ratio.

We believe the budget request of 19 positions for the Personnel Office is fully within the ratio limitations provided by law.

Mr. EVINS. Let's place in the record, Mr. Reporter, the chart on page 1 showing the comparison of 1967 and 1968 and the proposed increases.

(The information follows:)

Comparison by bureaus and offices of 1967 appropriation with the amount included in the President's budget for 1968

Bureau or offices	1967 [1]					1968					Comparison, 1967 with 1968				
	Positions	Personal services and benefits	Travel and transportation of persons	Other objects	Total	Positions	Personal services and benefits	Travel and transportation of persons	Other objects	Total	Positions	Personal services and benefits	Travel and transportation of persons	Other objects	Total
Commissioners and their offices	102	$1,471,588	$15,000	$29,632	$1,516,220	103	$1,494,481	$15,000	$29,632	$1,539,113	+1	+$22,893			+$22,893
Managing director	193	1,671,149	14,590	184,773	1,870,512	193	1,675,133	14,590	203,240	1,892,963		+3,984		+$18,467	+22,451
Secretary	159	1,038,372	1,000	52,443	1,091,815	159	1,040,747	1,000	52,443	1,094,190		+2,375			+2,375
General Counsel	23	312,066	9,300	7,248	328,614	23	312,786	9,300	7,248	329,334		+720			+720
Proceedings	425	5,882,216	154,413	118,699	6,155,328	445	6,039,684	178,313	131,907	6,349,904	+20	+157,468	+$23,900	+13,208	+194,576
Accounts	241	2,470,536	126,295	73,555	2,670,386	245	2,511,049	126,795	76,063	2,713,907	+4	+40,513	+500	+2,508	+43,521
Economics	50	563,673	2,300	14,506	580,479	53	593,186	2,500	16,487	612,173	+3	+29,513	+200	+1,981	+31,694
Enforcement	100	1,241,722	64,272	38,831	1,344,825	100	1,244,947	64,272	38,831	1,348,050		+3,225			+3,225
Operations and compliance	353	3,389,989	279,210	126,600	3,795,799	353	3,413,846	279,210	126,600	3,819,656		+23,857			+23,857
Railroad safety and service	90	1,107,155	121,750	29,196	1,258,101	90	1,110,599	121,750	29,196	1,261,545		+3,444			+3,444
Traffic	252	2,279,118	1,000	69,833	2,349,951	252	2,284,362	1,000	69,833	2,355,195		+5,244			+5,244
Special items:															
Contract reporting				213,000	213,000				223,000	223,000				+10,000	+10,000
Official mail				80,760	80,760				87,160	87,160				+6,400	+6,400
Printing and reproduction				136,000	136,000				136,000	136,000					
Services of other agencies				13,800	13,800				17,800	17,800				+4,000	+4,000
Travel of witnesses			4,010		4,010			4,010		4,010					
Total Interstate Commerce Commission	1,988	21,427,584	793,140	1,288,876	23,409,600	2,016	21,720,820	817,740	1,245,440	23,784,000	+28	+293,236	+24,600	+56,564	+374,400

[1] Includes estimated pay increase supplemental of $720,000 authorized by Public Law 89-504, approved July 18, 1966. For comparative purposes, excludes $5,069,400 for transfer to the Department of Transportation.

Mr. EVINS. We will look at the far end of the table, the Commissioners and their offices, this is up $22,893; the Managing Director has increased $22,451. He is nearly as big as the Commissioners now. The Secretary has increased $2,375. General Counsel has increased. Some of this is pay raise for his staff. Proceedings increases by $194,576. Every one of these, enforcement, operations, all are increased for a total of $374,400, 1968 over 1967.

Now your next chart here on page 2——

Mr. GIAIMO. May I ask a question on that chart?

Mr. EVINS. Yes.

Mr. GIAIMO. How much of that increase is mandatory?

Mr. SCHMID. $125,000 is within grade raises. It is spread over all of these offices. The reason you have increases is because of the within grade situation. Only three of these bureaus have had increases of personnel.

Mr. EVINS. The same picture is shown on your next chart, page 2. Your Office of Proceedings goes up by 20. The Cost Finding Section goes up 7. That is 27.

Mr. TUCKER. Well, Cost Finding, Mr. Chairman, goes up 7 but we are reducing the analyst positions so we can get more in the Cost Finding area. I believe the additional Cost Finding positions are actually three.

Mr. SCHMID. Four.

Mr. TUCKER. Four.

Mr. EVINS. The Bureau of Economics is increased by three, the Advisory Functions goes up one.

Now, looking down your chart, Mr. Schmid, under No. 1 you say printing and reproduction, under No. 2 you show printing and reproduction, under No. 3 you show printing and reproduction, under No. 4 you show printing and reproduction, and the same for 5, 6, and 7. You have seven printing and reproduction accounts.

Mr. SCHMID. This is an activity schedule. What we are doing here actually is breaking the printing and reproduction down into pieces, charging them against these seven categories. This is a required schedule we have to make up. This is not shown by organization, but by activity, the seven different activities that we have.

COMMISSIONERS AND THEIR OFFICES

Mr. EVINS. Take a look at page 4, Office of the Commissioners. They have two legislative attorneys, 35 attorney-advisers, and one Attorney General. That is 38 attorneys attached to the Commission's staff. Are they exclusive of the General Counsel's Office?

Mr. TUCKER. Well, those are attorney-advisers and they act as confidential legal assistants to the Commissioners in the case work that comes through each Commissioner's office, Mr. Chairman. They do their work entirely for the Commissioners.

Mr. EVINS. Are these exclusive of the General Counsel's Office?

Mr. TUCKER. Yes, that is right.

Mr. EVINS. There are 38 attached to the 11 Commissioners.

Mr. TUCKER. That is right.

Mr. EVINS. Do you need all these besides the General Counsel's office?

Mr. TUCKER. In my view we do, Mr. Chairman, particularly now because we have gotten to the point where a great deal of our work at the Commission level has to do with the so-called large cases and I think that our legal activity in each Commissioner's office now, if anything, is more demanding than it was when I first came to the Commission.

We may have, as you know, a great deal of work done in a hearing of a merger case or a large rate case and have it go through the process of staff work; but when it gets to our office it is ready to be voted on, ready to go out.

Mr. EVINS. We generally don't think about these matters. We want you to have all the legal staff and talent that you need. But most of these Commissions I think have one legal assistant, one legal adviser, besides the General Counsel. You have 38.

Mr. TUCKER. Well, I would only suggest, Mr. Chairman, that the ratio of our case work might be related to the ratio of the number of attorneys that we have in our offices.

Mr. GOFF. If you knew how it worked, Mr. Chairman, and the caseload of the individual Commissioner is pretty heavy, too. When you compare us with an agency that has 100 cases a year, why, we have 10,000. We have had to do everything we could do to cut it down.

Mr. TUCKER. I would like to add to Commissioner Goff's suggestion, Mr. Chairman, with perhaps an illustration: We had two large merger cases that came in April 29. I know in my office we used two to three men constantly over a 6 weeks' period working with me on those two cases. Now, besides that we have somewhat routine cases and petitions and filings that come in every day that have to be reviewed and they have to be reviewed thoroughly. But we are getting into the situation now where every year we are going to have seven or eight or nine cases that could take not only 50 percent of our time, but——

Mr. EVINS. Just on the budget, for the record, if you had 22, that would be two per Commissioner, plus you could also draw on your General Counsel, if your General Counsel's office was larger.

Mr. TUCKER. Well, I meant to discuss the General Counsel's Office. That office is primarily charged with the Commission's processing and appeal of some Commission orders.

Mr. EVINS. You can draw on them any time, can't you?

Mr. TUCKER. We draw on the General Counsel's Office by way of a section of opinions there and it does work that is not related to the day-to-day work in the Commissioner's office. It is a different type legal work entirely.

OFFICE OF THE MANAGING DIRECTOR

Mr. EVINS. Let's take a look at the Office of the Managing Director. He runs the internal management of the Commission's staff; he administers plans, manages, directs, coordinates the activities of all bureaus and offices, and supervises the activities relative to the Commissioners' budgets. It has had 22 personnel for the last 2 years.

Mr. SCHMID. Incidentally, 15 of those positions are in the field.

There are seven regional managers and seven administrative assistants in the field. In my own office there are only seven people, six besides myself.

Mr. EVINS. How did you get the 22? Our records show you had 20 last year. You estimated in your budget for 1967, 20 people.

Mr. SCHMID. I thought there were 22 last year.

Mr. EVINS. Each region is headed by a regional manager who reports to the Managing Director?

Mr. SCHMID. And an administrative assistant.

Mr. EVINS. Will all of these be retained following the new Department of Transportation? You are transferring a lot of people in the field.

Mr. TUCKER. We have under study, one of the issues is that we might reduce the number of regions. But again I would like to wait for a couple of weeks until we finish that.

Mr. EVINS. I notice here you say that regional managers are continually apprized of major policies and programs, and so forth. You have to advise them out in the field. I thought their purpose was to advise the Commission.

Mr. TUCKER. Well, they do. We get a day-to-day flow of information both ways, Mr. Chairman; but we do like to keep the regional managers informed of the policy determinations of a general nature that we make here in Washington. They do give us a good flow of information.

Mr. EVINS. Mr. Schmid is the Managing Director. He manages the whole field.

Now your section of Administrative Services, 69. Three positions have been excluded for 1967 for activities to be transferred to the Department.

Now, here is a table on page 9 showing some of the work of the administrative services section. You show that you have written 1,614 memorandums, not including form letters, and you propose to write 1,100 in 1967 and 1968. Are you going to write less memorandums in 1968 than you did a few years ago? Now here is an item, impressions produced by offset process, 49 million-some.

Mr. SCHMID. This is our printing plant.

Mr. EVINS. You are going to process 54 million in 1968. You will have a few more running through the machine. Here is an item, signatures folded, 3 million against 1,214,000. Another item, Xerox 914 copies and Xerox 914 plates. What is the difference between Xerox 914 copies and Xerox 914 plates?

Mr. LOTITO. 914 copies are individual copies, whereas the plates are duplimats for multiple copies.

Mr. EVINS. Administrative Services runs these machines and you have some impressive figures here as to how many you turn out, typewritten pages, and so forth.

Going now to page 12, Budget and Fiscal Office, why did you transfer only one position to the Department of Transportation?

Mr. RYAN. After analyzing the amount of work that the Budget and Fiscal Office does, we found that a combination of one man-year was being performed for those positions or activities.

Mr. EVINS. You still have 28 and you have had 28 for the last 2 years.

Mr. RYAN. Those 28 for 1966 and 1967 were adjusted by reducing one to make it comparable so that it would be easier to understand.

Mr. EVINS. Mr. Reporter, you will please place in the record pages 8, 9, and 10.

(The pages follow:)

SECTION OF ADMINISTRATIVE SERVICES

Managing Director's Office (activity Nos. 1 and 7)

This section provides general administrative and related housekeeping services for the Commission, including its field offices. In this respect, the section performs the following functions and provides the following services: Procurement and property management functions, including purchasing and supply management, surplus property acquisition and disposition, administration of imprest fund purchasing, administration of the fleet of rental automobiles from the GSA Interagency Motor Pools, and procurement of contractual services such as rental of data processing equipment and public reporting services; management of building occupancy and parking facilities, including the procurement and assignment of space, etc.; telephone and switchboard services; stenographic and typing services; printing and reproduction services; miscellaneous office machine repair services; and editorial and mailing services which includes the editing of Commission reports for printing into volumes.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966 [1]	1967 [1]	1968	Comparison, 1967 with 1968
Positions	69	69	69	0
Personnel compensation	$467,882	$453,922	$455,029	+$1,107
Personnel benefits	33,132	34,232	34,279	+47
Total personnel services and benefits	501,014	488,154	489,308	+1,154
Travel	1,634	1,000	1,000	0
Total	502,648	489,154	490,308	+1,154

[1] For comparative purposes, 3 positions have been excluded for the fiscal years 1966 and 1967 for activities to be transferred to the Department of Transportation.

The increase of $1,154 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 69 positions for this section which is the same as currently authorized.

Statement showing workload figures for the fiscal years 1964, 1965, and 1966 and estimates for fiscal years 1967 and 1968

	Actual			Estimate	
	1964	1965	1966	1967	1968
OFFICE OF THE CHIEF					
Letters and memorandums written, not including form letters	1,614	1,125	1,016	1,100	1,100
REPRODUCTION BRANCH					
Pages received for offset process	152,004	127,684	187,369	190,000	190,000
Impressions produced by offset process	49,937,159	47,235,508	52,048,980	54,000,000	54,000,000
Photostat exposures produced	32,899	26,713	22,000	22,000	22,000
Xerox plates produced	15,039	12,676	10,062	10,000	10,000
Signatures folded	1,214,059	1,526,184	2,916,318	3,000,000	3,000,000
Xerox 914 copies	67,954	111,913	109,961	113,000	113,000
Xerox 914 plates	8,810	11,660	10,062	11,000	11,000
Sheets collated	14,181,620	15,543,365	15,468,206	16,000,000	16,000,000
Sheets punched	328,730	1,388,954	1,692,056	1,700,000	1,700,000
Purchase orders placed GPO	442	450	328	400	400

Statement showing workload figures for the fiscal years 1964, 1965, and 1966 and estimates for fiscal years 1967 and 1968—Continued

	Actual			Estimate	
	1964	1965	1966	1967	1968
PROCUREMENT AND SUPPLY MANAGEMENT BRANCH					
Requisitions submitted by bureaus and offices, repairs, equipment, and other services	6,590	7,365	8,550	9,000	9,000
Purchase orders for supplies, equipment repairs and other services	2,504	2,452	2,489	2,400	2,400
Typewriters repaired, including those completely overhauled	2,536	2,853	2,477	2,500	2,500
Records made of changes in nonexpendable property, which includes issues, transfers, stolen, lost, and retirements	6,414	7,256	8,321	10,000	8,000
Material issued from supply room	41,700	45,387	37,234	35,000	35,000
ISSUANCES BRANCH					
Manual issuances published	38	56	52	60	60
Typewritten pages for reports and orders edited and prepared for printer	6,916	8,800	8,245	7,000	7,000
Printed pamphletforbound volume pages	4,923	10,162	16,319	6,700	6,500
Proofs received, read, and revised (pages)	7,948	17,999	7,975	6,700	6,500
Typewritten pages reviewed and prepared for printer	2,422	2,398	3,041	3,000	3,000
Decisions released, distributed, indexed and filed	724	437	314	325	325
Items addressed on the Addressograph and Elliott machines	1,041,171	1,219,761	2,041,111	1,750,000	1,750,000
Addressing plates or stencils, prepared, withdrawn, or filed	61,623	48,731	76,793	50,000	50,000
SPACE MANAGEMENT BRANCH					
Requisitions submitted by bureaus for other objects and services	3,452	6,759	6,627	7,000	7,000
Purchase orders placed for other objects and services	463	359	454	400	400

OFFICE OF THE SECRETARY

Mr. EVINS. Let's turn to the Office of the Secretary. The Secretary is the official through which the Commission issues its directives and decisions. He is the custodian of the seal, he is responsible for the management of the records, and is responsible for the official documents in accordance with the rules of practice. His Office includes the Public Information Office. I thought the General Manager gave out the information.

Mr. TUCKER. Mr. Chairman, late last year—and I am sorry the change isn't reflected here, the public information function of the Commission was changed to the chairmanship. Well, it was not late last year but as of early this year. So that this same function that is reflected in the figures here is under the chairmanship now.

Mr. EVINS. Not the Managing Director or the Secretary?

Mr. TUCKER. No, it isn't.

Mr. EVINS. Your budget is a little out of date.

Mr. SCHMID. This was in process when the decision was made.

Mr. EVINS. You remain constant with 24 personnel for the last 2 years. Place in the record pages 19 through 21.

(The pages follow:)

Office of the Secretary (activity Nos. 1 and 6)

The Secretary is the official through whom the Commission, its divisions, individual Commissioners, boards of employees, joint boards, and examiners issue orders and decisions; he is custodian of the Commission's seal and is responsible for the management of records and for the proper documentation of Commission decisions, procedures and other transactions. He is responsible for processing official documents in accordance with the Rules of Practice, and for service of reports, orders notices and announcements on parties to proceedings before the Commission. The Secretary's Office, which includes the Public Information Officer, is the medium through which decisions, orders, and other information are made available to the public, other governmental agencies and the press. Under the Office of the Secretary are the Sections of Dockets, Mails and Files, and Reference Services.

Secretary's Office (activity No. 6)

All Commission announcements, whether by the entire Commission, divisions, individual Commissioners, boards of employees, or officials, are made through this Office.

The Secretary's Office also prepares certification of, copies of, or extracts from any records filed with the Commission under the Commission's seal, for use in judicial proceedings and other purposes. Other duties include preparation of the Commission's official minutes and performance of a variety of special duties assigned by the Commission as occasions arise.

The Secretary also serves as consultant and advisor to the Commission, and is personally called upon for advice on a wide diversity of legal problems. The Public Information Officer serves as chairman of the Editorial Review Committee which is responsible for reviewing all publications of the Commission except adjudicatory matters.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	24	24	24	0
Personnel compensation	$187,965	$198,403	$198,852	+$449
Personnel benefits	13,341	14,753	14,787	+34
Total, personal services and benefits	201,306	213,156	213,639	+483
Travel	634	500	500	0
Total	201,940	213,656	214,139	+483

The increase of $483 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 24 positions for this office which is the same as currently authorized. These positions are separated by categories as follows:

Secretary	1
Assistant Secretary	1
Public information officer	1
Public information specialist	2
Writer-editor	1
Minute clerk and assistant	2
Administrative assistant	1
Secretary-stenographer	2
Clerk and clerk-typist	13
Total	24

The Office of the Secretary is experiencing an added volume of inquiries by the public and from the Commission staff. The right of public access to most of the material filed with the Commission is matched by our concern for assisting the public to examine those documents under the custody of the Secretary which are

matters of public record. The recently enacted P.L. 89-487—Freedom of Information—will impose upon the Commission an additional workload. Maintaining the effectiveness of a central source where the Commission staff and the public can obtain authoritative information necessarily becomes difficult as the number of inquiries rises. Not only must the letter of the law be carried out, with its safeguards for "open availability" of information to the public, but, also, the spirit of the President's interest, initiated February 25, 1965, in improving employee responsiveness to inquiries and requests for service, and curtailing the "gobbledygook" which may obscure the public's understanding of its government.

To assist the field offices in aiding inquirers at the local and community levels, a program has been instituted so that the necessary information resources can be provided, via the Regional Managers, on a continuing basis. This program will be increased in order to better serve the public. At our Washington, D.C. office, one of the new facilities of public service, added as a result of the President's program, was the establishment of an information-reception desk at the main entrance of the I.C.C. Building, with telephone service made available at other key entrances. Already over 4500 requests for assistance have been received in a single month—evidence that extensive use is being made of the public aids.

SECTION OF DOCKETS

Office of the Secretary (activity No. 1)

This section is engaged in examining, docketing, and recording all complaints, replies, petitions, applications, motions, and other formal papers offered for filing with the Commission; conducting correspondence relating to pleading and practice; and preparing oral argument calendars. All service of decisions, rules, orders, notices and other processes by regular, certified or registered mail, or personal service upon designated agents of carriers, according to the requirements of the law, is performed by this section. Transcripts of hearings and arguments, including all exhibits filed in connection therewith, are checked. Applications for admission to practice before the Commission are examined and recorded, and enrollments of practitioners are recorded. The section is also responsible for the recordation of documents evidencing the lease, mortgage, etc., of railroad equipment and for maintaining an index of such documents required to be filed under regulations prescribed by the Commission pursuant to Section 20c of the Interstate Commerce Act.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	93	93	93	0
Personnel compensation	$482,495	$503,979	$505,139	+$1,160
Personnel benefits	35,610	38,465	38,552	+87
Total, personal services and benefits	518,105	542,444	543,691	+1,247
Travel	382	200	200	0
Total	518,487	542,644	543,891	+1,247

The increase of $1,247 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 93 positions for this section which is the same as currently authorized. The 93 positions requested are separated by categories as follows:

Chief of section	1
Assistant Chief	1
Chief and assistant chief of branch	5
Applications examiner	1
Legal clerk	1
Miscellaneous documents examiner	6
Clerk, clerk-stenographer, and clerk-typist	69
Messenger	6
Power collator operator	1
Offset press operator	2
	93

OFFICE OF THE GENERAL COUNSEL

Mr. EVINS. Now turn to the General Counsel. The primary objective of this Office is to defend the Commission's orders under the Interstate Commerce Act and related acts in the district courts, courts of appeal, and in the U.S. Supreme Court. You have had 23 personnel for the last 2 or 3 years. Two new sections were created in this Office. One is the Section of Litigation and the other is the Section of Research and Opinions. The important objective of the creation of the two sections was to provide a more prompt preparation of advisory opinions. These are advisory opinions for the Commission?

Mr. TUCKER. Yes; they are, Mr. Chairman. They might in some cases be related to a staff responsibility but these are opinions officially requested from the General Counsel for the Commission.

Mr. EVINS. The number of court cases instituted in 1966 were 133, 13 more than in 1965, and in 1966 there were 103 cases concluded; 20 were in the Supreme Court and one in the court of appeals. This is a very impressive court record. Caseload figures show that the number of cases at the present time pending are six in the Supreme Court. And you mention the types of difficult cases, those involving commodity grants, railroad mergers, rate cases, and conflicting theories of pricing. Then you say that you rely upon the local U.S. district attorneys for counsel to represent the Commission in cases involving clearcut or relatively simple issues. You can refer many of these matters to the district attorneys, can you not?

Mr. TUCKER. Well, a great many are, but not the same type case. The kind of case that goes to the U.S. attorney's office is the violation cases. We do have some in the General Counsel's Office that are handled by the U.S. attorney.

Mr. EVINS. This is an impressive table on page 36. Mr. Reporter, place pages 32 through 36 in the record.

(The pages follow:)

Office of the General Counsel (activity No. 6)

The primary objectives of this office are to defend the Commission's orders promulgated pursuant to the provisions of the Interstate Commerce Act and related acts in the district courts, courts of appeal and in the United States Supreme Court, to advise the Commission and its staff on legal questions arising in Commission proceedings, and otherwise act in an advisory capacity to the Commission on legal matters. It also represents the Commission in intragovernmental matters.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years.

	1966	1967	1968	Comparison, 1967 and 1968
Positions	23	23	23	0
Personnel compensation	$244,970	$290,209	$290,879	+$670
Personnel benefits	17,961	21,857	21,907	+50
Total, personal services and benefits	262,931	312,066	312,786	+720
Travel	13,119	9,300	9,300	0
Total	276,050	321,366	322,086	+720

The increase of $720 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 23 positions for this office which is the same as currently authorized. The 23 positions requested are separated by categories as follows:

General counsel	1
Deputy general counsel	1
Associate general counsel	2
Trial attorney	10
Administrative assistant	1
Law clerk	1
Secretary and clerk-stenographer	7
Total	23

As a part of a broad reorganization program, two sections were created in this office along functional lines designated as the Section of Litigation and the Section of Research and Opinions, each of which is headed by an associate general counsel.

Because of the heavy volume of litigation work, and the imperative necessity to meet promptly the court deadlines with respect to filing pleadings, briefs and other documents, and for preparing for oral argument, it has been necessary to defer the preparation of advisory opinions, resulting in some inconvenience to the Commission and its staff. An important objective of the creation of the two sections was to provide a more prompt and efficient means of preparing such advisory opinions.

The total number of court cases instituted in 1966 was 133 compared with 120 cases instituted in 1965, and 92 in 1964. Thus, 13 more cases were filed in 1966 than in 1965, and 41 more cases in 1966 than in 1964, or an average increase of 20 percent for each of the preceding two years.

During fiscal year 1966, 103 cases were concluded, as compared with 98 in 1965 and 109 in 1964. Of the cases concluded during fiscal year 1966, 20 were in the Supreme Court and one was in the Court of Appeals. The total number of cases in process in fiscal year 1966 was 262 compared with 227 in 1965, and 216 in 1964. At the end of fiscal year 1966 there were 159 cases pending, as compared with 129 at the end of 1965 and 107 at the end of 1964. Based on the current caseload figure, it is estimated that there will be 224 cases pending by the end of fiscal year 1968, that 130 cases will be concluded in the courts, and that the number of cases in process during the year will reach 354.

Caseload figures for recent years show (1) that the long range trend is upward, and (2) that we must be prepared to cope with unexpected surges in litigation. There are strong indications also that more of the district court cases will be appealed. At the present time six cases are now pending before the United States Supreme Court, and we have received notices of appeal in six additional cases, or a total of twelve cases from which appeals are being taken. The Supreme Court cases usually are complex and require a great degree of research and study in their preparation and handling than other cases.

Court cases involving Commission orders are frequently of national importance, have serious impact upon the nation's economy, and should be processed and decided without undue delay. This litigation involves many difficult and intricate issues and requires many hours of time and research in the preparation of the Commission's defense.

The number and complexity of court cases which this office anticipates handling during fiscal years 1967 and 1968 will continue to pose a tremendous challenge for its limited staff. The non-supervisory attorneys are carrying in average caseload of 20 cases. Based upon the 20 percent average increase in the number of cases instituted in each of the preceding two years, there very likely will be an increase in the number of court cases challenging the Commission's actions in granting or denying section-207 applications for motor carrier authority, since during fiscal year 1966 a greater number of such applications were filed with the Commission than at any other time. Included among such applications were a large number seeking significant general commodity grants prompted by the Commission's *Brasiwell* decision. The complexity of the cases can also be expected to increase. In the area of railroad mergers, the Commission has approved the Penn-Central and has denied the Northern Lines' merger, and considerable litigation is anticipated after the Commission's actions on the presently pending petition for reconsideration. The records in both cases are

overwhelming and the positions of the several parties many and varied. In the area of rates, it appears that the Commission will continue to be confronted by cases requiring the resolution of conflicting theories of pricing.

Scheduling of litigation work by this office is difficult because it is unpredictable. The litigation work involves the defense of Commission reports and orders. Initiation of these suits is within the sole discretion of the plaintiffs, and for this reason it is difficult to predict with any certainty when a suit may be instituted. Adding to the difficulty of scheduling is the fact that these cases do not fall within the usual pattern of suits which can be assigned upon court calendars as routine procedures.

However, despite the inherently unpredicable nature of the litigation work of this office, the following measures have been and still are being taken with the view toward effective manpower control and utilization:

(1) Where possible we are assigning court cases to those attorneys who have previously handled cases involving problems similar to those presented, in order to avoid unnecessary duplication of time-consuming research.

(2) When two cases are pending in the same district court we are endeavoring, insofar as possible, to have them set by the court for hearing on the same date or on consecutive dates, with the view of having a single attorney handle both cases on one trip at considerable saving in expenses.

(3) We are making every effort to have courts eliminate unnecessary pre-trial procedures which require an additional hearing at additional expense. This results in a saving of travel funds as well as man-hours devoted to the preparation of preliminary pleadings and attendance upon such pre-trial conferences. Where the local court rules require pre-trial conference, or the court for some compelling reason insists that such hearing be held, we have relied upon the local United States attorney to furnish counsel to represent the Commission in those cases involving clear-cut and relatively simple issues.

As has already been indicated, one of the most important functions of this office is to furnish legal advice and counsel to the Commission and its staff. During fiscal year 1966 this office prepared 285 such memoranda, as compared with 306 in 1965 and 292 in 1964. Memoranda submitted by this office continue to be substantial in number. Moreover, the questions posed are becoming more intricate and difficult and require more research than formerly. In view of the increasing volume and complexity of the Commission's work, we estimate that it will be necessary for this office to prepare at least 295 written legal opinions in fiscal year 1967 and at least 305 in 1968.

The following statements shows the actual workload statistics for this office for the fiscal years 1964, 1965 and 1966 and estimates for 1967 and 1968:

	Actual			Estimate	
	1964	1965	1966	1967	1968
Cases at beginning of fiscal year	124	107	129	159	196
U.S. district courts	113	99	124	154	189
Courts of appeal	2	2	1	0	0
U.S. Supreme Court	8	6	4	5	7
Cases instituted during year	92	120	133	146	158
U.S. district courts	72	107	112	120	130
U.S. courts of appeal	2	1	0	2	2
U.S. Supreme Court	18	12	21	24	26
Total number of cases in process during year	216	227	262	305	354
Cases concluded during year	109	98	103	109	130
U.S. district courts	86	82	82	85	100
U.S. courts of appeal	3	2	1	2	2
U.S. Supreme Court	20	14	20	22	28
Cases pending at end of year	107	129	159	196	196
Opinions prepared on legal questions in Commission proceedings, legislative and advisory	292	306	285	295	305

Mr. EVINS. The U.S. Supreme Court cases at the beginning of the year, you had 8 in 1964, 4 in 1966, and you estimate 7 in 1968. In the district court, in 1966 you concluded 82, you estimate you will conclude 100 in the district court in the next year. That is impressive.

OFFICE OF PROCEEDINGS

Turn to the section on proceedings. This is one of your big divisions. You are supposed to have 445 employees, you are asking for 20 more. How many in this division are being transferred to the Department of Transportation?

Mr. TUCKER. Only one, the hearing examiner whom you referred to earlier.

Mr. EVINS. It says here that all formal and certain informal proceedings arising or initiated under the provisions of the Interstate Commerce Act dealing with the activities of rail, motor and motor carriers, brokers, and freight forwarders are processed here. Twenty more personnel are requested. You have an administative support unit with 3 and then you have an operating rights unit with 17, both increases. This is where you insist you need these new 20 people.

Mr. SCHMID. That is correct.

Mr. TUCKER. The 17 in Operating Rights would be attorney-advisers and clerks that would relate to our caseload, Mr. Chairman. To support those 17 positions we are requesting three for the support unit.

Mr. EVINS. You say periodically new legislation increases the workload but, more important, the Commission's workload is directly related to the growth of our national economy.

Then you say at the bottom, "Numerous procedural improvements designed to identify and eliminate at the earliest possible point all unsupported applications" are under consideration. You say that this will limit formal hearings, simplify and streamline proceedings. Then, Mr. Chairman, you say, "We have achieved a level of efficiency and productivity unmatched by any other regulatory agency."

Mr. TUCKER. We certainly believe we have, Mr. Chairman, considering the enormous caseload.

Mr. EVINS. How can you prove that?

Mr. TUCKER. Well, we hope that our budget reflects that, and the supporting statements in there, Mr. Chairman, particularly the figures. I did mention earlier that in 6 or 7 years, with two or three times the caseload, we have only gone up 1.4 percent on the number of employees.

Mr. EVINS. We wouldn't want to discount your claims so we will place in the record pages 37 through 39.

(The pages follow:)

Office of Proceedings (activity No. 1)

The principal function of this Office is the processing of all formal and certain informal proceedings arising or initiated under the provisions of the Interstate Commerce Act dealing with the activities of rail, motor, and water carriers, brokers, and freight forwarders. Headed by a Director, who is assisted by three Deputy Directors and a Chief Hearing Examiner, the office is operated so as to maintain effective coordinated case-processing in its four Sections—Finance, Operating Rights, Rates and Practices and Hearings. Each Deputy Director is in charge of a section whose area of responsibility corresponds to that of one of

the Commission's three decisional Divisions and the Chief Hearing Examiner is in charge of the Section of Hearings.

The followng table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966 [1]	1967 [1]	1968	Comparison, 1967 with 1968
Positions	425	425	445	+20
Personnel compensation	$5,224,894	$5,471,734	$5,618,227	+$146,493
Personnel benefits	379,541	410,482	421,457	+10,975
Total personal services and benefits	5,604,435	5,882,216	6,039,684	+157,468
Travel	157,972	154,413	178,313	+23,900
Total	5,762,407	6,036,629	6,217,997	+181,368

[1] For comparative purposes, 1 position has been excluded for the fiscal year 1966 and 1967 for activities transferred to the Department of Transportation.

The increase of $157,468 for personal services and benefits results from the addition of twenty positions, together with the cost of within-grade salary advancements. The increase of $23,900 for travel is to provide travel funds for an increased number of hearings.

The 1968 budget provides for 445 positions for the Office of Proceedings which is 20 more than currently authorized. The following statement lists the number of positions allocated to each organizational unit of the office for fiscal year 1967 and the number requested for fiscal year 1968:

	Currently authorized	Requested, 1968	Comparison, 1967 with 1968
Director's office	4	4	
Administrative Support Unit	37	40	+3
Certificates and Captions Unit	28	28	
Section of Hearings	143	143	
Section of Finance	52	52	
Section of Operating Rights	70	87	+17
Section of Rates and Practices	40	40	
Review boards	19	19	
Temporary Authorities Board	17	17	
Transfer Board	15	15	
Total	425	445	+20

The Office of Proceedings has no control over the number of cases it must handle. Carriers have the right at all times to propose new rates and charges and to apply for operating rights, for approval of carrier mergers and consolidations, for approval of the issuance of securities, and for many other types of administrative action. Those who desire to file complaints and other pleadings invoking the Commission's jurisdiction also have the right to do so. Periodically, new legislation adds to the workload, such as the recent enactment of legislation authorizing the Commission to establish, after hearing, incentive per diem rates at levels which will promote the most efficient utilization of freight cars. Even more important than all of these considerations, however, is the fact that the Commission's workload is directly related to the growth of our national economy. This is particularly true in regard to applications for motor carrier operating authority which now comprise about 85 per cent of our formal docket. As a matter of fact, the results of a recent study to determine the relationship between the growth of the Gross National Product and the number of motor carrier operating authority applications filed during the last ten years indicated a very high degree of correlation (about .96 of a possible maximum of 1.00) be-

tween these two factors. It would seem clear, therefore, that we must anticipate continued growth in our workload if our expanding national economy is to be provided with sufficient transportation capacity.

In response to this outlook for continued increase in our caseload, we have made numerous procedural improvements designed to identify and eliminate at the earliest possible point all unsupported applications so that our limited resources can be concentrated on handling applications for necessary transportation services as rapidly as possible, to limit formal hearings and intermediate decisions to those cases where they serve some real need, and to otherwise simplify and streamline our procedures to the maximum extent possible. As a result of these actions we have achieved a level of efficiency and productivity unmatched by any other regulatory agency.

We intend to continue to fully exploit every possibility for procedural improvement which may become apparent. However, the amount of additional work which we can reasonably absorb as a result of increased productivity of our present staff will be far below that which will be necessary if we are to carry out our legislative mandate without subjecting the transportation industry and the American people whom it serves to unreasonable and costly delay. For this reason, we are requesting 20 additional positions for the Office of Proceedings which we feel is the minimum necessary to enable us to adequately serve the needs of our expanding economy.

CERTIFICATES AND CAPTIONS UNIT

Mr. EVINS. Forty-one is the administrative support unit. What is the work of the certificates and captions unit? You have 28 there.

Mr. TUCKER. Mr. Stillwell.

Mr. STILLWELL. They receive the applications from motor carriers, freight forwarders, water carriers. They prepare résumés of them which are then published in the Federal Register. That is, they take care of the incoming applications.

Mr. EVINS. I thought the docket section did that.

Mr. STILLWELL. Well, the docket section receives the application, that is the mechanical process. Then to get it started in the stream of case processing, we have to set forth the issues and publish those in the Federal Register. That is done in the Certificates and Captions Unit.

Mr. EVINS. You mean this is an editing section? You take the file, look at it, edit it a bit?

Mr. STILLWELL. Well, no.

Mr. EVINS. What is its function?

Mr. STILLWELL. We call them captions, but it is a résumé of the operating rights sought in a particular application. This may consist of one page or 20 pages, depending on the extent and scope of the application being filed.

Mr. GOFF. And it has to be published by law so that people will know about it.

Mr. STILLWELL. It is published in the Federal Register and 30 days are allowed for the filing of protests.

Mr. EVINS. Is there any duplication with the office of proceedings?

Mr. STILLWELL. It is in the Office of Proceedings.

Mr. TUCKER. This is connected with the Office of Proceedings.

Mr. STILLWELL. It is the starting point of our case processing system.

Mr. EVINS. And you need 28 personnel to digest it for the Federal Register?

Mr. STILLWELL. That is only just a part of it.

They also issue all the certificates and permits and reissue those certificates and permits which are granted by the Commission.

Mr. EVINS. Well, the Secretary has the seal. Do you have to get the Secretary to put the seal on, or does your office put the seal on?

Mr. STILLWELL. I cannot answer that. I think the Secretary's office does it.

Mr. TUCKER. Perhaps the Secretary can answer. Is Mr. Garson here?

Mr. GARSON. Yes.

After the certificates and caption branch completes its clerical work it is sent to the Secretary's Office for the official seal and for proper documentation and docketing, as well as issuing and publishing.

Mr. EVINS. You have had 28 in there for the last 2 or 3 years. Place pages 43, 44 and 45 in the record.

(The pages follow:)

office of proceedings (activity no. 1)

Certificates and Captions Unit.—The Certificates and Captions Unit is responsible for examining applications for operating rights and the preparation of certificates, permits and licenses specifying permanent grants of authorities approved by the Commission and related orders reissuing, vacating or amending such authorities after action by the Commission.

The following tables shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	28	28	28	0
Personnel compensation	$157,144	$174,304	$174,706	+$402
Personnel benefits	11,474	13,097	13,128	+31
Total personal services and benefits	168,618	187,401	187,834	+433

The increase of $433 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 28 positions for this unit which is the same as currently authorized. The 28 positions requested for 1968 are separated by categories as follows:

Miscellaneous documents examiner	17
Adjudicator	1
Clerk-typist	10
Total	28

Section of Hearings. This section is responsible for handling all Commission proceedings which are subject to formal hearings, both in Washington and throughout the United States. This includes the efficient and expeditious handling of all proceedings within the scope of their activities up to and until the issuance of either a report and recommended order or an initial report, including the assignment for hearing of all proceedings designated for hearing, changes in time and place of hearings, procedural matters dealing with hearings, and the handling of requests for extensions of time for filing briefs, and related matters.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966 [1]	1967 [1]	1968	Comparison, 1967 with 1968
Positions	143	143	143	0
Personnel compensation	$2,446,598	$2,491,451	$2,497,277	+$5,826
Personnel benefits	177,024	186,365	186,731	+366
Total personal services and benefits	2,623,622	2,677,816	2,684,008	+6,192
Travel	145,885	142,013	165,913	+23,900
Total	2,769,507	2,819,829	2,849,921	+30,092

[1] For comparative purposes, 1 position has been excluded for the fiscal years 1966 and 1967 for activities transferred to the Department of Transportation.

The increase of $6,192 for personal services and benefits results from the cost of within-grade salary advancements. The increase of $23,900 for travel is to provide travel funds for an increased number of hearings.

The 1968 budget provides for 143 positions which is the same as currently authorized and are separated by categories as follows:

Chief hearing examiner	1
Assistant chief hearing examiner	2
Hearing examiner	106
Secretary-stenographer	2
Clerk-stenographer and clerk	32
Total	143

While we anticipate continued sharp growth in the overall docket, we hope to be able to maintain the hearing docket on a reasonably current basis without any increase in staff due to the anticipated impact of the new motor carrier application form which requires evidence of shipper support; the revised Rule 1.247 of the Commission's Rules of Practice which tightens up our case-processing requirements; and the Commission's General Policy Statement Concerning Motor Carrier Licensing Procedures issued in May, 1966 which provides for the handling of the less important motor carrier applications under modified procedure without issuance of reports and recommended orders. Under revised Rule 1.247, for example, an applicant must notify the Commission within 30 days after the period for filing protests has expired that he wishes to proceed with and prosecute his case or that he will withdraw his application. If he fails to give such notice, his application will be dismissed and if, after notifying the Commission that he intends to prosecute his case, he withdraws or fails to appear at a hearing, he will, except for good cause shown, be subject to censure. It is expected that these provisions, together with the shipper-support requirement, will substantially eliminate last minute withdrawals which in the past have resulted in substantial amounts of wasted hearing time, thus enabling us to make more effective and efficient use of our hearing examiner staff.

We also intend to reduce the proportion of the overall caseload which is assigned to the hearing docket by the assignment, within the guidelines of the above-mentioned Commission Statement of Policy, of as many cases as possible under the modified procedure. By so doing, we hope to hold the increase in hearing activity to the cases which require hearing.

SECTION ON FINANCE

Mr. EVINS. The section on finance has 52. You state the principal functions are the handling of proceedings involving rail carriers, motor carriers, freight forwarders under various sections of the Interstate Commerce Act relative to authority to construct.

RAILROAD CONSTRUCTION AND ABANDONMENTS

Do you have many cases of railroads wanting to construct railroads or extend railroads?

They want to abandon, but they do not want to extend.

Mr. TUCKER. We do have some filings in that area.

Mr. Forbes?

Mr. FORBES. We have construction applications, as well as abandonment applications.

Mr. EVINS. How many construction applications does the Commission have on file?

Mr. FORBES. Not more than four or five pending.

Mr. EVINS. Is this a spur line?

Mr. FORBES. No, sir. Not spur line, but branch or main lines.

Mr. EVINS. I am glad to see the railroads filing some applications for construction.

Mr. FORBES. We had 20 applications filed last year, totaling 202 miles of new track.

Mr. EVINS. That is very good. There were filings for 202 miles of new railroads in this country.

Now for abandoning lines you have lots of applications for those, don't you?

Mr. FORBES. Yes. sir.

Mr. EVINS. How many of those do you have?

Mr. FORBES. Well, we had 120 filed last year.

Mr. EVINS. How many miles were supposed to have been abandoned?

Mr. FORBES. 1,055.

Mr. EVINS. They abandoned over 1,000 and extended 200?

Mr. FORBES. 200. Of course, most of the lines that are abandoned. or a great many of them, are lines of track that have not been used, or very little, if any, use.

A number of them operated into mining areas which are no longer in existence.

Mr. EVINS. Now, you also exercise authority on consolidating and merging and transfer of ownership. Is that heavy?

Mr. TUCKER. Very heavy.

ISSUANCE OF SECURITIES

Mr. EVINS. Authority to sell securities in noncompetitive bidding. Does the Commission pass on that, or does the SEC?

Mr. TUCKER. We pass on it for a company defined as a carrier under the Act subject to certain minimums.

Mr. FORBES. We have jurisdiction over railroads and motor carriers insofar as issuance of securities.

Mr. EVINS. Then they come to the ICC if they want to sell securities.

Mr. TUCKER. Well, if they sell securities, Mr. Chairman, and they are defined as a carrier, they have to file a section 20a proceeding for authority to do so.

Mr. EVINS. Well, in which areas do they go to the SEC?

Mr. FORBES. I am not sure I can tell—the SEC has some jurisdiction over motor carriers which are not subject to the jurisdiction of

the Interstate Commerce Act. I am not familiar of the extent of the SEC jurisdiction over such carriers.

Mr. EVINS. What about a new stock subscription, public, sometimes private.

Mr. FORBES. The prospectus, after the Commission issues the authority, usually goes through the Securities and Exchange Commission.

Mr. TUCKER. Director Paolo?

Mr. PAOLO. Under the Securities and Exchange Act of 1933 and 1934, the railroads that were subject to the Commission's jurisdiction were excluded from the provisions of the Securities and Exchange Act and the motor carriers are likewise excluded from those provisions.

Mr. EVINS. That says it all. So they come to the Commission for the authority.

There are other authorities mentioned in here. Place in the record page 46.

(The page follows:)

Office of Proceedings (activity No. 1)

Section of Finance. The principal functions of this section are the handling of proceedings involving rail carriers, motor carriers, water carriers, and freight forwarders under various sections of the Interstate Commerce Act relative to: authority to construct, extend, acquire, or abandon lines of railroad or the operation thereof; proposed discontinuances or changes in the operations by railroads of trains or ferries which are subject to prohibitions under State laws; authority for railroads, motor carriers, or water carriers to enter into contacts and agreements for the pooling or division of traffic or earnings; authority to consolidate, merge, transfer ownership, or acquire control of carriers, and when directly related to such authority the granting of certificates or permits to motor carriers in connection therewith; authority to issue securities and to assume obligation respecting securities of others; authority to sell securities without competitive bidding; authority to alter or modify outstanding securities and obligatons; authority to hold position of officer or director of more than one railroad; and formal investigations concerning possible violations of the act relating to the foregoing subjects; surveillance of the payments of principal and interest on, and requests for modification of loans previously approved under part V of the act[1], and under provisions of the Uniform Bankruptcy Act, the approval of plans of reorganization, the submission of formulas for the segregation of earnings, the ratification of trustees, the fixing of maximum limits of allowances to trustees and other parties in interest, and the authorization of persons, including protective committees, to solicit and act under proxies, authorizations, or deposit agreements in connection with railroad reorganization or receivership proceedings.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	52	52	52	0
Personnel compensation	$627,724	$658,232	$659,744	+$1,512
Personnel benefits	45,596	49,297	49,409	+112
Total personal services and benefits	673,320	707,529	709,153	+1,624
Travel	3,087	3,000	3,000	0
Total	676,407	710,529	712,153	+1,624

[1] Except for the policing and consideration of requests for loan modification, the Commission's authority under pt. V expired June 30, 1963.

The increase of $1,624 for personal services and benefits results from the cost of within-grade salary advancements.

Mr. EVINS. On page 47 you mention the postclosing work, after the loans have been made; petition from the railroads or the lenders for modification of the terms and conditions of the guarantee. To date 65 supplemental orders for postclosing work have been filed. You made the loans to them and they wanted to refinance the note.

Mr. TUCKER. In some cases we have adjusted the time, in other cases the security, Mr. Chairman. So that requires some continuing supervision as is set forth here.

RAILROAD DISCONTINUANCE PROCEEDINGS

Mr. EVINS. You mention at the top of the next page, train discontinuance proceedings which have a statutory deadline in rail abandonment cases. You say you need to speed up on these. These are the areas where you do not need to rush too much in my opinion: Rail abandonment cases and train discontinuance. You want personnel to speed this up.

Mr. TUCKER. Well, we have a 4-month limitation to decide a passenger discontinuance case. That presents a formidable time limit if you have a rather heavy case.

For example, the New Haven case, I do not think we would have made it in 4 months unless we had had a longer time by nature of the notice.

Mr. EVINS. You mean after an application is filed you have to make a decision on abandonment within 4 months?

Mr. TUCKER. Within 4 months after we institute our investigation.

Mr. EVINS. Is this the law?

Mr. TUCKER. Yes, it is; and we are contemplating a request to the Congress to give us more time in that area.

Mr. EVINS. Six months or a year should give you time to evaluate it. You can get a railroad discontinuance before the public is aware of it and before they have had time to assess the impact.

Mr. TUCKER. In my judgment we should have more time because it looks as though we are going to get the kind of case that involves more than just one train.

Mr. EVINS. What would happen if the Commission failed to allow a railroad to abandon their line in the time it wanted to, what would be the result?

Mr. TUCKER. The Commission would violate the law. We have to serve an order, Mr. Chairman, within the 4 months period.

The notice would become effective, to answer the chairman's question. Take a case where the railroad filed a notice to discontinue, if we did not come out with a decision or an order ordering the continuance in a 4-month period, the train would be taken off by virtue of the railroad notice.

Mr. BOLAND. We will put in the loan guarantee application information on pages 61 through 62. This is a matter we discuss yearly.

(The pages follow:)

Recapitulation by railroads of loan guaranty applications received and actions thereon

Finance docket No.	Railroad	Amount applied for			Action		
		Original amount	Amended or withdrawn	Net amount	Date	Amount approved	Amount denied
20691	Atlantic & Danville	$800,000		$800,000	Jan. 6, 1960		$800,000
20429	Boston & Maine	10,500,000	$4,500,000	6,000,000	June 22, 1959	$3,000,000	3,000,000
21356	do	3,000,000		3,000,000	Jan. 17, 1961	3,000,000	
21615	do	1,000,000		1,000,000	Aug. 15, 1961	1,000,000	
21888	do	[1] 5,845,348	5,845,348		July 27, 1962[1]		
22231	do	1,000,000		1,000,000	Oct. 3, 1962	1,000,000	
22639	do	1,000,000		1,000,000	July 24, 1963	1,000,000	
	Total	22,345,348	10,345,384	12,000,000		9,000,000	3,000,000
21555	Central of New Jersey	15,000,000		15,000,000	Aug. 26, 1961	15,000,000	
22640	do	5,000,000		5,000,000	Dec. 20, 1963	2,000,000	
					Nov. 6, 1964	3,000,000	
	Total	20,000,000		20,000,000		20,000,000	
21210	Chicago & Eastern Illinois	3,000,000		3,000,000	Sept. 23, 1960	3,000,000	
22361	do	12,000,000	200,000	11,800,000	Feb. 28, 1963	11,800,000	
	Total	15,000,000	200,000	14,800,000		14,800,000	
21494	Erie-Lackawanna	15,000,000		15,000,000	June 8, 1961	15,000,000	
22632	do	15,000,000	10,000,000	5,000,000	Nov. 12, 1963		5,000,000
	Total	30,000,000	10,000,000	20,000,000		15,000,000	5,000,000
20517	Georgia & Florida	1,000,000	65,040	934,960	May 8, 1959	934,960	
20518	do	1,000,000		1,000,000	Oct. 5, 1959	1,000,000	
	Total	2,000,000	65,040	1,934,960		1,934,960	

20760	Lehigh Valley	6,000,000	77,000	5,923,000	Nov. 27, 1959	5,923,000	
21300	do	5,000,000		5,000,000	Dec. 7, 1960	5,000,000	
21539	do	2,500,000		2,500,000	Apr. 28, 1961	2,500,000	
21776	do	5,000,000		5,000,000	Nov. 28, 1961	5,000,000	
22339	do	5,000,000		5,000,000	Apr. 25, 1963	3,400,000	1,600,000
	Total	23,500,000	77,000	23,423,000		21,823,000	1,600,000
21454	Missouri-Kansas-Texas	16,000,000		16,000,000	May 22, 1961	16,000,000	
21552	do	6,000,000		6,000,000	June 26, 1961	6,000,000	
22577	do	12,000,000		12,000,000	Nov. 12, 1963	12,000,000	
	Total	34,000,000		34,000,000		34,000,000	
21551	Monon	5,000,000		5,000,000	July 26, 1961	5,000,000	
22675	do	5,500,000		5,500,000	Sept. 23, 1963	5,500,000	
	Total	10,500,000		10,500,000		10,500,000	
20372	New Haven	16,542,460	8,383,060	8,159,400	Aug. 5, 1960	8,159,400	
20397	do	500,000		500,000	Jan. 8, 1960	500,000	
20398	do	1,500,000		1,500,000	Oct. 28, 1959	1,500,000	
21299	do	6,000,000		6,000,000	Oct. 31, 1960	4,500,000	1,500,000
21299	do	4,500,000		4,500,000	Dec. 29, 1960	3,500,000	1,000,000
21299	do	3,500,000		3,500,000	Feb. 14, 1961	3,500,000	
21299	do	1,500,000		1,500,000	May 12, 1961	1,500,000	
	(Subtotal, finance docket No. 31299)	15,500,000		15,500,000		13,000,000	2,500,000
	Subtotal, New Haven Railroad	34,042,460	8,383,060	25,659,400		23,159,400	2,500,000
21685	New Haven Trustees	5,000,000		5,000,000	Aug. 2, 1961	5,000,000	
21808	do	7,500,000		7,500,000	Dec. 7, 1961	7,500,000	
	(Subtotal, New Haven trustees)	12,500,000		12,500,000		12,500,000	
	Total, New Haven and trustees	46,542,460	8,383,060	38,159,400		35,659,400	2,500,000
20689	New York Central	40,000,000		40,000,000	Sept. 16, 1959	40,000,000	
20395	New York, Susquehana & Western	[2] 450,000	450,000		Jan. 29, 1959 [2]		
20840	do	300,000		300,000	Apr. 20, 1960	300,000	
20841	do	200,000		200,000	Dec. 23, 1959		200,000
21794	do	555,000		555,000	Mar. 1, 1962	555,000	
	Total	1,505,000	450,000	1,055,000		855,000	200,000

Recapitulation by railroads of loan guaranty applications received and actions thereon—Continued

Finance docket No.	Railroad	Amount applied for			Action		
		Original amount	Amended or withdrawn	Net amount	Date	Amount approved	Amount denied
21121	Norfolk Southern	$2,000,000		$2,000,000	Sept. 21, 1960	$2,000,000	
22488	do	5,400,000		5,400,000	June 5, 1963	5,400,000	
	Total	7,400,000		7,400,000		7,400,000	
21547	Pittsburgh & Western Virginia	1,500,000		1,500,000	June 26, 1961	1,500,000	
22445	do	1,500,000		1,500,000	Mar. 18, 1963	1,500,000	
	Total	3,000,000		3,000,000		3,000,000	
22545	Reading	30,000,000		30,000,000	June 26, 1963	30,000,000	
	Grand total	286,592,808	$29,520,448	257,072,360		243,972,360	$13,100,000

[1] B. & M. application, finance docket No. 21888 for $5,845,348, was withdrawn at request of applicant and dismissed by order of July 27, 1962.

[2] New York, Susquehanna & Western application, finance docket No. 20395 for $450,000, was withdrawn at request of applicant and dismissed by order of Jan. 29, 1959.

Recapitulation of Loan Guaranty Applications Approved

Railroad	Number of applications	Total amount guaranteed
Boston & Maine	5	$9,000,000
Central of New Jersey	2	20,000,000
Chicago & Eastern Illinois	2	14,800,000
Erie-Lackawanna	1	15,000,000
Georgia & Florida	2	1,934,960
Lehigh Valley	5	21,823,000
Missouri-Kansas-Texas	3	34,000,000
Monon	2	10,500,000
New York Central	1	40,000,000
New Haven	4	23,159,400
New Haven Trustees	2	12,500,000
New York, Susquehanna & Western	2	855,000
Norfolk Southern	2	7,400,000
Pittsburgh & West Virginia	2	3,000,000
Reading	1	30,000,000
Total	36	243,972,360

Loan guarantee applications—Statement showing for approved applications the term of guarantee, rate of interest, and purpose of loan

Finance docket No.	Railroad	Amount approved	Term of guarantee (years)	Date of final maturity	Rate of interest (percent)	Purpose of loan
20429	Boston & Maine	$3,000,000	15	Dec. 1, 1974	5	(1).
21365	do	3,000,000	15	July 1, 1975	5	(1).
21615	do	1,000,000	6	July 1, 1965*	4⅛	(1).
22231	do	1,000,000	15	Oct. 15, 1977	5	(1).
22639	do	1,000,000	3	July 1, 1966*	4¾	(1).
	Total	9,000,000				
21555	Central of New Jersey	15,000,000	15	July 1, 1976	5	(2).
22640	do	5,000,000	15	Dec. 1, 1978	4¾	(1).
	Total	20,000,000				
21210	Chicago & Eastern Illinois	3,000,000	15	July 31, 1975	5¼	(1).
22361	do	11,800,000	15	Dec. 31, 1977	5	(3).
	Total	14,800,000				
21494	Erie-Lackawanna	15,000,000	15	June 1, 1976	5¼	(1).
20517	Georgia & Florida	934,960	10	Dec. 31, 1970*	5	(4).
20518	do	1,000,000	10	Dec. 23, 1970*	5½	(5).
	Total	1,934,960				
20760	Lehigh Valley	5,923,000	15	Aug. 1, 1974	5.0059	(6).
21300	do	5,000,000	15	June 15, 1975	5	(1).
21539	do	2,500,000	4	May 17, 1970	4¾	(1).
21776	do	5,000,000	15	Nov. 1, 1976	4½ 5	(1).
22339	do	3,400,000	15	May 1, 1977	4¾	(1).
	Total	21,823,000				
21454	Missouri-Kansas-Texas	16,000,000	15	May 1, 1976	5	(1).
21552	do	6,000,000	15	June 1, 1976	4¾	(1).
22577	do	12,000,000	15	June 1, 1978	4⅝	(1).
	Total	34,000,000				

See footnotes at end of table.

Loan guarantee applications—Statement showing for approved applications the term of guarantee, rate of interest, and purpose of loan—Continued

Finance docket No.	Railroad	Amount approved	Term of guarantee (years)	Date of final maturity	Rate of interest (percent)	Purpose of loan
21551	Monon	$5,000,000	15	July 1, 1976	4¾ 5	(7).
22675	do	5,500,000	15	Oct. 1, 1978	4⅝	(8).
	Total	10,500,000				
20372	New Haven	8,159,400	15	June 1, 1975	5½	(9).
20397	do	500,000	6	Jan. 1, 1965*	5½	(10).
20398	do	1,500,000	15	Jan. 1, 1974	5	(11).
21299	do	4,500,000	1	Nov. 3, 1961	5	(1).
21299	do	3,500,000	1	do	5	(1).
21299	do	3,500,000	1	do	5	(1).
21299	do	1,500,000	1	do	5	(1).
	Subtotal, finance docket No. 21299	13,000,000				
	Subtotal, New Haven R.R	23,159,400				
21685	New Haven Trustees	5,000,000	10	Aug. 4, 1971	5¼	(1).
21808	do	7,500,000	10	Dec. 13, 1971	5¼	(1).
	Subtotal, New Haven Trustees	12,500,000				
	Total, New Haven and Trustees	35,659,400				
20689	New York Central	40,000,000	15	July 1, 1974	5	(1).
20840	New York, Susquehanna and Western	300,000	15	Dec. 1, 1974	5½	(1).
21794	do	555,000	10	Sept. 1, 1972	5½	(12).
	Total	855,000				
21121	Norfolk Southern	2,000,000	15	July 1, 1974	5¼	(1).
22488	do	5,400,000	15	May 1, 1978	4¾	(13).
	Total	7,400,000				
21547	Pittsburgh & West Virginia	1,500,000	15	June 1, 1976	4¾	(1).
22445	do	1,500,000	2	May 28, 1965*	4¾	(1).
	Total	3,000,000				
22545	Reading	30,000,000	15	July 1, 1978	4¾	(14).
	Grand total	243,972,360				

[1] Reimbursement of treasury.
[2] Financing acquisition of not less than 634 covered hopper cars and 725 boxcars at a cost in excess of $5,000,000; and reimbursement of treasury $10,000,000.
[3] Refinancing certain equipment obligations incurred after Jan. 1, 1957.
[4] Acquisition of 100 new freight cars.
[5] Maintenance and rehabilitation of roadway.
[6] Refinance equipment obligations $1,167,127; finance planned capital expenditures $1,574,609; and reimbursement of treasury $3,181,264.
[7] Reimbursement of treasury $2,268,359; and acquisition of 4 diesel locomotives and 116 freight cars with a total cost of $2,731,641.
[8] Financing acquisition of 9 new locomotives $2,400,000; and 74 freight cars $1,100,000; and reimbursement of treasury $2,000,000.
[9] Acquisition of 30 new diesel-electric locomotives.
[10] Acquisition of maintenance of way equipment and machinery.
[11] Construction of certain shop facilities.
[12] Financing acquisition of 3 locomotives.
[13] Financing acquisition of 17 new locomotives $2,975,000; and reimbursement of treasury $2,425,000.
[14] Financing acquisition of 56 new locomotives $11,000,000; and reimbursement of treasury $19,000,000.
*These loans have been paid in full.

NOTE.—Reimbursement of treasury items above represent reimbursement for capital expenditures made after Jan. 1, 1957 from the railroad's own funds.

Loan guarantee applications—Statement showing repayments and unpaid balances for approved applications

Finance docket No.	Railroad	Date	Amount approved	Approved but not disbursed	Repayments	Unpaid balance, Dec. 31, 1966
20429	Boston & Maine	June 22, 1959	$3,000,000		$1,500,000	$1,500,000
21365	do	Jan. 17, 1961	3,000,000		150,000	2,850,000
21615	do	Aug. 15, 1961	1,000,000		1,000,000	
22231	do	Oct. 3, 1962	1,000,000		266,667	733,333
22639	do	July 24, 1963	1,000,000		1,000,000	
	Total		9,000,000		3,916,667	5,083,333
21555	Central of New Jersey	Aug. 26, 1961	15,000,000		2,625,000	12,375,000
22640	do	Dec. 20, 1963	5,000,000		380,000	4,620,000
	Total		20,000,000		3,005,000	16,995,000
21210	Chicago & Eastern Illinois	Sept. 23, 1960	3,000,000		300,000	2,700,000
22361	do	Feb. 28, 1963	11,800,000		1,843,750	9,956,250
	Total		14,800,000		2,143,750	12,656,250
21494	Erie-Lackawanna	June 8, 1961	15,000,000			15,000,000
20517	Georgia & Florida	May 8, 1959	934,960		[1] 934,960	
20518	do	Oct. 5, 1959	1,000,000	[1] $100,000	[1] 900,000	
	Total		1,934,960	100,000	1,834,960	
20760	Lehigh Valley	Nov. 27, 1959	5,923,000		2,723,000	3,200,000
21300	do	Dec. 7, 1960	5,000,000		2,003,000	2,997,000
21539	do	Apr. 28, 1961	2,500,000		750,000	1,750,000
21776	do	Jan. 28, 1961	5,000,000		1,670,000	3,330,000
22339	do	Apr. 25, 1963	3,400,000		520,000	2,880,000
	Total		21,823,000		7,666,000	14,157,000
21454	Missouri-Kansas-Texas	May 22, 1961	16,000,000		1,600,000	14,400,000
21552	do	June 26, 1961	6,000,000		600,000	5,400,000
22577	do	Nov. 12, 1963	12,000,000			12,000,000
	Total		34,000,000		2,200,000	31,800,000
21551	Monon	July 26, 1961	5,000,000		500,000	4,500,000
22675	do	Sept. 23, 1963	5,500,000		600,000	4,900,000
	Total		10,500,000		1,100,000	9,400,000
20372	New Haven	Aug. 5, 1960	8,159,400		3,263,760	4,895,640
20397	do	Jan. 8, 1960	500,000		500,000	
20398	do	Oct. 28, 1959	1,500,000		517,720	[2] 982,280
21299	do	Oct. 31, 1960	4,500,000		[3] 627,900	[3] 3,872,100
21299	do	Dec. 29, 1960	3,500,000			3,500,000
21299	do	Feb. 14, 1961	3,500,000			3,500,000
21299	do	May 12, 1961	1,500,000			1,500,000
	(Subtotal, finance docket No. 21299).		[2] 13,000,000		627,900	[3] 12,372,100
	Subtotal, New Haven RR.		23,159,400		4,909,380	18,250,020
21685	New Haven trustees	Aug. 2, 1961	5,000,000			5,000,000
21808	do	Dec. 7, 1961	7,500,000			7,500,000
	(Subtotal, New Haven trustees)		12,500,000			12,500,000
	Total, New Haven and trustees		35,659,400		4,909,380	30,750,020
20689	New York Central	Sept. 16, 1959	40,000,000		13,200,000	26,800,000
20840	New York, Susquehanna & Western	Apr. 20, 1960	300,000		128,700	171,300
21794	do	Mar. 1, 1962	555,000		235,875	319,125
	Total		855,000		364,575	490,425

Footnotes at end of table, p. 872.

Loan guarantee applications—Statement showing repayments and unpaid balances for approved applications—Con.

Finance docket No.	Railroad	Date	Amount approved	Approved but not disbursed	Repayments	Unpaid balance, Dec. 31, 1966
21121	Norfolk Southern	Sept. 21, 1960	$2,000,000		$400,000	$1,600,000
22488	do	June 5, 1963	5,400,000			5,400,000
	Total		7,400,000		400,000	7,000,000
21547	Pittsburgh & West Virginia	June 26, 1961	1,500,000		500,000	1,000,000
22445	do	Mar. 18, 1963	1,500,000	[4] $1,400,000	100,000	
	Total		3,000,000	1,400,000	600,000	1,000,000
22545	Reading	June 26, 1963	30,000,000			30,000,000
	Grand total		243,972,360	1,500,000	41,340,332	201,132,028

[1] The entire unpaid principal balance of these loans, with accrued interest, was paid by the receiver of the Georgia & Florida on June 29, 1963, from the funds received by him from sale of all of the properties and franchises of the railroad to certain subsidiaries of the Southern Ry. No further disbursements will be made.

[2] New Haven defaulted on its loans in finance docket Nos. 20398 and 21299 in July 1961, with unpaid principal balance of $1,375,000 and $13,000,000, respectively. On Oct. 2, 1961, the United States paid the unpaid principal balance of these loans, plus interest, with funds provided in supplemental appropriations bill, 1962 (H.R. 9169). The loans in finance docket Nos. 20372 and 20397 have been assumed by the trustees.

[3] As of Dec. 31, 1966, $627,900 had been applied against the principal of this loan as a result of settlement of certain claims. (See also footnote 4 on p. 873.)

[4] Upon request of the railroad the commitment of the lender in respect of this undisbursed balance terminated as of Oct. 31, 1964. Accordingly, no further disbursements will be made.

Security for outstanding pt. V loans

Railroad	Principal amount of securities or cost of equipment or other property pledged	Appraised value of collateral [1]	Amount of loan outstanding as of Dec. 31, 1966
Boston & Maine	$6,433,473	$6,711,546	$5,083,333
Central of New Jersey	20,512,060	17,022,625	16,995,000
Chicago & Eastern Illinois	17,916,320	15,897,970	12,656,250
Erie-Lackawanna	24,321,575	17,569,843	15,000,000
Lehigh Valley	34,226,960	21,683,325	14,157,000
Missouri-Kansas-Texas	53,194,000	38,220,148	31,800,000
Monon	11,063,729	8,775,152	9,400,000
New York Central	86,523,000	66,314,689	26,800,000
New York, New Haven & Hartford [2]	8,159,400	16,277,790	18,250,020
Trustees of New York, New Haven & Hartford RR. Co.[2]	12,500,000	12,500,000	12,500,000
Total, New York, New Haven & Hartford RR. Co. and trustees	20,659,400	28,777,790	30,750,020
New York, Susquehanna & Western	1,055,000	825,120	490,425
Norfolk Southern	7,400,000	7,400,000	7,000,000
Pittsburgh & West Virginia	1,710,000	1,402,200	1,000,000
Reading Co	48,653,644	41,597,691	30,000,000
Grand total	333,669,161	272,198,099	201,132,028

[1] Based principally on (*a*) the average of high and low market values for the year 1966 of pledged securities and (*b*) the depreciated value of equipment and other property as of Dec. 31, 1966, where the title to equipment or other property is the collateral.

[2] See p. 873 hereof for details in respect of security for loan guarantees to New Haven RR. and New Haven trustees.

Detail in respect of security for pt. V loan guarantees to New Haven RR. and the trustees

Finance docket number	Decided	Total amount of guarantee	Unpaid balance of principal, Dec. 31, 1966	Appraised value of security, Dec. 31, 1966	Amount paid by United States at time of default
New Haven RR.:					
20372	Aug. 5, 1960	$8,159,400	$4,895,640	[1] $5,706,450	
20397	Jan. 8, 1960	500,000		[2]	
20398	Oct. 28, 1959	1,500,000	982,280	[3] 10,571,340	$1,375,000
21299	[4]	13,000,000	[5] 12,372,100	[3]	13,000,000
Total		23,159,400	18,250,020	16,277,790	[6] 14,375,000
New Haven trustees:					
21685	Aug. 2, 1961	5,000,000	5,000,000	[7] 5,000,000	
21808	Dec. 7, 1961	[8] 7,500,000	7,500,000	[7] 7,500,000	
Total		12,500,000	12,500,000	12,500,000	
Grand total, New Haven RR. and trustees		35,659,400	30,750,020	28,777,790	14,375,000

[1] Net depreciated value of 30 locomotives. This loan has been assumed by trustees.
[2] This loan, which was assumed by trustees, has been paid in full.
[3] New Haven's equity in collateral for so-called flood loans made under Defense Production Act of 1950.
[4] Embraces 4 separate authorizations (all millions), $4,500,000 on Oct. 31, 1960; $3,500,000 on Dec. 29, 1960; $3,500,000 on Feb. 14, 1961; and $1,500,000 on May 12, 1961.
[5] This loan is not secured by any pledge of collateral. However, New Haven convenanted that if it should receive any income from certain claims then in litigation and certain other sources, such income shall be applied in reduction of the outstanding loan. As of Dec. 31, 1966, $627,900 has been applied against the principal of this loan as a result of settlement of certain of said claims. New Haven's equity in the flood loan collateral was not pledged to secure this loan for the reason that such pledge would require approval of New Haven's stockholders; and at the time this loan guarantee was sought, late in 1960, the financial emergency then faced by the New Haven did not allow time for the calling of stockholders' meeting
[6] New Haven defaulted on its loans in finance docket Nos. 20398 and 21299 in July 1961, with unpaid principal balances of $1,375,000 and $13,000,000, respectively. On Oct. 2, 1961, the United States paid the unpaid principal balance of these loans, plus interest of $300,740, with funds provided in the supplemental appropriations bill 1962 (H.R. 9169).
[7] Receiver's certificates.
[8] On Dec. 7, 1961, a loan guarantee of $7,500,000 was approved. $3,000,000 was disbursed to the trustees on Dec. 13, 1961, and the remaining $4,500,000 was disbursed on Mar. 4, 1965.

Mr. BOLAND. Are there any questions with respect to this area?

SECTION OF OPERATING RIGHTS

Turn to page 63, Section of Operating Rights.

This is the area in which you want practically all of your increase in personnel.

Mr. SCHMID. Seventeen.

Mr. BOLAND. Seventeen of the twenty-eight you request here. I notice that 12 of these are attorney-advisers. Why don't you justify this a little bit more firmly?

Why do you need 17 here?

We will put pages 63 and 64 in at this point.

(The pages follow:)

OFFICE OF PROCEEDINGS (ACTIVITY NO. 1)

SECTION OF OPERATING RIGHTS

The Section of Operating Rights handles all formal proceeding involving operating rights of motor carriers, brokers, water carries, and freight forwarders, except those involving the consolidation and merger of such carriers and the transfer of operating rights and applications for temporary authority to perform water carier service. The matters handled by the section vary considerably in scope and include applications for new and "grandfather" motor and water

carrier, and freight forwarder rights; applications under section 5 in a specified class of cases; complaints and investigations which bring in issue the right of the carriers or other persons to perform service; and proceedings looking to the prescription of rules governing the carriers' operations, and to the revocation of operating rights.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison 1967 with 1968
Positions	70	70	87	+17
Personnel compensation	$735,822	$813,182	$937,299	+$124,117
Personnel benefits	54,043	61,370	70,734	+9,364
Total, personal services and benefits	789,864	874,552	1,008,033	+133,481
Travel	6,698	6,500	6,500	0
Total	796,563	881,052	1,014,533	+133,481

The increase of $133,481 for personal services and benefits is primarily for 17 additional positions and the cost of within-grade salary advancements.

The 1968 budget provides 87 positions which is 17 more than currently authorized. The 87 positions are separated by categories as follows:

Deputy Director	1
Attorney-adviser	72
Adjudicator	2
Secretary-stenographer and clerk-stenographer	12
Total	87

The additional positions requested are:

GS–13	Attorney-adviser	5
GS–12	Attorney-adviser	5
GS–11	Attorney-adviser	2
GS–5	Clerk-stenographer	3
GS–4	Clerk-stenographer	2
Total		17

Applications for permanent motor carrier operating authority account for the overwhelming majority of the workload of this section, and the number of such applications is increasing at a phenomenal rate of growth. If receipts of these cases continue to grow at the current rate, the total filings for fiscal year 1968 may exceed 10,000 cases. It is hoped, however, that the recently-adopted motor carrier application form, which establishes a requirement that applicants who intend to rely upon the evidence of public witnesses must submit with their applications affidavits signed by prospective witnesses indicating their willingness to support the application, will curtail somewhat the percentage increase of new filings during fiscal year 1968, and that approximately 9,200 new applications, or about 1,300 less than present trends indicate, will be received. Even at this level receipts will exceed dispositions by a substantial margin unless our present rate of dispositions is sharply increased.

In accordance with the Commission's General Policy Statement Concerning Motor Carrier Licensing Procedures issued in May, 1966, an increased number of opposed motor carrier licensing matters will be processed under modified procedure without oral hearing. These cases will be assigned for preparation of a report by attorney-advisers from the Section of Operating Rights, thereby increasing the proportion of the operating authority caseload to be handled by the non-hearing examiner staff. With the increased volume of filings, the number

of petitions which are handled by the attorney-advisers of this section, also continues to increase.

We estimate that at least some of the necessary increase in output can be accomplished through improved productivity of our present staff resulting from continued improvement in case-handling procedures but as far as we can foresee at this time the remainder of the increase in production can be achieved only through increased staffing. We are, therefore, requesting an additional 12 attorney-adviser positions to achieve the necessary increase.

We also are requesting 5 additional clerical positions to provide an adequate level of prompt and immediate secretarial and clerical support to the attorney-adviser staff, thus allowing them to devote maximum effort to their professional duties.

Mr. BOLAND. On page 64, you indicate the applications for permanent motor carrier operating authority account for the overwhelming majority of the workload of this section. The number of cases is increasing. You anticipate total filings may exceed 10,000 cases, but you hope that some recently adopted motor carrier application forms will probably bring this down to 9,200.

Mr. TUCKER. We would hope so.

Mr. BOLAND. Why would this do it?

Mr. TUCKER. Well, for example, Mr. Boland, we adopted a procedure whereby on an application now the applicant must obtain a shipper affidavit, should certify that the shipper is going to support the requested authority. That tended to cut down the filings. Prior to that time we had a great deal of applications that were filed, sometimes, on a hope, on some oral discussion with a shipper or group of shippers that they wanted the service and then they would have the application before us and find that the shippers do not come in at all or change their minds.

Mr. BOLAND. As a result, you never would have gotten the application?

Mr. TUCKER. The result would be that we take the application, docket it, get it ready for hearing, put it on the hearing examiner's schedule and then have a hearing that amounted to almost a nullity which took a day of time away for almost no hearing at all.

SECTION OF RATES AND PRACTICES

Mr. EVINS. Place in the record pages 65 through 69.

(The pages follow:)

OFFICE OF PROCEEDINGS (ACTIVITY NO. 1)

SECTION OF RATES AND PRACTICES

The Section of Rates and Practices is responsible for formal disposition (by final reports or petitions) of investigations, complaint and answer proceedings, investigation and suspension proceedings instituted upon protests or the Commission's own motion, with respect to change in rates, fares, rules, regulations, or practices proposed by railroads, motor carriers, domestic water carriers and freight forwarders; applications for relief from various prohibitions in the acts administered by the Commission, particularly section 4 of the Interstate Commerce Act; applications under section 5a of the Act from groups of carriers or freight forwarders for approval of agreements entered into by them to govern methods of considering jointly the initiation and establishment of rates, fares, charges, divisions of revenues on joint traffic, rules and regulations affecting transportation of freight and passengers.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	40	40	40	0
Personnel compensation	$414,311	$458,747	$459,808	+$1,061
Personnel benefits	30,709	34,895	34,974	+79
Total personal services and benefits	445,020	493,642	494,782	+1,140
Travel	2,020	2,000	2,000	0
Total	447,040	495,642	496,782	+1,140

The increase of $1,140 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides for 40 positions which is the same as currently authorized. The 40 positions are separated by categories as follows:

Deputy Director	1
Attorney-adviser	29
Secretary, secretary-stenographer and clerk-stenographer	10
Total	40

In this section, numerous general rate increases involving motor carriers are being filed as a result of the increased competitive situation between different modes of transportation, the opening of new plants, and the demands of growing production. Many petitions seeking the same relief are also being received. We expect this trend to continue into fiscal year 1968.

Legislation providing for motor carrier reparation awards has been enacted. While it is too early to determine the exact effect this will have upon the workload, a large number of motor carrier reparation proceedings are anticipated.

Early in the year, all section 5a proceedings were transferred to this section from the Bureau of Operations and Compliance, thus adding to the workload.

However, the current workload of this section is being handled expeditiously and we expect that the anticipated moderate increase in receipts can be absorbed by increased productivity and have therefore requested no additional positions for the section.

REVIEW BOARDS

The Finance Review Board, the three Operating Rights Review Boards, and the Rates and Practices Review Board determine matters in connection with and decide cases which have involved (other than by the Boards themselves) the taking of testimony at a public hearing or the submission of evidence in the form of affidavits by opposing parties.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison 1967 with 1968
Positions	19	19	19	0
Personnel compensation	$305,608	$311,311	$312,022	+$711
Personnel benefits	22,017	23,204	23,257	+53
Total personal services and benefits	327,625	334,515	335,279	+764
Travel	45	0	0	0
Total	327,670	334,515	335,279	+764

The increase of $764 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides for 19 positions which is the same as currently authorized. The 19 positions are separated by categories as follows:

Attorney-adviser	14
Secretary-stenographer	4
Clerk-stenographer	1
Total	19

The five employee review boards have, during the relatively short time they have been in existence, fully justified their establishment by relieving the Commissioners from personal consideration of a large portion of the growing decisional workload. They are currently disposing of more than 1,300 contested cases per year which would otherwise have the personal consideration of a division of Commissioners. We expect to continue to rely heavily on these boards and look forward to their absorbing an even larger share of the workload.

TEMPORARY AUTHORITIES BOARD

The primary functions of the Temporary Authorities Board relate to duties performed in connection with applications for temporary authority for service by common or contract carriers by motor vehicle.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	17	17	17	0
Personnel compensation	$128,912	$144,621	$144,949	+$328
Personnel benefits	9,119	10,705	10,730	+25
Total, personal services and benefits	138,031	155,326	155,679	+353

The increase of $353 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides for 17 positions which is the same as currently authorized. The 17 positions are separated by categories as follows:

Attorney-adviser	3
Adjudicator	6
Legal clerk	1
Clerk-reviewer	1
Clerk-typist	6
Total	17

TRANSFER BOARD

The Transfer Board makes determination of applications relating to transfers of brokers licenses, changes in control of corporations or associations holding brokers licenses and the transfer of certificates and permits.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	15	15	15	0
Personnel compensation	$128,261	$135,612	$135,923	+$311
Personnel benefits	9,330	10,200	10,224	+24
Total, personal services and benefits	137,591	145,812	146,147	+335

The increase of $335 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides for 15 positions which is the same as currently authorized. The 15 positions are separated by categories as follows:

Attorney-adviser	3
Adjudicator	6
Miscellaneous documents examiner	4
Clerk-typist	2
Total	15

The number of transfer applications filed has not varied materially in the past year and is not expected to change in the next year or so. The board keeps the work moving and has no undue backlog. Shortening of memoranda and utilization of forms whenever possible also have saved the time of adjudicators and typists.

Bureau of Accounts

Mr. Evins. Take a look at the Bureau of Accounts Section, pages 83 through 87.

(The pages follow:)

Bureau of Accounts (Activity Nos. 1 and 3)

The principal functions of the Bureau of Accounts are the accounting, cost finding, valuation and reporting necessary in the regulatory work of the Commission to bring about accurate, uniform and comprehensive disclosure of financial data by carriers in the public interest. This includes (1) the development of uniform systems of accounts, valuation regulations, and regulations governing the destruction of carrier records; (2) statistical and accounting reporting requirements of annual and periodic reports, and other related regulations for all transportation companies subject to the Act; (3) examining the accounts, records, reports and financial statements filed by such companies to ascertain compliance with Commission accounting and related regulations; (4) compilation and publication of transportation statistics; (5) development of equitable and reasonable depreciation rates for carrier property; (6) preparing studies and analyses of the costs and revenues of transportation services of carriers subject to the Act; (7) maintaining inventories of railroad and pipeline properties, and developing property valuation data; (8) preparing accounting, cost and valuation data for use in proceedings before the Commission; (9) rendering assistance in accounting matters in finance proceedings; and (10) analyzing cost evidence presented by other parties in rate proceedings.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	241	241	245	+4
Personnel compensation	$2,170,746	$2,297,656	$2,335,331	+$37,675
Personnel benefits	158,513	172,880	175,718	+2,838
Total, personal services and benefits	2,329,259	2,470,536	2,511,049	+40,513
Travel	127,187	126,295	126,795	+500
Total	2,456,446	2,596,831	2,637,844	+41,013

The increase of $40,513 for personal services and benefits is primarily for the four additional positions requested and for the cost of within-grade salary advancements. The increase of $500 for travel is requested for increased travel in connection with special cost studies.

The 1968 budget provides 245 positions for this bureau which is four more than currently authorized.

The 1968 budget provides seven additional positions for the Section of Cost Finding. However, by reason of economies effected by improved ADP techniques in the publication schedule of periodic and annual reports in the Section of Reports, as well as a realignment of clerical activities within the bureau, we anticipate a saving of three positions. Accordingly, the budget request for 1968 is a net increase of 4 additional positions.

The following table shows the organizational breakdown of the bureau, the number of positions currently authorized and those requested for 1968:

	Currently authorized	Requested 1968
Director's Office	10	10
Accounting	19	19
Cost finding	54	61
Reports	74	71
Valuation and depreciation	19	19
Field staff	65	65
Total	241	245

As of June 30, 1966, there were 5,266 transportation companies with gross revenues aggregating approximately $22 billion annually subject to our accounting rules and required to file annual and periodic reports grouped as follows:

Motor carriers	4,229
Railroads and allied companies [1]	797
Waterlines	92
Pipelines	87
Freight forwarders	61

[1] Includes stockyards, express, sleeping cars, refrigerator car lines, railroad holding companies, and railroad lessor companies.

DIRECTOR'S OFFICE (ACTIVITY NO. 3)

This office includes the director and his assistants who supervise the activities of the sections of the bureau, and a clerical staff which perform stenographic typing and administrative duties. Functions include planning general and special work programs; reviewing existing methods and procedures; developing improved orientation and training, including staff liaison with regional offices responsible for the audit of regulated carriers' accounts and records; directing the staff in carrying out the Commission's manpower utilization program; holding staff conferences on policy and technical matters; reviewing legislative recommendations of the Congress to determine effect of changes in law on accounting procedures and their effect on industry; preparing work progress reports and recommendations to the Commission; developing programs for research involving major accounting issues, industry economic and cost trends and new technological changes; conducting meetings and advising officials, Commissioners, other bureau directors, Government agencies and others regarding accounting, reporting and publication requirements, cost finding, rates, legislative matters, field examinations, valuation and various administrative activities.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	10	10	10	0
Personnel compensation	$145,964	$140,643	$140,967	+$324
Personnel benefits	10,739	10,667	10,690	+23
Total personal services and benefits	156,703	151,310	151,657	+347
Travel	2,300	1,400	1,400	0
Total	159,003	152,710	153,057	+347

The increase of $347 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 10 positions for this office which is the same as currently authorized. These positions are separated by categories as follows:

Director and assistant	3
Field assistant	1
Special assistant	1
Adiministrative officer	1
Administrative assistant	1
Secretary and clerk-typist	3
Total	10

SECTION OF ACCOUNTING (ACTIVITY NO. 3)

The functions of this section consist of developing, formulating and interpreting uniform systems of accounts, regulations governing the destruction of carrier records, and regulations governing forms and recording of passes; review and evaluation of reports pertaining to general accounting and valuation examinations made by the bureau's field staff; and the review of accounting and related financial matters and recommendations in proceedings before the Commission.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	19	19	19	0
Personnel compensation	$191,742	$216,669	$217,170	+$501
Personnel benefits	14,104	16,341	16,378	+37
Total personal services and benefits	205,846	233,010	233,548	+538
Travel	1,114	500	500	0
Total	206,960	233,510	234,048	+538

The increase of $538 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 19 positions which is the same as currently authorized. These positions are separated by categories as follows:

Supervisory auditor	1
Supervisory accountant	2
Auditor	4
Accountant	10
Secretary-stenographer	2
Total	19

The section has two branches, namely, Accounting Systems Branch and Accounting Review Branch.

Accounting Systems Branch is responsible for the research and preparation of accounting rules and related regulations and the interpretation of the uniform systems of accounts and other regulations needed for accurate recording and reporting.

Accounting Review Branch is responsible for the review of reports of general examination of carriers' accounts and records as well as proposed accounting and statistical exceptions; the review of carriers' replies thereto containing journal entries, trial balances, and other data relative to the adjustment of their accounts, and preparation of further correspondence if required; and the review of letters from carriers containing entries and other data pursuant to the Commission's orders in finance proceedings.

Mr. EVINS. The principal function of the Bureau of Accounts are the cost findings, valuation and reporting necessary in the regulatory work, development of uniform system of accounts. You have tried to standardize this over the years. Statistical and accounting reporting requirements, examining the accounts, developing equitable and reasonable depreciation rate schedules, compilation of, publication of transportation statistics and analyzing cost evidence. I would think this would be one of your important functions, to analyze what they submit to you.

Mr. TUCKER. It is, sir.

Mr. EVINS. You have a lot of statistics, 241 jobs in 1967 and 245 requested. That is an increase of four in 1968. This is mostly statistical work. Do you need all these 245 people?

Mr. TUCKER. Well, we believe we do, Mr. Chairman. The increase we are requesting here relates to improving our cost finding ability. As I pointed out with new rate concepts coming in all the time——

Mr. EVINS. How do you use your computers in this area, the Bureau of Accounts?

Mr. TUCKER. We use computers to some extent.

Mr. Schmid?

Mr. SCHMID. Mr. Paolo can address himself to this.

Mr. PAOLO. Well, we use them in several areas, particularly in the publication of statistics area, some of our cost-finding work. We are in the midst now of mechanizing all of our statistical publications, which are quite voluminous. They deal in statistics regarding the entire surface transportation industry. In our cost work we have developed programs that are computerized and with the insertion of certain figures we can run costs through the computers and make certain checks in the cost area.

Mr. EVINS. Will there be some room for savings here in view of the new Department of Transportation?

Mr. PAOLO. The Department of Transportation, as I understand it, has not affected the Bureau of Accounts at this moment, but there will be a lot of close collaboration and cooperation in the type of data that both agencies might subsequently get from the industry.

Mr. EVINS. You maintain an inventory of pipeline properties. You have this in your accounts section.

Mr. PAOLO. This is in our Valuation and Depreciation Section, yes.

Mr. EVINS. The table on 84 shows the types. There were 5,266 transportation companies with gross revenues approximating $22 billion annually subject to our accounting rules, 4,229 were in the motor carrier field, 797 in railroads and allied companies, that is trucklines allied with the railroads. Others including waterlines, 92, pipelines, 87, and freight forwarders, 61. Well, that is an impressive volume of business that you supervise and regulate.

INTERPRETATION OF ACCOUNTS

This next page shows some of the items; interpretation of system of accounts. What is the nature of the interpretation of system of accounts?

Mr. PAOLO. Throughout the year we get many queries from the industry, from the 5,000 carriers for whom we prescribe accounting regulations, requesting special accounting treatment, and questions relating to interpretations of our prescribed uniform systems of accounts.

Mr. EVINS. Do you have standards? I like the word "standards" rather than guidelines. You have standards, systems, you acquaint them with these, and they pose certain problems as to whether or not this can be written off?

Mr. PAOLO. This is correct.

Mr. EVINS. What is the nature of the letters written to carriers, the Secretary's Office does this, doesn't he?

Mr. PAOLO. Well, as you know, part of our operation involves periodic examinations of carriers' accounts, as a result of which we correspond with the carrier requesting that they correct their accounts.

Also, we have letters answering their questions with regard to interpretations.

Mr. EVINS. Review of reports, there is another function you do there.

Mr. PAOLO. Correct.

Mr. EVINS. Now, you show major work in progress, contributions to charitable and educational groups. In other words, the railroad writes in and says, "We want to make a contribution to a charitable group; we want to know if this is proper accounting practice." Is this the nature of the inquiry?

Mr. PAOLO. This could well be. What we are listing here are projects that we feel are necessary in updating our systems of accounts. Theories change, practices change, new concepts come up and we are forever updating our uniform systems of accounts. We work closely with the accounting profession, the AICPA in this connection.

Mr. EVINS. Federal income tax disclosure to ICC, what is the nature of these projects?

Mr. PAOLO. As I say, these are projects regarding our accounting systems and also our reporting systems. We feel there is a greater need for better disclosure of the differences between tax and financial accounting.

Mr. EVINS. They file their reports with the IRS and if they are not right, the IRS checks them.

Do they write to the Commission for advice before they file their income tax?

Mr. PAOLO. No, they do not, sir.

Mr. EVINS. Do they after the income tax is filed?

Mr. PAOLO. They do not write to us regarding their tax returns, sir.

Mr. EVINS. Specifically, then, what is the nature of these projects?

Mr. PAOLO. This is a question of enlarging our reporting requirements so we have more data in the Commission with regard to the

differences between their tax returns and their financial statements that are submitted to the Commission.

There are certain benefits that they get for tax purposes that are not necessarily reflected in their accounting records, such as different types of depreciation and amortization, and investment tax credit. We like to know a little more about these things.

Mr. EVINS. Well, you have another section down here, studying costs of dismantling equipment.

Mr. PAOLO. It is a question of accounting for the cost of dismantling equipment. There are many thoughts and theories as to how this should be done.

Mr. EVINS. You write them back and say if you dismantle this, and sell it either at a private sale or an auction, you can write off so much?

Mr. PAOLO. Well, in accounting for equipment retired, some carriers dismantle the equipment, some sell it on the wheels. The question is how should the carriers account for the salvage value, whether this cost of dismantling should be considered in establishing a depreciation reserve, or whether it should be charged to current expenses as such. I think that is basically the question.

Mr. EVINS. This is sort of an advisory service to the railroads, when they abandon, so they can make up their income tax reports that will be in compliance with both bureaus of the Government.

Mr. PAOLO. We work closely with Internal Revenue to try to get both regulations in as close conformity as we possibly can.

Mr. BOLAND. What you are looking for here in these projects, as I understand it, is some uniform method of cost accounting so it will apply to all who are looking for rates or consideration by the Commission equally; isn't this what you are trying to do?

Mr. PAOLO. This is correct, this is why we prescribe a uniform system of accounts. The carriers account for their transactions on a uniform basis.

Mr. BOLAND. For instance, cars constructed in company-owned shops, you would like to get information with respect to what it costs. It probably costs less in a company-owned shop than in an outside shop and this is what you are trying to determine.

Mr. PAOLO. And also to revise our systems of accounts so we get uniform accounting by all carriers for cars constructed in company shops.

Mr. EVINS. The railroads have been around a long time. They should have pretty good standards by now.

Mr. PAOLO. Each carrier would like to handle the accounts the way they want to. This is the purpose of prescribing uniform accounting and reporting systems.

Mr. EVINS. You have several pages here, various types of projects. You think you need all these people to do all this advising?

Mr. PAOLO. Yes, sir.

SECTION OF COST FINDING

Mr. EVINS. Increasing personnel in the section of cost finding, page 94, place this in the record.

(The page follows:)

SECTION OF COST FINDING, BUREAU OF ACCOUNTS (ACTIVITY NO. 3)

The functions of this section include the analyses of cost evidence introduced in various proceedings; preparation, introduction and analyses of cost data and testimony in investigation proceedings instituted by the Commission; preparation and submission of cost data and analyses in connection with suspension and temporary authority cases; development of cost formulas; and production and publication of cost studies and related data.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison 1967 with 1968
Positions	54	54	61	+7
Personnel compensation	$478,010	$523,249	$575,564	+$52,315
Personnel benefits	35,211	39,500	43,447	+3,947
Total personal services and benefits	513,221	562,749	619,011	+56,262
Travel	3,720	5,800	6,300	+500
Total	516,941	568,549	625,311	+56,762

The increase of $56,262 for personal services and benefits is primarily for the 7 additional positions requested and for the cost of within-grade salary advancements. The increase of $500 for travel is requested for increased travel in connection with special cost studies.

The 1968 budget provides 61 positions for this section which is 7 more than currently authorized. The 61 positions requested are separated by categories as follows:

Supervisory cost analyst	4
Cost analyst	42
Statistical assistant	2
Statistical clerk	9
Secretary-stenographer	2
Clerk-stenographer	2
Total	61

The 7 additional positions are requested for reduction of pending matters, for new programs presently curtailed or deferred and to assist with special cost studies in connection with Commission investigations.

SAMPLING TECHNIQUES

Mr. EVINS. You give some illustrations of the various types of activities. Tell us about your sampling process. How do you employ sampling in your analyses; what is the technique? Sampling is talked about extensively in your budget.

Mr. PAOLO. In relation to our motor carrier cost work we have, as a practice, made samples of certain kinds of traffic data. For example, the time devoted to pick up and delivery by various size and various weight shipments. We also have time and motion studies with regard to line haul movements. We ask the carriers to make time and motion studies with regard to platform service; the movement of shipments across a platform. We have studies with

regard to their traffic characteristics. We have done this on a general simple sample basis previously, a sample of maybe 1 day per quarter or 2 days per quarter.

Mr. EVINS. The Commission does not do this sampling, they send out the instructions and they get the reports back?

Mr. PAOLO. That is correct. Now we are employing scientific sampling processes to try to obtain more accurate data.

BUREAU OF ECONOMICS

Mr. EVINS. Turn over to the economics division. This is another one of your divisions. Is the Bureau of Economics similar to the Bureau of Accounts?

Mr. TUCKER. No, Mr. Chairman. The Bureau of Accounts deals with carriers filing information.

Mr. EVINS. What are the responsibilities of the Bureau of Economics?

Mr. TUCKER. I think perhaps Director Margolin could supply that information. But I want to say the Bureau of Economics is really an internal research organ generally.

Mr. MARGOLIN. What we are concerned with primarily is what the trends are in the economy and the transportation industry and how this affects the Commission's activities and also the relationships between the carriers. You asked me this morning, I think it was, some of the things we were doing or contemplating. As I recall, I referred to three among other items. One was air-truck coordination and competition; secondly, we have underway a study of rail intramodal competition. Thirdly, I referred to the work that we are doing in the area of railroad mergers where we are assisting the examiners and the Commission.

Another illustration is a report we recently turned out in conjunction with the Civil Aeronautics Board and the Federal Maritime Commission relating to the REA (Railway Express).

No, coming back to the reference earlier to sampling, we have asked for some additional help——

Mr. EVINS. That is under the accounts section, is it not?

Mr. MARGOLIN. No, sir. We work with the cost-finding people in the Bureau of Accounts. One phase of the work concerns what we call probability sampling. To give you just a quick picture on that: As you know, the parties and the carriers are much more sophisticated than they were a few years ago. They come in with more elaborate evidence than heretofore. Requirements are greater. The Commission has greater requirements now; for example, when the motor carriers come in requesting increases. More and more they resort to probability sampling. This is a method whereby you do not have to bring in all of the information—only a representative portion. That used is selected scientifically under a technique called mathematical probability. So you can bring in much less in the way of information, if you have good data to begin with.

This saves time; it saves money; it assures more accuracy in the information, itself; and the reliability of the data may be tested.

So we are providing a lot of this assistance to Cost Finding Section, Bureau of Accounts, for their purposes, in a number of areas. Not only that, as I referred to a moment ago, since many of the carriers when they come in, for example, for increases, and opposing parties will present evidence using this form of sampling, the examiners, who, with all due apologies, are by and large attorneys——

Mr. EVINS. You have no need to apologize for the attorneys.

Mr. MARGOLIN. I am assuming you are a lawyer too, Mr. Chairman. But these are new techniques that are being employed. So more and more the examiners and the Commission are calling upon us, that is the Bureau of Economics, through our Mathematics and Statistics Section, to interpret this information, determine whether this is valid data, whether this is being presented properly, and the probable error of estimate in the particular case.

Mr. EVINS. How does the work of the Bureau of Economics differ from the work of the bureau of accounts?

Mr. MARGOLIN. It differs considerably. They are concerned with the system of accounts, cost-finding work, valuation work. We make, as I say, these basic research studies and analyses to help the Commission.

Mr. EVINS. You provide information for the commissioners and the chiefs of the other divisions. Do you send out letters and questionnaries to seek information?

Mr. MARGOLIN. No, information for the examiners, generally is presented as evidence. I referred this morning to a number of these railroad merger cases. The different parties, contending parties, present evidence which will show what the effect will be on their traffic, revenues, how much traffic they will lose, trying to gaze into the future, what the impact will be on them, what their savings may be. They will present a series of economic evidence, the effect on communities, location, regions, and so forth. You as carrier A, I as carrier B, may differ substantially. Now the examiner, when he looks at this economic evidence, wants to get some help to try to determine which of the alternatives is correct, if any of them are correct. We take such information as is developed in the record and interpret it and explain it to them.

This is becoming an increasingly important part of our work in the Commission's decisionmaking process.

Mr. EVINS. You are the economic adviser and the braintrust for the examiner. You help the examiner. You give him more brainpower.

Mr. MARGOLIN. We try to.

Mr. BOLAND. May I ask, what percentage of the work would be attributable to particular carriers—motor, railroad? What percentage of your work in the economic activity?

Mr. MARGOLIN. I would say, and I am guessing, frankly—casting my mind back over the past year—because of the large number of railroad merger cases in which we provided assistance, as well as in the car supply problems where we provided help, that about 50 percent of our work would be related to the rail area, about 30 to 35 per-

cent to motor carriers. We cover the water carriers, freight forwarders, REA and so on down the line.

Mr. EVINS. You say you are developing an administrative training program. What is the nature of your training program?

Mr. MARGOLIN. Is that under the Bureau of Economics?

Mr. EVINS. Yes, activity No. 3, develop training programs.

Mr. MARGOLIN. This goes back to the sampling that I referred to earlier, the so-called scientific sampling. Because the examiners are not too familiar with this we have suggested to the Commission that it would be a good idea to provide training for the hearing examiners, at least in terms of the principles that are involved in the new techniques that are being employed. In this way they can understand them a little better than they do now, and also gain more meaning from the interpretations or help they receive from us.

Mr. EVINS. Then you say the Bureau of Economics also handles all personnel matters of the Bureau. Do you have a personnel division?

Mr. MARGOLIN. No. The function you refer to is true of any particular operating bureau. We work with the Office of Personnel in the Managing Director's Office.

Mr. EVINS. It looks to me like there is a little duplication here in some of these bureaus. Place in the record pages 119 to 121.

(The pages follow:)

BUREAU OF ECONOMICS (ACTIVITY NO. 3)

This bureau has responsibility for conducting and reporting on economic, mathematical, statistical and related research and analytical work in the field of transportation. It renders advisory services to the Commission and its bureaus and offices in the field of economics, mathematics and statistics, provides proceedings support in those fields of interest, conducts the continuous sample of rail carload waybills, and defines requirements for economic information needed by the Commission for its regulatory purposes.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	50	50	53	+3
Personnel compensation	$526,761	$523,471	$550,915	+$27,444
Personnel benefits	38,845	40,202	42,271	+2,069
Total personal services and benefits	565,606	563,673	593,186	+29,513
Travel	3,725	2,300	2,500	+200
Total	569,331	565,973	595,686	+29,713

The increase of $29,513 for personal services and benefits is primarily for the three additional positions requested and for cost of within-grade salary advancements. The increase of $200 for travel is for the additional positions requested.

The 1968 budget provides 53 positions for this bureau which is three more than authorized for the 1967 fiscal year. The three additional positions requested are as follows:

Statistician	2
Secretary-stenographer	1
Total	3

Number of positions authorized for 1967 and requested for 1968

	Authorized, 1967	Requested, 1968	Increase, 1968
Director's Office	6	6	----------
Section of Mathematics and Statistics	6	9	+3
Section of Research:			
Section of Chief's Office	6	6	----------
Carrier Analysis Branch	9	9	----------
Special Projects Branch	9	9	----------
Waybill Branch	14	14	----------
Total, research	38	38	----------
Total	50	53	+3

DIRECTOR'S OFFICE

This office directs and supervises the work of the bureau. This office (1) develops plans, expedites, coordinates, controls and reviews the bureau's research, analytical and other work programs and advisory services; (2) administers all policy matters relating to the work of the bureau; (3) prepares work progress reports and direct activities related to manpower utilization and cost reduction programs; (4) develops and administers training programs; (5) consults and participates in meetings with other bureaus, Government agencies and industry on matters relating to the bureau's work; and (6) handles all personnel and administrative matters of the bureau.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	6	6	6	0
Personnel compensation	$81,136	$79,672	$79,856	+$184
Personnel benefits	5,980	6,019	6,032	+13
Total, personal services and benefits	87,116	85,691	85,888	+197
Travel	2,233	1,400	1,400	0
Total	89,349	87,091	87,288	+197

The increase of $197 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides six positions for this office which is the same as currently authorized, as follows:

Director	1
Assistant Director	1
Assistant to Director	1
Secretary, clerk-typist	3
Total	6

SECTION OF MATHEMATICS AND STATISTICS

This section has technical authority and responsibility for all statistical research, projects, methodology and applications of the bureau; it renders technical advisory services to the Commission in mathematics and statistics and provides for continuous improvement in the quality of the Commission's statistical data and for the expansion of the application of mathematics and modern statistical

theory and practices in research, information systems and other Commission activities.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	6	6	9	+3
Personnel compensation	$81,294	$82,558	$108,990	+$26,432
Personnel benefits	6,019	6,272	8,266	+1,994
Total, personal services and benefits	87,313	88,830	117,256	+28,426
Travel	653	400	600	+200
Total	87,966	89,230	117,856	+28,626

The increase of $28,426 for personal services and benefits is primarily for the three additional positions requested and for the cost of within-grade salary advancements. The increase of $200 for travel is to provide travel funds for the additional positions requested and for field trips in connection with the design, implementation and surveillance of probability samples.

The 1968 budget provides for nine positions which is three more than currently authorized. The nine positions are separated by categories as follows:

Supervisory statistician	1
Statistician	5
Digital computer systems analyst	1
Secretary (stenography)	2
Total	9

The three additional positions are needed to help reduce completion time of current matters, and to help expand requested applications of mathematics, probability sampling and control, and to help meet stringent time schedules and growing demands of the Commission. The requested staff increases will enable the Commission to start and implement a program of increasing use of probability statistics and mathematics in dealing with various aspects of traffic and transportation problems.

Bureau of Enforcement

Mr. Evins. Turn over to the Bureau of Enforcement, page 139 through 146.

You have 100 personnel in the Bureau of Enforcement. The section of Motor, Water and Forwarder Enforcement passes on the proposals of the bureau's regional attorneys and regional directors. You have nine positions in the water and forwarding enforcement. Then you have 14 in the Section of Rail Enforcement. You have 57 in the Section of Field Activity. Are most of the people in these Sections in the field?

Mr. Tucker. I believe most of them are, sir.

Mr. Schmid. There are 21 attorneys that will be under the new budget in the field. In addition to that, there are 18 special investigators and 18 clerical people. In the Washington staff there will be 26 attorney positions and the balance clerical.

Mr. EVINS. Could a man in the field in the Bureau of Enforcement handle water and freight forwarding enforcement?

Mr. SCHMID. He does handle some of those cases, yes. There are relatively few of those.

Mr. EVINS. You state here that seven positions are excluded for transfer to the Department of Transportation. So it would have been 107.

Mr. SCHMID. That is correct.

Mr. EVINS. The table on 146 shows at the beginning of fiscal 1966 on hand investigations were 798. You estimate 757 for 1968. So you will have less investigations. The Commission proceedings on hand at the beginning of the year, 186 in 1966, and estimated at the end of 1968, 177.

Put in tables 139 through 147 that shows your workload.

(The pages follow:)

BUREAU OF ENFORCEMENT (ACTIVITY NO. 2)

The primary objectives of this bureau are to enforce the criminal and penal provisions of Parts I, II, III, and IV of the Interstate Commerce Act and related acts such as the Elkins Act and the Clayton Anti-Trust Act; to enforce orders of the Commission; to assist in the enforcement of other statutes affecting transportation and carriers; and to represent the Commission in formal docket investigations instituted by it and specially assigned to the bureau.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966 [1]	1967 [1]	1968	Comparison, 1967 with 1968
Positions	100	100	100	0
Personnel compensation	$1,046,846	$1,153,493	$1,156,570	+$3,077
Personnel benefits	76,821	88,229	88,377	+148
Total personal services and benefits	1,123,667	1,241,722	1,244,947	+3,225
Travel	58,179	64,272	64,272	0
Total	1,181,846	1,305,994	1,309,219	+3,225

[1] For comparative purposes, 7 positions have been excluded for the fiscal years 1966 and 1967 for activities to be transferred to the Department of Transportation.

The increase of $3,225 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides for 100 positions which is the same as currently authorized. The 100 positions requested for fiscal year 1968 are as follows:

	Departmental	Field	Total
Director and assistant	3		3
Chief of investigations	1		1
Administrative officer	1		1
Attorney	23	21	44
Investigator		18	18
Clerical staff	15	18	33
Total	43	57	100

DIRECTOR'S OFFICE

The Director's Office is responsible for the overall effective management of the bureau. The clerical support for the departmental staff is located in this office. It is responsible for case control, leave records, personnel records, stenographic assistance for the attorneys and all other administrative activities.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	20	20	20	0
Personnel compensation	$177,275	$201,732	$202,190	+$458
Personnel benefits	12,621	15,004	15,038	+34
Total personal services and benefits	189,896	216,736	217,228	+492
Travel	3,844	3,900	3,900	0
Total	193,740	220,636	221,128	+492

The increase of $492 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 20 positions for this office which is the same as currently authorized. The 20 positions requested are separated by categories as follows:

Director	1
Assistant Director	1
Trial attorney	4
Chief of investigations	1
Administrative officer	1
Secretary-stenographer, clerk stenographer and clerk	12
Total	20

SECTION OF MOTOR, WATER AND FORWARDER ENFORCEMENT

This section directs the legal activities of the Commission in the enforcement of Parts II, III and IV of the Interstate Commerce Act and related acts involving motor, water and freight forwarder transportation, and performs what are essentially advisory, review and coordinating functions. It reviews and passes on the proposals of the bureau's regional attorneys and the regional directors of the Bureau of Operations and Compliance, and recommends court and Commission enforcement proceedings based on final investigation reports. In special situations, it directly participates in some court and Commission proceedings.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966[1]	1967[1]	1968	Comparison, 1967 with 1968
Positions	9	9	9	0
Personnel compensation	$112,804	$120,391	$120,731	+$340
Personnel benefits	7,955	8,919	8,922	+3
Total personal services and benefits	120,759	129,310	129,653	+343
Travel	819	850	850	0
Total	121,578	130,160	130,503	+343

[1] For comparative purposes, 1 position has been excluded for the fiscal years 1966 and 1967 for activities to be transferred to the Department of Transportation.

The increase of $343 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 9 positions for this section which is the same as currently authorized. These positions are separated by categories as follows:

Trial attorney	7
Secretary-steongrapher	2
Total	9

The section is composed of two branches—a Court Enforcement Branch and an Administrative Proceedings Branch. The addition of the water and freight forwarder matters to this section plus the increasing production by the field staff on motor carrier matters will be absorbed by the present staff.

The following figures reflect the continuous increase in motor carrier workload over the past five years:

Court cases concluded

Fiscal year:	
1962	774
1963	856
1964	896
1965	938
1966	987

SECTION OF RAIL ENFORCEMENT

This section directs the legal activities of the Commission in the enforcement of the provisions of Part I of the Interstate Commerce Act and related statutes such as the Elkins Act and the Clayton Anti-Trust Act; also participates in numerous rule-making and investigation proceedings before the Commission.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966 [1]	1967 [1]	1968	Comparison 1967 with 1968
Positions	14	14	14	0
Personnel compensation	$182,206	$192,179	$192,713	+$534
Personnel benefits	13,358	14,537	14,546,	+9
Total personal services and benefits	195,564	206,716	207,259	+543
Travel	3,174	3,247	3,247	0
Total	198,738	209,963	210,506	+543

[1] For comparative purposes, 1 position has been excluded for the fiscal years 1966 and 1967 for activities to be transferred to the Department of Transportation.

The increase of $543 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 14 positions for this section which is the same as currently authorized. The 14 positions requested are separated by categories as follows:

Assistant Director	1
Trial attorney	12
Secretary-stenographer	1
Total	14

Reports of investigations conducted by investigators of the bureau and other bureaus are analyzed, evaluated, and acted upon by the attorneys in this section. Many of these investigations involve complicated rebate and concession violations requiring careful analysis of factual data and detailed rate and tariff studies.

The Commission frequently directs the bureau to participate in important proceedings involving transportation by railroads, such as rail merger cases and rail

passenger abandonment cases. It is expected that the work of enforcing Commission service orders will increase substantially. The railroad car shortage problem is serious and chronic and will probably remain so for some years. More and more service orders will of necessity be issued and as the pressure from shippers for cars increases, more violations by the railroads are anticipated. Additionally, the recent amendment of Section 1 (14) (a) of the Act will increase the work of the Rail Section. This amendment effective September 1, 1966 authorized the Commission, after hearing, to prescribe so-called incentive per diem rates.

The following table shows the actual workload of the Section of Rail Enforcement for fiscal years 1964, 1965, and 1966, and estimates for 1967 and 1968:

	Actual			Estimate	
	1964	1965	1966	1967	1968
Investigations—					
On hand beginning of year	125	246	186	155	135
Instituted during year	321	319	180	190	210
Concluded during year	200	379	211	210	220
Pending at end of year	246	186	155	135	125
Court cases—					
On hand beginning of year	71	84	108	101	86
Instituted during year	84	100	62	70	90
Concluded during year	71	76	69	85	100
Pending at end of year	84	108	101	86	76
Commission proceedings—					
On hand beginning of year	11	11	8	6	7
Instituted during year	1	2	4	7	10
Concluded during year	1	5	6	6	9
Pending at end of year	11	8	6	7	8

FIELD STAFF

The attorney staff provides legal advice in connection with investigations of violations and makes recommendations with respect to enforcement action to be taken; prosecutes or assists United States Attorneys in the prosecution of civil and criminal proceedings in Federal Courts; and participates in Commission proceedings as counsel. The investigative staff conducts investigations of rail, water and freight forwarder matters; conducts selected motor carrier investigations of the more difficult type; and conducts special investigations of non-enforcement matters.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966 [1]	1967 [1]	1968	Comparison, 1967 with 1968
Positions	57	57	57	
Personnel compensation	$574,561	$639,191	$640,936	+$1,745
Personnel benefits	42,887	49,769	49,871	+102
Total personal services and benefits	617,448	688,960	690,807	+1,847
Travel	50,342	56,275	56,275	
Total	667,790	745,235	747,082	+1,847

[1] For comparative purposes, 5 positions have been excluded for the fiscal years 1966 and 1967 for activities be transferred to the Department of Transportation.

The increase of $1,847 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 57 positions for the field staff which is the same as currently authorized. The 57 positions requested are separated by categories as follows:

Trial attorney	21
Investigator	18
Secretary-stenographer, clerk stenographer and clerk	18
Total	57

As a result of the enactment of P.L. 89–170, the number of forfeiture proceedings brought under the amended provisions of Section 222(h) of the Act has increased. In addition, a series of private suits have been filed under Section 222(b)(2) which was added to the Act by the same public law. Although not large numerically, each such suit requires substantial consideration to determine whether this bureau should intervene in the name of the Commission, whether an administrative proceeding should be recommended and whether the Federal Court should be notified to withhold further judicial proceedings pending the conclusion of the Commission case.

The need for more detailed and lengthy preparation of cases involving agricultural cooperatives and pseudo-private carriers as a result of the decisions in the Northwest Agricultural case and the Shelby Biscuit case also places an additional burden of work on our existing staff.

The following table shows the actual workload of motor carrier investigations and court and Commission proceedings handled by field attorneys during fiscal years 1964, 1965 and 1966, and estimates for 1967 and 1968:

	Actual			Estimate	
	1964	1965	1966	1967	1968 [1]
Investigations—					
On hand beginning of year	893	873	798	767	757
Instituted during year	1,291	1,345	1,398	1,400	706
Concluded during year	1,311	1,411	1,429	1,410	738
Pending at end of year	873	807	767	757	725
Court cases—					
On hand beginning of year	478	449	477	550	493
Instituted during year	867	967	1,060	943	467
Concluded during year	896	938	987	1,000	514
Pending at end of year	449	478	550	493	446
Commission proceedings—					
On hand beginning of year	223	238	186	190	182
Instituted during year	168	144	172	172	89
Concluded during year	153	194	168	180	94
Pending at end of year	238	188	190	182	177

[1] Reflects transfer of motor safety functions to the Department of Transportation.

Following is a report of workload covering water carrier and freight forwarder matters for 1964, 1965, 1966 and estimates for 1967 and 1968:

	Actual			Estimate	
	1964	1965	1966	1967	1968
Investigations—					
On hand beginning of year	65	75	55	45	45
Commenced during year	33	40	8	10	12
Completed during year	23	60	18	10	15
Pending at end of year	75	55	45	45	42
Court cases—					
On hand beginning of year	6	3	8	6	5
Commenced during year	0	10	0	2	5
Completed during year	3	5	2	3	6
Pending at end of year	3	8	6	5	4
Commission proceedings—					
On hand beginning of year	11	14	13	12	10
Commenced during year	7	3	2	3	5
Completed during year	4	4	3	5	6
Pending at end of year	14	13	12	10	9

Statement of actual combined enforcement workload of the Bureau for fiscal years 1964, 1965, and 1966 and estimates for 1967 and 1968

	Actual			Estimate	
	1964	1965	1966	1967	1968 [1]
Investigations—					
On hand beginning of year	1,083	1,194	1,039	967	937
Instituted during year	1,645	1,704	1,586	1,600	928
Concluded during year	1,534	1,850	1,658	1,630	973
Pending at end of year	1,194	1,048	967	937	892
Court cases—					
On hand beginning of year	555	536	593	657	584
Instituted during year	951	1,077	1,122	1,015	562
Concluded during year	970	1,019	1,058	1,088	620
Pending at end of year	536	594	657	584	526
Commission proceedings—					
On hand beginning of year	245	263	207	208	199
Instituted during year	176	149	178	182	104
Concluded during year	158	203	177	191	109
Pending at end of year	263	209	208	199	194

[1] Reflects transfer of safety functions to the Department of Transportation.

Bureau of Operations and Compliance

Mr. Evins. Operations and Compliance, there are 353 positions in this Bureau. You have excluded 173 positions for transfer to the Department of Transportation.

Is that correct?

Mr. Schmid. That is correct.

Mr. Tucker. The 353 is the remainder.

Mr. Evins. That brings you down to the level of the last 2 years.

Mr. Tucker. The 353 reflects the transfer in each instance.

Mr. Schmid. That is correct, for all 3 years.

We had over 500 people in this Bureau before the shift to DOT.

Mr. Evins. Place in the record pages 148 and 149.

(The pages follow:)

Bureau of Operations and Compliance (Activity No. 2)

The duties of this bureau consist of the programs of the Commission under Parts I, II, III and IV of the Interstate Commerce Act insofar as they involve: advising the Commission concerning operations and practices of the surface transportation industries; initiating and administering the rules and regulations governing the filing and approval of security or insurance for the protection of the public and designation of agents for service of process; inspect operations and records of carriers and others in the field for compliance with requirements of the Act and regulations; investigate complaints of violations and unauthorized operations with regard to tariffs, rebates, accounts, insurance, annual reports, and extensions of credit; investigates and determines need for emergency transportation services during strikes, national emergencies or other disaster conditions; issues informal interpretations of Commission operating authorities and regulations affecting motor carrier, broker, water carrier and freight forwarder operations.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966 [1]	1967 [1]	1968	Comparison, 1967 with 1968
Positions	353	353	353	0
Personnel compensation	$3,070,799	$3,146,751	$3,159,856	+$13,105
Personnel benefits	227,480	243,238	253,990	+10,752
Total, personal services and benefits	3,298,279	3,389,989	3,413,846	+23,857
Travel	270,061	279,210	279,210	0
Total	3,568,340	3,669,199	3,693,056	+23,857

[1] For comparative purposes, 173 positions have been excluded for the fiscal years 1966 and 1967 for activities transferred to the Department of Transportation as follows:

Director's office	1
Field service staff	3
Explosives and dangerous articles	15
Motor carrier safety	38
Field staff	116
Total	173

NOTE.—The increase of $23,857 for personal services and benefits is primarily for the cost of within-grade salary advancements and employees' accident compensation payments.

The following table shows by sections of the bureau the number of positions requested for 1968:

	Requested 1968
Director's Office	7
Field service staff	2
Interpretations staff	9
Insurance	31
Water carriers and freight forwarders	5
Field staff	299
Total	353

SECTION OF INSURANCE

Mr. EVINS. Section of Insurance, you estimate 31 positions in this Section which is the same as currently authorized. Place page 154 in the record.

(The page follows:)

SECTION OF INSURANCE, BUREAU OF OPERATIONS AND COMPLIANCE (ACTIVITY NO. 2)

The major function of this section is to administer the Commission rules and regulations issued pursuant to Sections 211(c), 215, 221(c) and 403(c) and (d) of the Act, governing filing and approval of security and designation of process agents for the protection of the public by brokers of transportation, motor carriers, and freight forwarders.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	31	31	31	0
Personnel compensation	$191,574	$196,555	$197,006	+$451
Personnel benefits	13,922	14,757	14,790	+33
Total, personal services and benefits	205,496	211,312	211,796	+484
Travel	612	1,000	1,000	0
Total	206,108	212,312	212,796	+484

The increase of $484 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 31 employees for this section which is the same as currently authorized. The 31 positions requested are separated by categories as follows:

Chief of section	1
Assistant chief of section	1
Secretary-stenographer	1
Insurance examiner	3
Clerk	25
Total	31

All functions of this section are directly connected with the administration of statutory requirements of the Interstate Commerce Act. Its workload is determined by uncontrollable factors which factors have been increasing steadily for several years. Some of the items involved are emergency, temporary and permanent operating authorities, transfers of authority and activities of insurance companies (particulary mergers of companies and changing underwriting practices). The section has previously been able to absorb the increase by internal improvement in methods of handling and consolidation of functions. However, all such methods have been exhausted.

SECTION OF WATER CARRIERS AND FREIGHT FORWARDERS

Mr. EVINS. Section of Water Carriers, page 156, five jobs.
(The page follows:)

SECTION OF WATER CARRIERS AND FREIGHT FORWARDERS, BUREAU OF OPERATIONS AND COMPLIANCE (ACTIVITY NO. 2)

This section assists in the formulation of policy and the administration of parts III and IV of the act, in the regulation of water carriers and freight forwarders. It is the principal office of the Commission for advice relative to matters involving the water carrier and freight forwarder industries.

The principal duties of the section are briefly described as follows:

1. Administrative handling of water carrier and freight forwarder applications, preparation of reports and orders in exemption application cases filed by water carriers, processing of applications of such carriers for temporary authority, and makes recommendations and processes revocation of water carrier and freight forwarder certificates and permits.

2. Advises the Commission, including the field staff, on matters affecting water carriers and freight forwarders; and furnishes information on such matters to other agencies of the government and the public.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	5	5	5	0
Personnel compensation	$45,233	$41,367	$41,456	+$89
Personnel benefits	2,955	2,902	2,909	+7
Total, personal services and benefits	48,188	44,269	44,365	+96
Travel	32	0	0	0
Total	48,220	44,269	44,365	+96

The increase of $96 for personal services and benefits is primarily for cost of within-grade salary advancements.

The 1968 budget provides five positions for this section, which is the same as authorized for the current fiscal year. The five positions requested for 1968 are separated by category as follows:

Chief of section	1
Adjudicator	1
Clerk	3
Total	5

INVESTIGATION OF CARRIER OPERATIONS

Mr. EVINS. Tell us for the record the nature of some of the work in this field and some of your recent cases.

Mr. TUCKER. Mr. Meyer.

Mr. MEYER. In the water carrier field.

Mr. EVINS. Section of water carrier and freight forwarders.

Mr. MEYER. Most of those investigations relate to unlawful freight forwarders or alleged shippers association where they form together to pool traffic but actually it results in unlawful freight forwarder operation. We have a number of those cases now pending where investigations have been made. We make the investigation, gather all the facts and then it goes to the Bureau of Enforcement.

Mr. EVINS. Does this include bargeline shippers?

Mr. MEYER. Bargeline shippers, any kind of shippers, freight forwarders, water carriers.

Mr. EVINS. You make an investigation. Give us a specific case.

Mr. MEYER. A group in Chicago, for example, were assembling traffic and shipping it to the west coast; they were putting it together and shipping it as a shipper's association. We had to investigate the thing on both ends of the country and run all the facts together. That is before the Commission now. We think it is unlawful freight forwarder operation. Until the Commission decides whether it is or not, in many of those cases there is a fine line, we cannot be certain.

Mr. EVINS. Is it a combination of land and water?

Mr. MEYER. That is right.

Mr. EVINS. In all cases?

Mr. MEYER. Not all cases. Some are all by rail, some ship by motor, and some by water. It could be any of the three.

Mr. MINSHALL. Would you yield, Mr. Chairman?

Mr. EVINS. Yes.

Mr. MINSHALL. How big is the operation that you just described?

Mr. MEYER. It is a sizable operation. I do not recall the gross revenue. But it was in many, many thousands of dollars.

Mr. EVINS. Give us an example which is within your jurisdiction of a water carrier with an illegal operation shipping down the Mississippi River.

Mr. MEYER. Actually I do not recall having such a water carrier.

Mr. EVINS. This section is the section on water carriers. There is not much activity in the water carrier field.

Mr. MEYER. Not a great deal. It is water carrier and freight forwarder. That is all lumped together in the one section.

Mr. TUCKER. On the other hand you might do investigatory work with respect to a water carrier temporary authority application.

Mr. MEYER. That is right. There are a lot of exemptions there. They may apply for an exemption from the regulations. We would have to make an investigation to determine whether they were entitled to the exemption or not.

Mr. EVINS. You say you expect 80 proceedings in this area in the next 2 years?

Mr. MEYER. That is our estimate; yes.

Mr. TUCKER. That would be in the case of dormancy, Mr. Chairman.

Mr. EVINS. I think we need a more specific illustration of a water carrier investigation.

Mr. MEYER. For example, we get applications for temporary authority. We get applications for operating authority.

Mr. EVINS. You get an application from an already certificated carrier.

Mr. MEYER. Possibly or possibly one who is not certificated.

Mr. EVINS. You ship *x* goods from one point to another?

Mr. MEYER. That is right.

Mr. EVINS. You investigate to see if he is competent and capable and qualified?

Mr. MEYER. And the existing service is not adequate to meet the shipper's needs.

Mr. EVINS. If the existing service is not adequate then and if he is otherwise qualified, you grant him a certificate for this particular operation.

Mr. MEYER. We recommend him if it is a temporary authority. If it is a permanent authority, it goes through the regular Proceedings Bureau. This is temporary authority we handle.

Mr. EVINS. Every now and then a Congressman gets a letter saying our people are starving for service up in this area. How can we get freight service? How do we answer those people?

Mr. MEYER. Have them file an application for temporary authority and if they are starving for service, we would recommend that it be granted.

Mr. EVINS. That is fine. Thank you.

Mr. MINSHALL. How long would it take from the time you received the complaint until the application could be granted?

Mr. MEYER. If we got the complaint it would depend on how quick somebody was willing to provide the service and file the application.

After we get the application, it would be a matter of a week or two.

Mr. BOLAND. Do many of the temporary-authority applications ripen into permanent ones?

Mr. MEYER. Most of them do. Some are one particular movement. Generally, they are a prelude to a permanent-authority application.

FIELD STAFF

Mr. EVINS. 159 and 161 in the record.

(The pages follow:)

FIELD STAFF, BUREAU OF OPERATIONS AND COMPLIANCE (ACTIVITY NO. 2)

The major objectives of the field staff are to: (1) administer and enforce at the field level, the provisions of Parts II, III, IV and Part I, section 5a, of the Act and the regulations of the Commission prescribed pursuant thereto; (2) furnish advice and counsel to carriers and the public having to do with these Acts and regulations; (3) gather information concerning general and special conditions affecting transportation regulation and service to the public; (4) assist other offices, bureaus or sections in Washington in the handling of matters affecting transportation; and (5) keeping up liaison with government officials as to things of mutual interest and with industry leaders.

The field staff conducts inspections and investigations of the operations of motor carriers, water carriers, freight forwarders, and rate bureaus to ascertain their complaince with the law and regulations including: (1) posting and adherence to rate and tariff schedules, filing of insurance and process agents, operating in accordance with authority; makes reports and recommendations on applications for temporary operating authority; prepares investigation reports; recommends enforcement actions or other proceedings respecting these matters; (2) examines the operations of water carriers, freight forwarders and rate bureaus to inform them of the requirements of the Act and Commission regulations and to discover unauthorized operations or violations with respect to tariffs, rebates, accounts, annual reports, extension of credit and compliance under approved collective rate making agreements; and (3) perform inspections and investigations of operations and compliance of carriers under Part I of the Act.

The field staff consists of 299 employees located in 82 different locations in the United States—one or more field offices in all States except Delaware, Hawaii and Vermont. Field personnel consist of regional directors, district supervisors, rate agents, and clerical personnel for carrying out regulatory work in the field.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966 [1]	1967 [1]	1968	Comparison, 1967 with 1968
Positions	299	299	299	0
Personnel compensation	$2,627,041	$2,706,327	$2,718,213	+$11,886
Personnel benefits	195,813	210,298	220,960	+10,662
Total, personal services and benefits	2,822,854	2,916,625	2,939,173	+22,548
Travel	263,412	272,610	272,610	0
Total	3,086,266	3,189,235	3,211,783	+22,548

[1] For comparative purposes, 116 positions have been excluded for the fiscal years 1966 and 1967 for activities to be transferred to the Department of Transportation.

The increase of $22,548 for personal services and benefits is primarily for the cost of within-grade salary advancements and employees' accident compensation payments.

The 1968 budget provides 299 positions for the field staff which is the same as currently authorized. The 299 positions requested for 1968 are separated by categories as follows:

	Requested 1968
Regional director	13
Assistant regional director	1
District supervisor	124
Rate agent	13
Administrative assistant	1
Chief clerk	4
Clerk, stenographer & typist	143
Total	299

Of the currently authorized staff of 124 district supervisors, 24 are without territorial assignment, and who conduct time-consuming and complex enforcement investigations, make compliance surveys and examine vehicles and drivers to detect unlawful transportation activities in concentrated carrier and shipping areas where the field work is heaviest. The other 100 supervisors are assigned field territories or areas for which they are responsible for over-all administration and enforcement work.

The field staff was increased to about the present level by recruitment in the calendar years 1955, 1956 and 1957. At the time there were 67,028 motor carriers (certificated, private and exempt) of record with the Commission.

From the date of enactment of the Motor Carrier Act (now Part II of the Interstate Commerce Act) to about 1958 practically all of the field staff time was devoted to administration and enforcement of the Act and the Commission's regulations with respect to certificated carriers. Thus, each supervisor worked with an average of approximately 200 such carriers.

Since 1958 the field work pattern has changed substantially. After 22 years under regulation, the certificated carriers were found to require less attention, but the private and exempt carriers require more attention.

Although private and exempt carriers are basically subject to safety regulations only, the work with respect to such carriers cannot be confined to safety work. Because of the widespread complaints against the practices of private and exempt carriers who perform transportation for compensation without operating authority, it is necessary to determine in each case whether they are in fact private or exempt carriers. Carriers in each group engage in leasing and buy-and-sell practices, operate as agricultural cooperatives, or transport nonexempt commodities, thus forming the major basis for the so-called "gray area" operations. Carriers of these types generally lack records to establish the true nature of their operations, therefore, much time is required to determine their status and to administer and enforce the Interstate Commerce Act and the Commission's regulations. Complaints are made by certificated carriers, State officials, and the public. Many are received in the form of State regulatory reports, and others are discovered by the field staff in their normal driver-vehicle inspection and other activities. Since 1958 the majority of complaints against private and exempt carriers have involved those not previously the subject of attention by the Commission's staff. It is necessary to advise them that their operations are unlawful and to warn them of the possible penalties for the continuance thereof. As of now when such complaints are received, many involve repeated offenders, thus a preliminary investigation must be made to determine whether enforcement action in court or Commission proceedings is warranted.

Because of this situation, it has been established that there is little if any distinction in the amount of field work and time required between certificated, private, and exempt motor carriers. The ratio of private and exempt carriers to certificated carriers is now approximately five to one. Thus it can be seen that a vast amount of time is required to perform essential work with respect to the private and exempt carriers of record with the Commission.

The major portion of the field work relates to applications, accounts, tariffs and schedules, insurance, complaints, and investigations received by the Commission from authorized carriers, State officials, and the public. The field staff has no discretion as to the performance of work in connection therewith.

Experience over a period of many years has demonstrated that periodic compliance and enforcement examinations are essential to a reasonable degree of

compliance. Laxity on the part of carriers and a disregard for regulations follow long periods in which they receive no attention from the Commission's staff.

It is our judgment, therefore, that an examination in some of the major work areas at least each three or three and one-half years is essential to keep the carriers conscious of the lawful requirements. Only when contacts are made on a periodic basis are the carriers inclined toward an acceptable degree of voluntary compliance. Likewise, only by the development and maintenance of a reasonable amount of voluntary compliance can the regulatory job, as provided in the National Transportation Policy declared by the Congress, be realized in a satisfactory manner. A program of work such as proposed is the only manner which assures an acceptable degree of compliance with the Act and the regulations prescribed thereunder.

Bureau of Railroad Safety and Service

Mr. Evins. Railway Safety and Service, this is the Bureau that is being practically abolished because it is being transferred to the Department of Transportation. Yet you ask for 90 positions in the Bureau of Railroad Safety and Service. How do you justify 90 positions when you tell us this is being transferred to the Department of Transportation.

Mr. Tucker. We are retaining perhaps the most critical function in the present Bureau, Mr. Chairman, the Car Service function. We are retaining that intact.

We are retaining the entire responsibility. This is really a minimum amount of people for what we have to do. Every Car Service agent we have means less problems we will have with the amount of freight car shortage from day to day . This is just plain hard work in this area. We are retaining that.

Mr. Evins. There are 240 positions excluded in the budget to be transferred to the Department of Transportation.

In the Director's Office, 10 go out, Locomotive Inspection, 101, and Railroad Safety, 129, for a total of 240 and still leaves in the Bureau 90 personnel.

Mr. Tucker. That is right. All of those people relate to Car Service, Mr. Chairman.

CAR SERVICE ACTIVITIES

Mr. Evins. Let us have more detail on Car Service.

Mr. Pfahler. Car Service refers to the availability of cars or the boxcar situation, as we knew it so critically last spring. I think that is the best example I can offer to the committee.

Mr. Evins. What about pullman car service?

Mr. Pfahler. No, sir.

Mr. Evins. You are not concerned with that?

Mr. Pfahler. The law does not give us any control over pullman service, only the freight cars.

Mr. Evins. Who does have any authority over pullman car service? Is there a hiatus?

Mr. Tucker. We do not have any.

Mr. Pfahler. The railroads themselves. The Commission has authority under the train-off provisions of the Act for the removal of trains, but the condition or supply of passenger train equipment is not given to the Commission under the law. We have very persua-

sive powers under some of our other laws, such as the car service provisions of the Act.

Mr. EVINS. The Car Service Section in the future will be concerned with the incentive payments to move the excess freight cars to areas where there is a critical shortage and need.

Mr. PFAHLER. Only partly. We have other day-to-day problems, whether there are incentives or not, of distributing and assuring an equitable car supply. It may not be a full car supply, but at least it will be equitable between the various parts of the country. We also in the Bureau in the Car Service Section do the railroad regulatory investigations for railroads similar to what Mr. Meyer has described his people do in the Bureau of Operations and Compliance on water carriers, freight forwarders, and motor carriers.

Mr. EVINS. The question is whether a freight car is obsolete and worn out. That is no longer a matter of decision for the ICC as it concerns safety.

Mr. PFAHLER. No, sir, and it is not anyway. The safety laws are very specific laws and do not come to the total condition of the car.

Mr. EVINS. Each company decides that individually. We want to run x car as long as we can, we want to get as much mileage as we can, and we will decide if it is 90 or 80 or 70 percent worn out when we abandon it.

Mr. PFAHLER. Yes, sir.

Mr. EVINS. That is a managerial decision.

Mr. PFAHLER. Yes, sir.

Mr. EVINS. The safety section used to check the brakes.

Mr. PFAHLER. We still do that. That will go to the Department of Transportation.

Mr. TUCKER. If it is a freight car, we will still be concerned whether it is in motion, whether it has been held up unnecessarily. That is the kind of thing that these people have to do.

Mr. EVINS. You have that information available in the Commission to use whenever it is necessary.

Mr. PFAHLER. Yes.

Mr. BOLAND. Why was not this activity transferred to the Department of Transportation?

Mr. PFAHLER. Why was it not?

Mr. BOLAND. Yes.

Mr. PFAHLER. That was the wisdom of Congress.

Mr. TUCKER. It was one of the issues, Mr. Boland. The majority of the Commission recommended that it be transferred, if I recall correctly.

Mr. BOLAND. There must have been some lobbying done.

Mr. SCHMID. It was also part of the administration bill.

Mr. TUCKER. That is right. The Administration recommended that it be transferred.

Mr. EVINS. The ICC did, too.

Mr. TUCKER. A rather close majority of the Commission did. There is an argument, Mr. Chairman, that this is economic regulation as distinguished from the pure safety responsibility which went over.

Mr. BOLAND. This is probably the reason why it was reserved for the ICC.

Mr. TUCKER. In substance that was the reason.

Mr. EVINS. Why couldn't this be consolidated with your field operations?

Mr. TUCKER. We are working on that right now, Mr. Chairman, a consolidation of this area. As I say, I hope to have something further for you in a couple of weeks.

Mr. EVINS. The chart on 171 shows that 73 are in the field and 13 are in the Department for a total of 86.

There are 55 safety and service agents. That would indicate that they are still in the field of safety. We will place this in the record, 169 through 174.

(The pages follow:)

BUREAU OF RAILROAD SAFETY AND SERVICE (ACTIVITY NO. 5)

The primary work performed by this bureau includes enforcement of car-service regulations designed to increase the utilization of railroad rolling stock.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966 [1]	1967 [1]	1968	Comparison, 1967 with 1968
Positions	90	90	90	0
Personnel compensation	$1,002,207	$1,002,957	$1,026,162	+$3,205
Personnel benefits	72,641	84,198	84,437	+239
Total personal services and benefits	1,074,848	1,107,155	1,110,599	+3,444
Travel	117,640	121,750	121,750	0
Total	1,192,488	1,228,905	1,232,349	+3,444

[1] For comparative purposes, 240 positions have been excluded for the fiscal years 1966 and 1967 for activities to be transferred to the Department of Transportation as follows:

Director's office	10
Locomotive inspection	101
Railroad safety	129
Total	240

The increase of $3,444 is primarily for the cost of within-grade salary advancements.

The Bureau of Railroad Safety and Service consists of two organizational units. The following statement shows by units the number of positions authorized for 1967 and those requested for 1968:

	Authorized, 1967	Requested, 1968
Director's office	4	4
Section of car service	86	86
Total	90	90

Director's Office, Bureau of Railroad Safety and Service (Activity No. 5)

The Director's Office exercises guidance and direction over the entire railroad car service program of the Commission. The Director has specific authority for the coordination of the field work and all administrative activities of the Bureau.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966 [1]	1967 [1]	1968	Comparison, 1967 with 1968
Positions	4	4	4	0
Personnel compensation	$36,631	$50,547	$51,285	+$738
Personnel benefits	2,565	4,081	4,135	+54
Total personal services and benefits	39,196	54,628	55,420	+792
Travel	558	500	500	0
Total	39,754	55,128	55,920	+792

[1] For comparative purposes, 10 positions have been excluded for the fiscal years 1966 and 1967 for activities to be transferred to the Department of Transportation.

The increase of $792 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The four positions requested in the 1968 budget for the Director's Office are as follows:

Director	1
Assistant director	1
Field assistant	1
Secretary-stenographer	1
Total	4

The assignment of work to the Railroad Safety and Service Board to handle certain proceedings in connection with car service matters has continued to be absorbed by the present staff.

Section of Car Service, Bureau of Railroal Safety and Service (Activity No. 5)

This section administers the provisions of Section 1, Paragraphs 10 to 17(a), inclusive, of the Interstate Commerce Act, which comprise both the normal regulatory authority and the emergency powers of the Commission with respect to car service. It prepares regulations and emergency orders regarding the use, supply, movement, distribution, interchange, and return of locomotives, cars, and other vehicles used in the transportation of property. The policing of these orders is done by a field force of Safety and Service Agents who work directly with individual railroads and industries in handling problems relating to freight car supply and the movement of traffic.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	86	86	86	0
Personnel compensation	$965,576	$972,410	$974,877	+$2,467
Personnel benefits	70,076	80,117	80,302	+185
Total personal services and benefits	1,035,652	1,052,527	1,055,179	+2,652
Travel	117,082	121,250	121,250	0
Total	1,152,734	1,173,777	1,176,429	+2,652

The increase of $2,652 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget requests a total of 86 positions for this section, separated into 13 departmental and 73 field employees as follows:

	Departmental	Field	Total
Assistant director	1		1
Assistant chief of section	1		1
Chief of branch	2		2
Transportation analyst	4		4
Secretary	1		1
Clerk	1		1
Regional director		2	2
Regional supervisor		5	5
Safety and service agent		55	55
Clerk-stenographer	3	11	14
Total	13	73	86

The activities of the Section of Car Service are directed toward efficiency and economy in car service. Through its experienced and trained field force, strategically located at important rail points, it polices the rail carriers' compliance with the provisions of the Interstate Commerce Act; and assists carriers and shippers alike in securing greater use of the existing supply of freight cars.

Special emphasis is placed upon (1) the carriers' duty to furnish adequate car service, (2) the need for maximum utilization of the available cars, (3) holding the number of cars in need of repairs to a minimum, and (4) securing an equitable distribution of cars among railroads and among shippers.

The section works closely with the railroads, both directly and through the various railroad associations. There are also frequent contacts with shippers and shipper associations.

The substantial decrease in freight car ownership during the past 10 years, combined with the high levels of agricultural production and general business activity, has resulted in a substantial increase in the number of inquiries and complaints received from the shipping public. Each complaint is investigated by the field personnel, who can normally satisfy the complainant by prevailing upon the carrier to adjust its operations. When serious carrier failures are found or when the carriers' local personnel are unable to take corrective action, the facts developed are referred by the Washington office to appropriate carrier executives.

The section regularly assists in the assembling of cars required for movement of seasonal traffic such as grain in the Midwest and the Western States, perishables in the Far West and Southern regions, cotton and tobacco in the South, lumber and forest products in the Western and Southern areas, and coal and ore during heavy seasonal peaks.

An important function of the section is the policing of the carriers' compliance with tariff provisions governing demurrage, switching, transit privileges, etc., in order to secure prompt release of cars for subsequent use. Frequently, the section prepares and recommends the issuance of service orders or distribution directions to secure more efficient and more equitable utilization of freight cars. The field personnel are required to conduct regular checks of carriers' compliance with these orders and directions to achieve maximum effectiveness.

Railroad transportation activities of the Section of Car Service not previously included in the establishment of conventional car service manpower requirement include:

1. Piggyback service in its various forms
2. Multi-level auto-rack service
3. Train-ship, rail-barge, and other forms of direct rail-water services

Piggyback movements now exceed 1 million cars annually, involving nearly 2 million trailers and containers. Multi-level automobile cars now transport over 3 million automobiles and trucks, or equivalent to 250,000 freight cars annually.

Policing of the rail carriers' activities in these particular fields can no longer be conducted as an incidental duty, but must be programed along with other regular car service duties. This additional workload is estimated at about 5 percent of the time presently alloted to car service activities.

Since 1957 the economy of the country has grown tremendously. During this period the carriers' car fleet has dwindled to a point where it is now woefully inadequate to meet the demands. In the past 10 years the total car fleet has been reduced by approximately 230,000 cars and the aggregate capacity declined by 4,558,000 tons. This condition requires that the utmost utilization be made of the available car supply.

For many years car shortages were confined to agricultural production and occurred during overlapping harvest seasons. For the past 2 years this has not been true. Instead, the situation has developed into a chronic shortage of all types of railroad freight cars, which has necessitated a broadening of the duties and responsibilities of our safety and service agents. Considerable time must be spent in uncovering inefficient car handling practices and ferreting out delays in order to make more cars available.

Numerous irregularities bring into broad focus the work of our agents in promoting good car utilization. One large eastern carrier during the past year had 150 boxcars held excessively for cleaning and/or light repairs at several points within a radius of 200 miles—primarily as a result of reduction in cleaning and shop-track personnel because of budgetary limitations. Our handling with top operating officials restored two-thirds of these cars to service in less than 2 days and the remainder in less than a week; and the furloughed employees were immediately brought up to their previous strength. A similar situation on the same railroad involving badly snarled floating operations was promptly corrected by our intervention.

Similar situations develop on most lines where cars are delayed for various reasons: prospective loading; placing and pulling; sluggish yard movement; movement from hold and inspection tracks; cleaning; weighing; movement to and from repair tracks and in making repairs and inspection for commodity loading. All of these conditions can be detected only by on-the-ground checks.

Another instance of effective action of the Section of Car Service in making cars available for loading is in Service Order No. 979, which increased demurrage charges.

For example, on a switching line in New York State 512 cars were unloaded by two receivers in February, 1966. Of these, 325 (63.5 percent) were held a total of 1,402 car days after the expiration of free time, an average delay per car of 4.3 days. In June, 1966 these two industries unloaded the exact same number of cars, 512; but only 165 cars (32.3 percent) were held beyond the free time and only 588 car days were accumulated after the expiration of free time. A total of 814 car days was saved in the unloading of 512 cars as a result of the effective policing by our agents. This is the equivalent of adding more than 40 cars to the national pool as a result of faster release of cars by only two receivers at one station.

Public Law 89-430, directing the Commission to consider the adequacy of freight car ownership, car supply, car shortage, etc., in the establishment of car rental charges, will require the staff of the Section of Car Service to maintain current records of each railroad's ownership of each of the various types of freight cars; its use of cars; its repair status; its needs, as measured by car-loading forecasts and by its reported surpluses and shortages of cars; and its possession of such cars owned by itself and others.

Mr. EVINS. Public Law 89-430 directs the Commission to consider the adequacy of freight car ownership, car supply, and car shortages. We have talked about that earlier. What is the Commission going to report?

Mr. TUCKER. As I pointed out, we have a case going on right now that is rather heavy, large, and complex. We do not look to finishing that up within the next few months.

Mr. EVINS. In any event, following the passage of the law, the pressure has eased off and the car supply has been, at least, alleviated somewhat. The overall report is still available.

Mr. TUCKER. I would not suggest that the law has changed the car shortage.

Mr. EVINS. There was a demand and pressure for it at the time that, perhaps, does not exist today and you are in an objective study and your report is not completed?

Mr. TUCKER. That is right, sir.

BUREAU OF TRAFFIC

Mr. EVINS. The Bureau of Traffic, pages 180 and 181.

(The pages follow:)

BUREAU OF TRAFFIC (ACTIVITY NOS. 1 AND 4)

The program and performance of this bureau are under two activities: Activity No. 1—Regulation or carriers' rates, practices, operating authorities and finance, which includes the Board of Suspension and the Fourth Section Board; and Activity No. 4—Supervision and interpretation of tariffs, which includes the Director's Office and Sections of Rates and Informal Cases and Tariffs.

This bureau receives and processes all freight rate and passenger fare tariffs and schedules of compensation which the carriers are required to file under the Interstate Commerce Act. These tariffs and schedules are prepared by carriers and their agents and must conform with the rules and regulations prescribed by the Commission governing the construction and filing of tariffs. The bureau also receives and processes (1) all applications filed by the carriers for relief from the provisions of Sections 6, 216, 306 and 405 of the Act relative to notice and the form and content of tariffs; (2) applications filed by rail and water carriers for relief from the provisions of Section 4; (3) requests by shippers, carriers and others for the suspension and investigation, under Sections 15, 216, 218, 307 and 406, of proposed rates and other charges published in tariffs or schedules filed but not yet effective; (4) informal complaints and special docket applications; and (5) considers applications made under Section 20 (11), Section 219 and Section 413, so far as relating to applications for authorization to establish released rates and ratings.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison, 1967 with 1968
Positions	252	252	252	0
Personnel compensation	$2,070,038	$2,119,445	$2,124,325	+$4,880
Personnel benefits	151,508	159,673	160,037	+364
Total personal services and benefits	2,221,546	2,279,118	2,284,362	+5,244
Travel	334	1,000	1,000	0
Total	2,221,880	2,280,118	2,285,362	+5,244

The increase of $5,244 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The following table shows by organization the number of positions authorized for fiscal year 1967 and those requested for 1968:

	Authorized 1967	Requested 1968
Director's Office	7	7
Board of Suspension	45	45
4th Section Board	11	11
Section of Rates and Informal Cases	65	65
Section of Tariffs	124	124
Total	252	252

Improved manpower utilization was accomplished by the bureau during fiscal years 1965 and 1966. Through a continuing management improvement and manpower utilization program, whe have been able to handle an increased workload as well as to reduce our staff by five technical positions. Much of the work product of this bureau is of such a nature that an accurate work production measurement is not feasible; however, improvements in internal procedures, more intensive training, increased use of forms, and other economies have resulted in an improved work product with full utilization of available manpower.

It should be noted that additional positions are not being requested, even though increases in receipts occurred in several activities of this bureau during fiscal year 1966 as compared to 1965. In addition, we have been able to reduce proportionately the backlog of informal cases and special dockets; to examine tariff filings to greater depth; and to increase the number of criticisms.

Mr. EVINS. You have 252 positions. Activity No. 1 is concerned with the regulation of carriers' rates, and so forth. This is the Traffic Bureau. Activity No. 4 is the supervision and interpretation of the tariffs. I note on page 190 that you have a Division of Rates and Informal Cases within the Bureau of Traffic Activity. Now, look back to page 65, you have a Section here of Rates and Practices. Is there any duplication?

Mr. TUCKER. No; there is not. The Section on Rates deals with formal rate cases.

Mr. EVINS. Formal rate cases?

Mr. TUCKER. With rate cases, the Bureau of Traffic deals with the filing of tariffs, whether the filings are proper and the initial aspect of that filing. Whether or not it violates the fourth section and whether or not it ought to be suspended. The relationship would be in the immediate aspect of filing. For example, a tariff is filed and the Bureau of Traffic checks whether it is proper and also they have a Board of Suspension in here that determines whether or not it will recommend suspension. There is a relationship in subject matter but not the function.

Mr. EVINS. One is more or less formal and the other is informal.

Mr. TUCKER. One has to do with the initial filing of a tariff and its examination and the other has to do with contested tariff cases or rate cases.

Mr. EVINS. You have 65 personnel in the Section of Rates and Informal Cases.

Looking at the chart on page 194, you have on hand at the beginning of the year in 1968, 600 cases. On hand at the end of the year is also 600. Naturally, you expect to have a lot of cases received and disposed of during the year. However, you haven't reduced your backlog. You started out with 200 and you anticipate on hand at the end of the year 200. We will place this page in the record.

(The page follows:)

Informal Cases Branch

	Actual			Estimate	
	1964	1965	1966	1967	1968
On hand beginning of year:					
Special dockets	759	568	473	271	200
Informal complaints	885	726	422	420	400
Total	1,644	1,294	895	691	600
Received during year:					
Special dockets	760	676	508	609	600
Informal complaints	1,412	1,559	1,921	1,980	1,800
Total	2,172	2,235	2,429	2,589	2,400
Disposed of during year:					
Special dockets	951	771	710	680	600
Informal complaints	1,571	1,863	1,923	2,000	1,800
Total	2,522	2,634	2,633	2,680	2,400
On hand at end of year:					
Special dockets	568	473	271	200	200
Informal complaints	726	422	420	400	400
Total	1,294	895	691	600	600
Letters pertaining to informal complaints and special dockets:					
Received	7,124	7,452	7,397	7,500	7,500
Sent	12,061	13,539	12,767	13,000	13,000

Mr. EVINS. Take a look at your section of tariffs. This section prepared a form letter for use in directing to the attention of carriers and their agents errors in participating carrier lists in their tariffs. They requested the use of ZIP code numbers in writing to the Commission. Introduced the use of a new folder with the name of the carrier thereon for filing. You made some administrative improvements. The section has continued to intensify its efforts toward substantial improvement and consolidation of forms and form letters. How many have you reduced?

Mr. TUCKER. Mr. Cox?

Mr. COX. I do not know offhand how many we reduced, but we are reviewing every one of them; wherever it is possible we cut out a form or we simplify it. I do not have the exact figures of how many we cut out.

Mr. EVINS. In fiscal year 1966, 704 boxes of schedules and 111 boxes of special permission cases were removed from the files and sent to storage, making room for 1,000 cubic feet of new filing matter. So you have been pretty active down there. Do they all use the ZIP code now?

Mr. COX. I am not sure about that. We try to get them to.

Mr. EVINS. Isn't some of this work done in the docket section under the managing director?

Mr. COX. This is all my own bureau.

Mr. TUCKER. No, not this work. I am sure we have similar savings projects throughout the Commission in all the bureaus.

Mr. SCHMID. As a matter of fact, we have a Paperwork Management Branch that directs this overall program.

Mr. EVINS. We will place pages 196 through 201 in the record. (The pages follow:)

SECTION OF TARIFFS, BUREAU OF TRAFFIC (ACTIVITY NO. 4)

The principal functions of this section are (1) to receive, examine, criticize, and file tariffs, schedules, contracts, Section 22 quotations or tenders, and classifications of property filed by carriers of property, and concurrences and powers of attorney filed by all carriers; (2) to secure compliance with the Interstate Commerce Act and the rules of the Commission governing the construction, filing and posting of such publications and to determine whether they are within the scope of the carriers' proposed or existing operating authority; and (3) to review and ascertain the propriety of released rates applications and applications for special permission to establish rates, fares, charges, and rules on less-than-statutory (30 days') notice, or to depart from the Commission's rules governing the construction, filing and posting of tariffs and schedules.

The following table shows positions and obligations for the 1966 fiscal year and estimates for the 1967 and 1968 fiscal years:

	1966	1967	1968	Comparison 1967 with 1968
Positions	124	124	124	0
Personnel compensation	$877,658	$906,684	$908,772	+$2,088
Personnel benefits	64,318	68,451	68,606	+155
Total personal services and benefits	941,976	975,135	977,378	+2,243
Travel	331	500	500	
Total	942,307	975,635	977,878	+2,243

The increase of $2,243 for personal services and benefits is primarily for the cost of within-grade salary advancements.

The 1968 budget provides 124 positions for this section which is the same as currently authorized. These positions are separated by categories as follows:

Assistant director (chief of section)	1
Assistant chief of section	1
Transportation rate & tariff specialist	1
Rate and tariff analyst	4
Chief and assistant chief of branches	8
Rate examiners	10
Tariff examiners	54
Desk chief	6
Unit supervisor	5
Clerk, clerk-stenographers, and typists	34
Total	124

In fiscal year 1966, the Section of Tariffs prepared a form letter for use in directing to the attention of carriers and their agents errors in participating carrier lists in their tariffs; prepared and instituted the use of circulars to be inserted in the envelope of outgoing mail requesting the addressee to include its zip code number on each publication submitted for filing or letter addressed to the bureau; and introduced the use of a new folder with the name of the carrier thereon for filing copies of Section 220 contracts, making it less time consuming to file or locate and review these contracts. A redistribution of work among the unit supervisors and rate examiners was instituted in the Special Permission Branch to promote greater efficiency.

The section has continued and intensified its efforts toward substantial improvement and consolidation of forms and form letters. Each form is ques-

tioned, analyzed and otherwise reviewed critically and approved by one person who has participated in a course of instruction in forms improvement before a requisition is placed for a new supply of the form. Substantial progress can be reported in this area.

In fiscal year 1966, the procedure was instituted of issuing orders striking tariff provisions or publications from the files, without first issuing a show-cause order, in instances of the failure of a carrier or its agent to comply with an order of the Commission to cancel matter which was suspended or was under investigation in a formal docket. Some 14 striking orders have been issued and served without prior show-cause orders. This serves notice to negligent carriers and agents that the orders of the Commission and the requirements of the Act are not to be ignored. It also serves to reduce the number of letters seeking to have publications brought into conformity with orders of the Commission.

In fiscal year 1966, 704 boxes of canceled tariffs and schedules, 13 boxes of canceled freight forwarder contracts and related correspondence, and 111 boxes of special permission cases were removed from the files and sent to storage. This made available approximately 1000 cubic feet of space for filing new matter.

Beginning with fiscal year 1967, a change was made in the method of numbering special permission orders. In each fiscal year the numbering will start with No. 1, each number during a fiscal year to be prefixed by the last two digits of that fiscal year. This will eliminate duplication of numbers entered in past years and will result in a more efficient system in that the year in which an order was entered can be immediately determined and that any given order can be readily taken from or returned to the files.

Effective July 1, applications received will no longer be assigned an ICC application number. Our control cards are filed alphabetically in the name of the carriers or agents filing the applications in numerical or date order. The number appears to be of no value to anyone outside this Commission, and only nominal value in the handling of applications within the Commission. This change will result in greater productivity and will eliminate a possibility of error in the showing of such number on communications between applicants and this office and orders entered responsive to applications.

Office of Chief of Section: This office is responsible for the general direction and superivision of the four branches of the section. The staff devotes much of its time to correspondence with shippers, carriers, Members of Congress and others, to the processing of released rates applications, and to the preparation of show-cause and strike-orders, and confers with shippers and carrier representatives with respect to tariff matters.

The 1968 budget provides 9 positions for this office which is the same as authorized for fiscal year 1967.

Special Permission Branch: This branch is responsible for the processing of applications for special permission to establish rates, charges, and rules on less-than-statutory (30 days) notice, or to depart from the Commission's rules governing the construction, filing, and posting of tariffs and schedules. It is also responsible for the preparation and typing of orders granting or denying said applications.

The 1968 budget provides 22 positions for this branch which is the same as authorized for fiscal year 1967.

The following table shows the actual workload for the fiscal years 1964, 1965, and 1966, and estimates for 1967 and 1968:

	Actual			Estimates	
	1964	1965	1966	1967	1968
Applications received	9,778	9,381	8,420	8,500	8,500

Freight Tariff Branch: The principal function of this branch is to receive, examine and file tariffs, schedules, and contracts, and to criticize or reject those not conforming to the Interstate Commerce Act, the scope of the carriers' proposed or existing operating authority and the rules of the Commission governing the construction and filing of such publications.

The following table shows for fiscal years 1964, 1965 and 1966 the number of tariffs received by this branch for filing from carriers or their agents, together with the number of pages in the tariffs and the number and percent of tariffs criticized and rejected:

Fiscal year	Tariffs received and pages therein		Number of tariffs criticized and rejected	Percent of tariffs criticized and rejected
	Tariffs	Pages		
1964	187,582	788,579	25,758	13.7
1965	207,581	781,815	25,073	12.1
1966	200,006	727,281	28,415	14.2

It is estimated that in fiscal year 1968, fifty-four tariff examiners will reject 5,100 tariffs and will criticize 26,400 tariffs—a total of 31,500 tariffs or approximately 15 percent of the 205,000 tariffs estimated to be received.

A very high percentage, if not all, of tariffs given a complete examination are found to be in contravention of one or more rules or regulations of the Commission. The resulting criticisms or rejections serve notice on the carrier or its tariff publishing agent that its tariffs are being thoroughly scrutinized. This tends to make them more careful in the compilation of their tariffs and to lessen the number of tariff defects.

In fiscal year 1966, our tariff examiners were able to completely examine some 18,580 tariffs or approximately 9.3 percent of the tariff filings. A partial examination was given to the remaining tariffs. It is estimated that in fiscal year 1968 fifty-four tariff examiners will be able to completely examine approximately 20,600 tariffs or 10 percent of the 205,000 tariffs estimated to be filed. The remaining 90 percent will be given partial examination.

Aside from the actual examination of tariffs and the preparation of letters of criticism or rejection, the tariff examiner is required to perform other related duties. These duties have to be performed even though no examination of the tariff is made from the standpoint of whether it complies with the Commission's rules and regulations. They include among other things the following:

(1) Checking tariffs for conformity with the following orders of the Commission:
   (a) Special permission orders
   (b) Released rates orders
   (c) Orders in investigation and suspension dockets
   (d) Orders in complaint and answer cases or investigation dockets
(2) Checking proposed operating authority against tariff filings.
(3) Handling motor adoptions (purchases, leases, transfers).

There were 6,946 special permission applications granted in fiscal year 1966, approximately one-third of which covered more than one tariff. A special permission issued in a given situation may affect as many as 50 or more tariffs. The tariff examiner must check the authority granted in the special permission against the tariff publications as they are filed to ascertain whether the carrier or agent has exceeded the authority granted.

There were 1,179 suspension in orders entered in fiscal year 1966, many of which involved more than one tariff or schedule. The examiner must see that a supplement is filed to the tariff correctly announcing suspension in order that the users of the tariff will be informed that the suspended rates may not be used. He must then police the tariff during the effectiveness of the suspension order to assure that later supplements do not cancel or change suspended matter or matter continued in effect by reason of suspension without proper authority of the Commission. When suspended matter is withdrawan under special permission or the Commission issues an order vacating the suspension or requiring the cancellation of the suspended matter, the examiner must also see that appropriate supplements are filed giving effect to the action. He must also check tariff publications filed in compliance with orders in formal complaint cases to determine that publications are in compliance with the orders.

A carrier is liable for loss, damage or injury to the goods it transports. The Commission may, upon aplication of the carrier and for good and sufficient rea-

son, authorize the carrier to establish and maintain rates dependent upon the value declared by the shipper as the released value of the goods, the effect of which is to limit the liability of the carrier to an amount not exceeding the value so declared. When such rates are published, the examiner must ascertain that they are authorized and that they comply with the order of the Commission. There were 93 released rates applications granted in fiscal year 1966.

Where the Commission is contemplating the issuance of new operating authority, rates covering the operation must be filed before the authority can be issued. The examiner determines whether or not the carrier has such rates on file, and, if not, he initiates appropriate action to obtain the filing of proper tariffs. When the tariffs are filed, the examiner notifies the Office of Proceedings of compliance with the rate filing requirements of Section 217 or 218. This enables that bureau to issue the operating authority. There were 4,673 proposed certificates and permits received by the Freight Tariff Branch in fiscal year 1966.

When a carrier leases or purchases the operating rights in whole or in part of another carrier, the new carrier must file appropriate tariffs or adopt the tariffs of the previous carrier. The examiner takes whatever steps are necessary to secure the filing of such publications. Because of the extremely complicated nature of such matters, he frequently prepares for the assistance of the adopting carrier, specimen adoption notice and supplement which the carrier may follow in filing his publications. There were 1,280 transfers of operating rights received by the Freight Tariff Branch in fiscal year 1966.

When, by request or through abandonment of operations or for other good and sufficient reasons, the operating authority of a carrier is revoked, and the carrier does not cancel its rates, the examiner must handle with the carrier to effect cancellation of whatever effective tariffs it may have on file with the Commission. There were 487 dismissal and revocation orders received by the Freight Tariff Branch in fiscal year 1966.

Another type of work performed by the tariff examiner is the examination of contracts filed under Section 220 of the Act for legality of form and contents, and examination of contract carrier schedules considered together with such contracts for compliance with Sections 218 and 220 of the Act and the Commission's Tariff Circular MF No. 4. During fiscal year 1966, there were 4,339 such contracts received and 467 criticized by the Freight Tariff Branch.

The 1968 budget provides 78 positions for this branch which is the same as authorized for fiscal year 1967.

The following table shows the actual workload for the fiscal years 1964, 1965, and 1966, and estimates for 1967 and 1968:

Freight Tariff Branch

	Actual			Estimated	
	1964	1965	1966	1967	1968
Tariffs and schedules:					
Received	187,582	207,581	200,006	205,000	205,000
Criticized	21,407	19,953	23,529	25,700	26,400
Rejected	4,351	5,129	4,893	5,100	5,100
Contracts received from motor contract carriers	4,896	4,779	4,339	4,500	4,500
Motor carrier contracts criticized	288	257	467	500	500
Contracts received from freight forwarders	25,614	33,301	26,244	27,000	27,000
Freight forwarder contracts criticized	1,166	1,324	1,332	1,400	1,400
Dismissal and revocation (operation authority) orders received	588	700	487	550	550
Proposed certificates and permits received	6,076	6,464	4,673	4,800	4,800
Transfer of operating rights received	1,331	1,425	1,280	1,300	1,300

Other Objects of Expenses

Mr. Evins. Let us look at your other objects. I noted your opening statement here. During the current year the Commission has permitted expenditures of funds only for the most essential services. Every effort has been made to secure maximum economy in operation.

Hearings, as far as possible were handled in Washington to avoid per diem and travel cost. When appropriate, rules were prescribed in larger proceedings for prehearing exchange of exhibits to eliminate oral hearing time.

Long distant telephone calls and use of telegrams are being authorized only in instances where communication by mail would not serve the purpose. Purchase of office supplies are permitted only to the extent of meeting minimum requirements. This is a good statement.

Mr. TUCKER. Mr. Chairman, we have under study now a further plan to reduce travel time, particularly in the hearing area. We expect to continue with these improvements. If we do not make them, we just do not have the money to live with.

Mr. MINSHALL. Have any of these economies you put into effect affected your efficiency at all?

Mr. TUCKER. No, we do not believe so. As a matter of fact, some of them are both to improve quality as well as quantity.

Mr. MINSHALL. It has not delayed them in any way.

Mr. TUCKER. No sir.

Mr. EVINS. Your other objects are shown on chart 204. Travel and transportation goes up from 1966 to 1968 from $786,000 to $817,000. Transportation of things goes down from $25,000 to $23,000.

Rent and communications have increased and printing and reproduction is the same. Other services are slightly increased. The total increase for other objects to $81,164.

Mr. SCHMID. There is one thing I want to call to your attention because of the past interest of the committee. Under "Rents" there is an increase of $18,000.

We have a computer that is an RCA 301 which runs 22 hours a day, 7 days a week and we are just barely able to keep our heads above water. We are negotiating to upgrade the computer.

Mr. EVINS. Do you own the computer or rent it?

Mr. SCHMID. We rent it.

Mr. EVINS. Are you going to purchase it?

Mr. SCHMID. We do not think so. We do not think we can purchase it because we are not certain this is going to meet our future needs.

Mr. EVINS. You have a lot of statistics on rates, tariffs and related subjects to digest. I think the Commission needs a good computer.

Mr. TUCKER. I agree, Mr. Chairman. We are pretty actively looking at this. It is a question of what kind and how long it will last us.

Mr. EVINS. Place in the record 203 to 207.

(The pages follow:)

APPROPRIATION TITLE: SALARIES AND EXPENSES, OBJECTS OTHER THAN PERSONAL, SERVICES AND BENEFITS

GENERAL

Estimated obligations in the fiscal year 1968 for objects other than personal services and benefits total $2,063,180 which compares with estimated obligations for such objects during 1967 of $1,982,016 or an increase of $81,164.

During the current fiscal year as in the past the Commission has permitted expenditures of funds only for the most essential services. Every effort has been made to secure maximum economy in operation. Hearings, so far as possible, were set in Washington, D.C., to avoid per diem and transportation costs.

When appropriate, special rules were prescribed in larger proceedings providing for prehearing exchange of exhibits by the parties, to eliminate oral hearing time. Long distance telephone calls and use of telegrams are being authorized only in instances where communication by mail would not serve the purpose. Purchase of office supplies, equipment, and printing and binding are being made only to the extent of meeting minimum requirements.

The following statement shows the actual obligations for objects other than personal services and benefits for the fiscal year 1966, and estimates for the fiscal years 1967 and 1968; also the change in 1968 as compared with 1967:

Object classification

		1966 [1]	1967 [1]	1968	Increase 1968 as compared with 1967
21	Travel and transportation of persons	$786,436	$793,140	$817,740	$24,600
22	Transportation of things	25,797	23,850	23,850	
23	Rent, communications, and utilities:				
	Rent	130,324	130,133	148,600	18,467
	Communications	200,692	211,910	214,550	2,640
	Official mail	80,760	80,760	87,160	6,400
24	Printing and reproduction	171,475	136,000	136,000	
25	Other services	282,407	306,420	320,990	14,570
26	Supplies and materials	207,527	202,240	204,580	2,340
31	Equipment	134,738	97,563	109,710	12,147
42	Insurance claims and indemnities	333			
	Total	2,020,489	1,982,016	2,063,180	81,164

[1] For comparative purposes, excludes amounts for activities to be transferred to the Department of Transportation.

TRAVEL AND TRANSPORTATION OF PERSONS

The $817,740 requested for 1968 under this heading represents an increase of $24,600 over the $793,140 allocated for the fiscal year 1967. The increase is requested primarily to conduct additional hearings.

Failure of carriers to observe the specfic obligations imposed by the Interstate Commerce Act is unfair and destructive to competing carriers, shippers, and to the general public in the resulting rebates, concessions, and discriminations of varied character. It is absolutely necessary that our field force of special agents, district supervisors, accountants, and safety and service agents have sufficient travel funds to conduct investigations, inspections and examinations of carriers' practices and records, to discover and take appropriate action of the serious and harmful violations. The greater the possibility of discovering and dealing with violations, the less the temptation to deviate from published tariffs or to commit other infractions of the Act. The benefits to carriers, shippers, and the public resulting from a vigorous and alert program of investigation and remedial action will be large in comparison with the cost.

TRANSPORTATION OF THINGS

The $23,850 requested under this heading is the same as the estimated obligations of $23,850 for the current fiscal year. The amount requested is to provide for normally recurring costs incident to shipment of supplies and equipment to field offices; also for the transportation of household goods of employees whose official headquarters are changed at the request and for the benefit of the Commission.

RENT

The estimate of $148,600 requested under this heading represents an increase of $18,467 over the estimated obligations of $130,133 for the current fiscal year. The $148,600 requested is to provide the normally recurring costs for the rental of a computer, IBM tabulating equipment, and reproducing equipment.

COMMUNICATION SERVICES

The $214,550 requested under this heading is $2,640 more than the estimated obligations of $211,910 for the current fiscal year. The increase of $2,640 is requested primarily to provide telephone service for the additional personnel

requested for the fiscal year 1968. The $214,550 requested includes regular basic charges, as well as long distance telephone calls and telegrams for the departmental and field services.

OFFICIAL MAIL

The estimate of $87,160 requested under this heading is $6,400 more than the estimated obligations of $80,760 for the current fiscal year. The amount requested is needed to provide for an increased volume of mailings anticipated for the fiscal year 1968 and for mailing exhibits and transcripts.

OTHER SERVICES

The budget for items included under this heading provides $320,990 which represents an increase of $14,570 over the $306,420 for the current fiscal year. There follows an explanation by subjects of the consist of the request and the reason for the increase:

	1968 request	Increase over 1967
Storage of automobiles	$3,720	
The amount is requested to provide storage for rental automobiles.		
Repairs, alterations, fees, etc	76,470	$570
The increase for these items is required in connection with the additional employees requested.		
Stenographic reporting services	223,000	10,000
The increase is requested to provide stenographic reporting services for the anticipated increase in the number of hearings to be held during fiscal year 1968.		
Services of other agencies	17,800	4,000
The following increase is requested primarily for pro rata cost of financing the interagency boards of examiners:		
Civil Service Commission $16,200		
Other Government agencies 1,600		
Total 17,800		
Total	320,990	14,570

SUPPLIES AND MATERIALS

The estimate of $204,580 requested under this heading represents an increase of $2,340 over the estimated obligations of $202,240 for the current fiscal year. The increase of $2,340 is requested primarily for office supplies for the additional employees requested. Of the $204,580 requested for 1968, $191,580 is for the cost of common use items of office supplies and supplies and materials for the duplicating plant, and $13,000 for newspapers and periodicals.

EQUIPMENT

The estimate of $109,710 requested under this heading represents an increase of $12,147 over the estimated obligations of $97,563 for the current fiscal year. The increase of $12,147 is requested primarily for equipment for the 28 additional employees requested.

Of the remaining $97,563, there is requested $93,563 for the replacement of old and worn out equipment, and $4,000 for the purchase of books.

The continuing replacement program contemplates the purchase of 60 electric typewriters to replace machines being used by staff members that have been used years beyond the accepted replacement standards, and the cost of repairs and maintenance have become economically prohibitive; one Model 1275 Offset Press that has reached the maximum replacement age; one power operated paper cutter that has been in operation for approximately 20 years in the Commission's authorized printing plant, and its replacement is necessary due to age and the inceased sizes of paper to be cut; replacement of 40 dictating and transcribing machines which have become uneconomical to maintain in efficient working order due to cost of maintenance and age; replacement of 15 calculating machines between 15 and 20 years old which are now in operation and must be replaced as a matter of economy.

PRINTING AND REPRODUCTION

Mr. EVINS. Printing and reproduction, 208.
(The page follows:)

Funds requested under this heading are to provide for all printing and reproduction needs of the Commission, including items purchased from and through the Government Printing Office, and such other items as may be lawfully purchased elsewhere.

The $136,000 requested under this heading is the same as the estimated obligations of $136,000 for the current fiscal year.

Mr. EVINS. You show your various types of reports and forms. A few years ago I recall this committee went over those in great detail and the Commission said they were going to try to consolidate and cut them down. I am sure you consider these all essential.

Are there any further questions, gentlemen?

Mr. BOLAND. Within the Section of Operating Rights, if you fail to receive sufficient funds to employ the 20 additional people, 17 and three that you talked about, three in the Administrative Support Unit, what would this mean in terms of backlog? What would it mean in terms of meeting the obligation that you have?

Mr. TUCKER. It would mean an increased backlog. We have cut the backlog down in recent months. We had a record closing last year, a record number of closings. We cut the average time for the decisional process in the case down and all of those things would go up, in our judgment. I am not saying we would not try to keep things just the way they are but we think without this increase we would be faced with the possibility of longer average time for processing cases.

We would not be able to make much progress to getting our so-called backlog down to what we would call more manageable proportions which would be about 3,500 cases rather than 8,000 cases.

Mr. SCHMID. I would like to add just one thought, Mr. Chairman. Despite the fact that we had a higher record of disposition last year than ever in the history of the Commission, our backlog still increased 2,097 cases. Now what will happen if we do not get these people, even though the trend has changed a little bit, as the Chairman mentioned, the pending workload remains so high that you have a long delay between the time the case is disposed of and you are just not going to have due process of law.

Mr. BOLAND. If the additional employees were granted if you received funds to take care of the additional 20 in this particular activity here, what would that mean in terms of reducing the backlog?

Mr. SCHMID. If they were granted?

Mr. BOLAND. Yes.

Mr. TUCKER. It would mean, provided we get some leveling off, that we could reduce the backlog. How much I do not know.

Mr. STILLWELL. I would say if we got the attorney jobs that we could reduce that backlog by a thousand.

Mr. BOLAND. I have no more questions.

Mr. MINSHALL. I have no questions, Mr. Chairman. Thank you.

Mr. EVINS. Mr. Tucker, you are Chairman in a crucial time in the 80-year history of the Commission. We wish you good luck. Thank you very much. Do any of the Commissioners have any further statement?

Mr. TUCKER. Mr. Chairman, I would like to say what I said off the record. My work during the past 6 years has been very helpful. It has been an education to me in my work on the Commission. I want to thank the committee for the treatment it has given me over the past 6 years.

Mr. EVINS. We are interested in you and your Commission. We think you have a most important mission.

Mr. BOLAND. I am delighted he comes from my section of western Massachusetts and I am delighted he is the Chairman of the ICC. He came to this position with a very fine reputation from our State. I think the years he has served here proves that the selection of him as a Commissioner by our late beloved President was a fine one.

Mr. TUCKER. Thank you.

Mr. EVINS. This expresses the sentiments of all of us.

Mr. TUCKER. Thank you, sir.

Mr. EVINS. Good luck to you, Mr. Chairman.

MONDAY, MARCH 6, 1967.

FEDERAL TRADE COMMISSION

WITNESSES

PAUL RAND DIXON, CHAIRMAN
PHILIP ELMAN, COMMISSIONER
A. EVERETTE MacINTYRE, COMMISSIONER
MARY GARDINER JONES, COMMISSIONER
JOHN V. BUFFINGTON, ASSISTANT TO CHAIRMAN
JOHN N. WHEELOCK, EXECUTIVE DIRECTOR
FRANK C. HALE, PROGRAM REVIEW OFFICER AND DEPUTY EXECUTIVE DIRECTOR
WM. P. GLENDENING, COMPTROLLER
JOHN A. DELANEY, DIRECTOR, OFFICE OF ADMINISTRATION
JOSEPH W. SHEA, SECRETARY
JAMES McI. HENDERSON, GENERAL COUNSEL
JOSEPH E. SHEEHY, DIRECTOR, BUREAU OF RESTRAINT OF TRADE
CHARLES A. SWEENY, DIRECTOR, BUREAU OF DECEPTIVE PRACTICES
HENRY D. STRINGER, DIRECTOR, BUREAU OF TEXTILES AND FURS
SAMUEL L. WILLIAMS, DIRECTOR, BUREAU OF FIELD OPERATIONS
CHALMERS B. YARLEY, DIRECTOR, BUREAU OF INDUSTRY GUIDANCE
WILLARD F. MUELLER, DIRECTOR, BUREAU OF ECONOMICS
WILLIAM B. SNOW, ASSISTANT DIRECTOR, BUREAU OF INDUSTRY GUIDANCE
WILLIAM F. JIBB, DIRECTOR, OFFICE OF INFORMATION
JULIAN W. SNYDER, ASSISTANT COMPTROLLER
FREDERICK IRISH, CHIEF, DIVISION OF SCIENTIFIC OPINIONS, BUREAU OF DECEPTIVE PRACTICES
JERRY HARDY, BUDGET ANALYST

Salaries and Expenses

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Program by activities:			
	1. Antimonopoly:			
	(a) Investigation and litigation	5,937	6,258	6,468
	(b) Economic and financial reports	955	992	1,052
	(c) Trade practice conferences, industry guides, and small business	244	282	297
	2. Deceptive practices:			
	(a) Investigation and litigation	3,619	3,813	4,232
	(b) Trade practice conferences, industry guides, and small business	490	564	593
	(c) Textile and fur enforcement	1,272	1,283	1,375
	3. Executive direction and management	325	338	334
	4. Administration	815	848	864
	Total program costs [1]	13,657	14,378	15,225
	Unfunded adjustments to total operating costs:			
	Property transferred in without charge	−20		
	Loss on disposition of fixed assets	−37		
	Change in selected resources [2]	71		
10	Total obligations	13,671	14,378	15,225
	Financing:			
25	Unobligated balance lapsing	189		
	New obligational authority	13,860	14,378	15,225
	New obligational authority:			
40	Appropriation	13,862	14,000	15,225
41	Transferred to "Operating expenses, Public Buildings Service," General Services Administration (79 Stat. 531)	−2		
43	Appropriation (adjusted)	13,861	14,000	15,225
44	Proposed supplemental for civilian pay act increases		378	
	Relation of obligations to expenditures:			
71	Total obligations (affecting expenditures)	13,671	14,378	15,225
72	Obligated balance, start of year	759	744	1,122
74	Obligated balance, end of year	−744	−1,122	−1,350
77	Adjustments in expired accounts	−40		
90	Expenditures excluding pay increase supplemental	13,648	13,634	14,985
91	Expenditures from civilian pay act supplemental		366	12

[1] Includes capital outlay as follows: 1966, $161,000; 1967, $40,000; 1968, $170,000.

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

	1965	1966	1967	1968
Stores	6	8	8	8
Unpaid undelivered orders	69	138	138	138
Total selected resources	75	146	146	146

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	11,642	12,329	12,972
11.3	Positions other than permanent	60	36	43
11.5	Other personnel compensation	3	11	11
	Total personnel compensation	11,705	12,376	13,026
12.0	Personnel benefits	848	911	959
21.0	Travel and transportation of persons	337	370	412
22.0	Transportation of things	6	8	8
23.0	Rent, communications, and utilities	246	262	277
24.0	Printing and reproduction	74	90	105
25.1	Other services	77	119	144
25.2	Services of other agencies	46	32	35
26.0	Supplies and materials	171	170	194
31.0	Equipment	161	40	65
99.0	Total obligations	13,671	14,378	15,225

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	1,170	1,170	1,239
Full-time equivalent of other positions	5	5	5
Average number of all employees	1,127	1,142	1,200
Average GS grade	9.4	9.4	9.4
Average GS salary	$10,384	$10,764	$10,746
Average salary of ungraded positions	$6,437	$6,532	$6,532

Mr. EVINS. The committee will come to order.

We have with us this morning our friends from the Federal Trade Commission.

Mr. Chairman, we always listen to you with interest and profit. We have looked over your budget. Whoever prepared it has done a good job. We will be pleased to hear you.

GENERAL STATEMENT

Mr. DIXON. Thank you, Mr. Chairman.

Mr. Chairman, we have completed this budget with a summary in the front of it.

This is the seventh time I have appeared before this subcommittee. We are asking this year for a total of $15,225,000 for fiscal year 1968. This is an increase of $847,000 over the fiscal year 1967 appropriation.

The basic appropriation was $14 million last year and then an additional $378,000 supplemental for the pay raise Congress passed.

Our presently authorized staff at the Federal Trade Commission is 1,175. Due to the need to absorb pay raises that have been voted by the Congress, we have had to limit the staff to an average employment of about 1,142. We think this is a number insufficient even for our present workload. To do what we must, we will need 69 additional employees, including 43 to bolster the understaffing for our long-established programs, and 26 to carry out our responsibility for administration under the newly enacted Fair Packaging and Labeling Act. This latter amount and the new function assigned to the Commission amounts to $252,000 of the increase we need, which is almost a third.

Now, speaking to that directly, we plan a 19-man organizational unit under our Bureau of Deceptive Practices. Immediately we must promulgate initial regulations under mandatory requirements of the new law, and the work will include product-by-product surveys of packaging and labeling practices, the taking of appropriate action to eliminate consumer deception, and a program of education to alert industry and consumers as to the meanings and requirements of the new law. We believe it is of the utmost importance that this unit be sufficiently staffed to give this legislation the impact that Congress intended.

Mr. Chairman, on this point, may I say this: When finally that law took its final shape and was passed by the Congress, it assigned those matters dealing with food, drugs, medical devices and cosmetics to the Food and Drug Administration, HEW. The Federal Trade Commission is responsible for all other products.

There is a mandatory section in this bill. We must, of necessity, change our procedural rules and regulations to carry out this bill and we are doing that immediately so we can go forward with the mandatory requirements of the bill.

This gives us many new problems and it gives the businessman many new problems.

Mr. EVINS. The Federal Trade Commission, over the years, has been concerned with prohibiting false and misleading advertising across the board with few exceptions. The Food and Drug Administration has been concerned with jurisdiction on labeling and branding.

Mr. DIXON. That is correct.

Mr. EVINS. In the new act tell us what the Congress imposed upon the Commission with respect to labeling and branding. What are you going to be required to do that is new?

Mr. DIXON. There are 6,000 to 8,000 products on the shelves in the chainstores and the stores that Mrs. America goes to today, and many fall into categories that are not food and drug. The broad detergent field, the paper product field; these come immediately to my mind, but there are many others.

This doesn't relieve us of our existing responsibility under the Federal Trade Commission Act. It merely refines and adds to the things that are mandatory that must appear upon the label of the package.

Mr. EVINS. The public and this committee is aware of what the Commission did with respect to labeling on tobacco, maintaining that it may be dangerous to health. This is currently being noted on the cigarette labels. This is the only affirmative labeling action so far as I am aware that the Commission has taken.

What are you going to do under this new law? The Civil Aeronautics Board has cease and desist jurisdiction over advertising on airlines and rates and tariffs. The Food and Drug Administration has jurisdiction; the Packers and Stockyards Act has certain jurisdiction.

What new responsibilities have you for your new staff and new personnel? You have new legislation, but I think you should spell out what your new responsibilities are.

Mr. DIXON. Mr. Chairman, we appointed a special task force at the Commission to take that statute apart piece by piece and make a recommendation to the Commission as to the new responsibilities.

Mr. Sweeny, will you address yourself to this since I have not seen the final report yet?

Under the new packaging and labeling statute you have heard the chairman's question; what are some of the mandatory responsibilities that will fall upon us as you see them?

Mr. SWEENY. Mr. Chairman, the statute gives us general responsibility for products that are consumed in the home. This is a very general definition. We frankly are not able at this time to give you a list of the articles that would be encompassed by this statute. Generally speaking, however, we will have responsibility for products which are sold in supermarkets. We will have first to promulgate the mandatory regulations which Chairman Dixon has referred to, and these cover such items as the disclosure of the net weight of the contents, the name of the product and so forth.

Thereafter we will have to investigate, industry by industry, to determine just exactly what packaging practices exist. We have authority under this statute to issue regulations in the so-called discretionary field to cover such matters as cents off and slack fill and matters of this type. We still have responsibility under section 5 of the act to prevent unfair and deceptive practices, contained in packaging.

We are now running pilot studies in some industries. We are finding that some situations exist which will apparently require issuance of these discretionary regulations.

Mr. EVINS. Does the Commission propose to go into supermarkets or into the markets and purchase items and then later examine them for proper branding? Is this one of the things you propose to do?

Mr. SWEENY. Yes, sir.

Mr. EVINS. In the confectionery field, if you see a big box of candy on the shelf and you open it and it has a false bottom in it and one layer, would that be——

Mr. SWEENY. Technically this would be Food and Drug, Mr. Chairman, but another item is detergents, as mentioned by Chairman Dixon.

In that field they have used cents off with some frequency and there have been questions raised as to slack filling. We don't know whether these practices violate the statute or not, but it will be necessary to make a very intensive investigation, industry by industry, to determine what the practices are and then where they fall under the two statutes: the Packaging Act and the Federal Trade Commission Act.

Mr. EVINS. Has the Commission issued cease-and-desist orders for slack packaging prior to this act?

Mr. SWEENY. We have some, yes.

Mr. JONAS. I don't see why it would take such an extensive investigation industry by industry. All you need do is take a sampling off the shelves.

Mr. DIXON. Mr. Jonas, the purpose of this law, I think, was to assign to the Federal Trade Commission a new approach to the problem. The approach prior to this time was mentioned in the question of the chairman. For instance, we had a case against Christmas wrapping papers. It was packaged in such a way that it appeared to be larger than it was. We issued an order against that. This devises a means for the Commission to approach the problem on a broad basis and, after following the procedures set out in the statute, we will have to follow the procedural features of the Food and Drug Act, and promulgate a regulation which would have the binding effect of law.

Mr. JONAS. I don't see why it would take any long, drawn-out, extensive investigation of an industry. For instance, in the case the chairman mentioned, you can establish in 1 day by sampling who is engaged in that practice. Then the only thing you have to decide after that is: Is it illegal?

Mr. DIXON. Let's take the question of slack filling that we are talking about here. When this subject was first brought up and hearings were being held on it, we put men into the field and began to try to find out how extensive the practice really was.

When you get into detergents or get into cereals, for instance—at that time we were looking at cereals—you run into technological problems about which the agencies must be very careful. The machines, and they are expensive machines, have a kind of a snout that comes down into the box—these are all chain produced—and will drop a given amount in the box. It will go in in a very fluffy kind of a way, so we are told, and then the box is sealed. During subsequent handling and shipment it will shake down.

Now, you wouldn't just go out and pick one of these packages up. You would want to be certain that you understood fully the practice of this industry.

If you accept what would be a reasonable technological method of filling packages and then someone went way beyond that, you would probably have a case against that party. But up until that point, it seems to me you have a question.

Now, similar to this slack filling is the question of cents off, which is specifically mentioned in this statute. Originally, when the law was being considered by the Congress, this was proposed to be a per se law violation to use cents off.

We on the Commission suggested that it might be wise for the Congress to make this a discretionary matter. We did this because at about that time we had been made aware of a practice that exists, as we saw quite clearly, in coffee and tea. Practically everyone who is marketing coffee and tea at one time had "cents off" printed on his label. "Eight cents off." "Ten cents off." Ten cents off what?

The party that was recommending cents off could not see that it always got to the consumer. Then as soon as everyone started doing this, it stayed constant through the industry.

Now, if you go in to buy coffee, for instance, you would see "10 cents off" on comparable brands of coffee and it stayed there consistently and nothing was coming through to the consumer and this raised some very serious questions.

We held wide hearings and asked the industry to participate. We asked them to engage in a voluntary moratorium, hoping that we could issue a regulation or an advice to them that would eliminate this practice.

Right in the middle of it this law was passed. So the problem is still with us.

Now you get into "two for one"; "three for one." You get into all kinds of economic representations that have been adopted as a form of promotion by industry members.

Mr. EVINS. Mr. Chairman, haven't you issued cease-and-desist orders on "So many cents off"? What we are trying to find out is what new and additional authority the statute has imposed upon you that the Commission doesn't have or hasn't had in the past.

Mr. DIXON. Mr. Chairman, I think I can answer it this way: During the hearings, the question was put to me many times: "Isn't it true that under your basic statute you can approach this problem right now without this?"

We have the broadest type of statute, as you are well aware. It is a statute which says we are to eliminate unfair and deceptive practices. We can, on a case-by-case method.

This new statute gives us mandatory things to do and then discretionary ways to approach the problem in a regulatory, rulemaking procedure that is binding. This is a legislative grant to the Federal Trade Commission different from what section 5 gives us. Section 5 sets up a procedure that if we have reason to believe a violation exists, we serve a complaint, give opportunity for hearings, and may issue an order addressed to particular individuals or concerns. The new legislation says, "If you have reason to believe, you publish it in the Federal Register, have a broad administrative type of hearing."

Mr. EVINS. It makes the order industrywide.

Mr. DIXON. That is correct, sir.

The primary thing that started this statute and really got it considered by the Congress had to do with the inability of the consumer to go into the grocery store and look at products and make a realistic comparison of price, together with the manner in which price was being represented to them, and the proliferation of sizes.

For instance, in potato chips, there are said to be over 70 different sizes of potato-chip packages.

Mr. EVINS. I notice in your justification you stated one of the objectives is to help the unwary, the poor and the sick, and the aged and infirm; this type of the public that needs protection. We all need protection. When I go into the market I don't know whether to pick up a big package, medium package, or small package. How do you make those judgments?

Mr. DIXON. That is one of the things we are going to have to do. The characteristics of the packages of small, medium, and large, and so forth. Has this been abused? If so, what kind of rule or regulation are we going to have to lay down.

Mr. EVINS. You are going to measure them for weight and content under the new law; so many ounces.

Mr. DIXON. It has been said, Mr. Chairman, with some degree of persuasiveness, that the best buy may be the small package rather than the economy package. The only way the housewife can tell this, if she sees "family economy size," is to be a master mathematician to convert ounces or maybe pounds plus ounces into ounces and then go through an arithmetical computation.

Mr. EVINS. Have counsel read into the record some of the new authority of the new law.

Mr. DIXON. On page 82 and page 83 of the justification, Mr. Chairman, are proposed programs for administering fair packaging and labeling act and related matters under the act.

Mr. EVINS. I saw that, but supply at this point in the record the section of the new law.

(Pertinent portions of Public Law 89-755 follow:)

PUBLIC LAW 89-755, 89TH CONGRESS

AN ACT To regulate interstate and foreign commerce by preventing the use of unfair or deceptive methods of packaging or labeling of certain consumer commodities distributed in such commerce, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Fair Packaging and Labeling Act".

DECLARATION OF POLICY

SEC. 2. Informed consumers are essential to the fair and efficient functioning of a free market economy. Packages and their labels should enable consumers to obtain accurate information as to the quantity of the contents and should facilitate value comparisons. Therefore, it is hereby declared to be the policy of the Congress to assist consumers and manufacturers in reaching these goals in the marketing of consumer goods.

PROHIBITION OF UNFAIR AND DECEPTIVE PACKAGING AND LABELING

SEC. 3. (a) It shall be unlawful for any person engaged in the packaging or labeling of any consumer commodity (as defined in this Act) for distribution in commerce, or for any person (other than a common carrier for hire, a contract carrier for hire, or a freight forwarder for hire) engaged in the distribution in commerce of any packaged or labeled consumer commodity, to distribute or to cause to be distributed in commerce any such commodity if such commodity is contained in a package, or if there is affixed to that commodity a label, which does not conform to the provisions of this Act and of regulations promulgated under the authority of this Act.

(b) The prohibition contained in subsection (a) shall not apply to persons engaged in business as wholesale or retail distributors of consumer commodities except to the extent that such persons (1) are engaged in the packaging or labeling of such commodities, or (2) prescribe or specify by any means the manner in which such commodities are packaged or labeled.

REQUIREMENTS AND PROHIBITIONS

SEC. 4. (a) No person subject to the prohibition contained in section 3 shall distribute or cause to be distributed in commerce any packaged consumer commodity unless in conformity with regulations which shall be established by the promulgating authority pursuant to section 6 of this Act which shall provide that

(1) The commodity shall bear a label specifying the identity of the commodity and the name and place of business of the manufacturer, packer, or distributor;

(2) The net quantity of contents (in terms of weight, measure, or numerical count) shall be separately and accurately stated in a uniform location upon the principal display panel of that label;

(3) The separate label statement of net quantity of contents appearing upon or affixed to any package—

(A) (i) if on a package containing less than four pounds or one gallon and labeled in terms of weight or fluid measure, shall, unless subparagraph (ii) applies and such statement is set forth in accordance with such subparagraph, be expressed both in ounces (with identification as to avoirdupois or fluid ounces) and, if applicable, in pounds for weight units, with any remainder in terms of ounces or common or decimal fractions of the pound; or in the case of liquid measure, in the largest whole unit (quarts, quarts and pints, or pints, as appropriate) with any remainder in terms of fluid ounces or common or decimal fractions of the pint or quart;

(ii) if on a random package, may be expressed in terms of pounds and decimal fractions of the pound carried out to not more than two decimal places;

(iii) if on a package labeled in terms of linear measure, shall be expressed both in terms of inches and the largest whole unit (yards, yards and feet, or feet, as appropriate) with any remainder in terms of inches or common or decimal fractions of the foot or yard;

(iv) if on a package labeled in terms of measure of area, shall be expressed both in terms of square inches and the largest whole square unit

(square yards, square yards and square feet, or square feet, as appropriate) with any remainder in terms of square inches or common or decimal fractions of the square foot or square yard;

(B) shall appear in conspicuous and easily legible type in distinct contrast (by typography, layout, color, embossing, or molding) with other matter on the package;

(C) shall contain letters or numerals in a type size which shall be (i) established in relationship to the area of the principal display panel of the package, and (ii) uniform for all packages of substantially the same size; and

(D) shall be so placed that the lines of printed matter included in that statement are generally parallel to the base on which the package rests as it is designed to be displayed; and

(4) The label of any package of a consumer commodity which bears a representation as to the number of servings of such commodity contained in such package shall bear a statement of the net quantity (in terms of weight, measure, or numerical count) of each such serving.

(5) For purposes of paragraph (3)(A)(ii) of this subsection the term "random package" means a package which is one of a lot, shipment, or delivery of packages of the same consumer commodity with varying weights, that is, packages with no fixed weight pattern.

(b) No person subject to the prohibition contained in section 3 shall distribute or cause to be distributed in commerce any packaged consumer commodity if any qualifying words or phrases appear in conjunction with the separate statement of the net quantity of contents required by subsection (a), but nothing in this subsection or in paragraph (2) of subsection (a) shall prohibit supplemental statements, at other places on the package, describing in nondeceptive terms the net quantity of contents: *Provided*, That such supplemental statements of net quantity of contents shall not include any term qualifying a unit of weight, measure, or count that tends to exaggerate the amount of the commodity contained in the package.

ADDITIONAL REGULATIONS

SEC. 5. (a) The authority to promulgate regulations under this Act is vested in (A) the Secretary of Health, Education, and Welfare (referred to hereinafter as the "Secretary") with respect to any consumer commodity which is a food, drug, device, or cosmetic, as each such term is defined by section 201 of the Federal Food, Drug, and Costmetic Act (21 U.S.C. 321); and (B) the Federal Trade Commission (referred to hereinafter as the "Commission") with respect to any other consumer commodity.

(b) If the promulgating authority specified in this section finds that, because of the nature, form, or quantity of a particular consumer commodity, or for other good and sufficient reasons, full compliance with all the requirements otherwise applicable under section 4 of this Act is impracticable or is not necessary for the adequate protection of consumers, the Secretary or the Commission (whichever the case may be) shall promulgate regulations exempting such commodity from those requirements to the extent and under such conditions as the promulgating authority determines to be consistent with section 2 of this Act.

(c) Whenever the promulgating authority determines that regulations containing prohibitions or requirements other than those prescribed by section 4 are necessary to prevent the deception of consumers or to facilitate value comparisons as to any consumer commodity, such authority shall promulgate with respect to that commodity regulations effective to—

(1) establish and define standards for characterization of the size of a package enclosing any consumer commodity, which may be used to supplement the label statement of net quantity of contents of packages containing such commodity, but this paragraph shall not be construed as authorizing any limitation on the size, shape, weight, dimensions, or number of packages which may be used to enclose any commodity;

(2) regulate the placement upon any package containing any commodity, or upon any label affixed to such commodity, of any printed matter stating or representing by implication that such commodity is offered for retail sale at a price lower than the ordinary and customary retail sale price or that a retail sale price advantage is accorded to purchasers thereof by reason of the size of that package or the quantity of its contents;

(3) require that the label on each package of a consumer commodity (other than one which is a food within the meaning of section 201(f) of the Federal Food, Drug, and Cosmetic Act) bear (A) the common or usual name of such consumer commodity, if any, and (B) in case such consumer commodity consists of two or more ingredients, the common or usual name of each such ingredient listed in order of decreasing predominance, but nothing in this paragraph shall be deemed to require that any trade secret be divulged; or

(4) prevent the nonfunctional-slack-fill of packages containing consumer commodities.

For purposes of paragraph (4) of this subsection, a package shall be deemed to be nonfunctionally slack-filled if it is filled to substantially less than its capacity for reasons other than (A) protection of the contents of such package or (B) the requirements of machines used for enclosing the contents in such package.

PROCEDURE FOR PROMULGATION OF REGULATIONS

* * * * * * *

SEC. 6. (a) Regulations promulgated by the Secretary under section 4 or section 5 of this Act shall be promulgated, and shall be subject to judicial review, pursuant to the provisions of subsections (e), (f), and (g) of section 701 of the Federal Food, Drug, and Cosmetic Act (21 U.S.C. 371 (e) (f), and (g)). Hearings authorized or required for the promulgation of any such regulations by the Secretary shall be conducted by the Secretary or by such officer or employee of the Department of Health, Education, and Welfare as he may designate for that purpose.

(b) Regulations promulgated by the Commission under section 4 or section 5 of this Act shall be promulgated, and shall be subject to judicial review, by proceedings taken in conforimty with the provisions of subsections (e), (f) and (g) of section 701 of the Federal Food, Drug and Cosmetic Act (21 U.S.C. 371 (e), (f), and (g)) in the same manner, and with the same effect, as if such proceedings were taken by the Secretary pursuant to subsection (a) of this section. Hearings authorized or required for the promulgation of any such regulations by the Commission shall be conducted by the Commission or by such officer or employee of the Commission as the Commission may designate for that purpose.

(c) In carrying into effect the provisions of this Act, the Secretary and the Commission are authorized to cooperate with any department or agency of the United States, with any State, Commonwealth, or possession of the United States, and with any department, agency, or political subdivision of any such State, Commonwealth, or possession.

(d) No regulation adopted under this Act shall preclude the continued use of returnable or reusable glass containers for beverages in inventory or with the trade as of the effective date of this Act, nor shall any regulation under this Act preclude the orderly disposal of packages in inventory or with the trade as of the effective date of such regulation.

ENFORCEMENT

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(b) Any violation of any of the provisions of this Act, or the regulations issued pursuant to this Act, with respect to any consumer commodity which is not a food, drug, device, or cosmetic, shall constitute an unfair or deceptive act or practice in commerce in violation of section 5(a) of the Federal Trade Commission Act and shall be subject to enforcement under section 5(b) of the Federal Trade Commission Act.

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REPORTS TO THE CONGRESS

SEC. 8. Each officer or agency required or authorized by this Act to promulgate regulations for the packaging or labeling of any consumer commodity, or to participate in the development of voluntary product standards with respect to any consumer commodity under procedures referred to in section 5(d) of this Act, shall transmit to the Congress in January of each year a report containing a full and complete description of the activities of that officer or agency for the administration and enforcement of this Act during the preceding fiscal year.

COOPERATION WITH STATE AUTHORITIES

SEC. 9. (a) A copy of each regulation promulgated under this Act shall be transmitted promptly to the Secretary of Commerce, who shall (1) transmit copies thereof to all appropriate State officers and agencies, and (2) furnish to such State officers and agencies information and assistance to promote to the greatest practicable extent uniformity in State and Federal regulation of the labeling of consumer commodities.

* * * * * * *

DEFINITIONS

SEC. 10. For the purposes of this Act—

(a) The term "consumer commodity", except as otherwise specifically provided by this subsection, means any food, drug, device, or cosmetic (as those terms are defined by the Federal Food, Drug, and Cosmetic Act), and any other article, product, or commodity of any kind or class which is customarily produced or distributed for sale through retail sales agencies or instrumentalities for consumption by individuals, or use by individuals for purposes of personal care or in the performance of services ordinarily rendered within the household, and which usually is consumed or expended in the course of such consumption or use. Such term does not include—

(1) any meat or meat product, poultry or poultry product, or tobacco or tobacco product;

(2) any commodity subject to packaging or labeling requirements imposed by the Secretary of Agriculture pursuant to the Federal Insecticide, Fungicide, and Rodenticide Act, or the provisions of the eighth paragraph under the heading "Bureau of Animal Industry" of the Act of March 4, 1913 (37 Stat. 832–833; 21 U.S.C. 151–157), commonly known as the Virus-Serum-Toxin Act;

(3) any drug subject to the provisions of section 503(b)(1) or 506 of the Federal Food, Drug, and Cosmetic Act (21 U.S.C. 353(b)(1) and 356);

EFFECTIVE DATE

(4) any beverage subject to or complying with packaging or labeling requirements imposed under the Federal Alcohol Administration Act (27 U.S.C. 201 et seq.); or

(5) any commodity subject to the provisions of the Federal Seed Act (7 U.S.C. 1551–1610).

(b) The term "package" means any container or wrapping in which any consumer commodity is enclosed for use in the delivery or display of that consumer commodity to retail purchasers, but does not include—

(1) shipping containers or wrappings used solely for the transportation of any consumer commodity in bulk or in quantity to manufacturers, packers, or processors, or to wholesale or retail distributors thereof;

(2) shipping containers or outer wrappings used by retailers to ship or deliver any commodity to retail customers if such containers and wrappings bear no printed matter pertaining to any particular commodity; or

(3) containers subject to the provisions of the Act of August 3, 1912 (37 Stat. 250, as amended; 15 U.S.C. 231–233), the Act of March 4, 1915 (38 Stat. 1186, as amended; 15 U.S.C. 234–236), the Act of August 31, 1916 (39 Stat. 673, as amended; 15 U.S.C. 251–256), or the Act of May 21, 1928 (45 Stat. 685, as amended; 15 U.S.C. 257–257i).

(c) The term "label" means any written, printed, or graphic matter affixed to any consumer commodity or affixed to or appearing upon a package containing any consumer commodity.

(d) The term "person" includes any firm, corporation, or association.

(e) The term "commerce" means (1) commerce between any State, the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States, and any place outside thereof, and (2) commerce within the District of Columbia or within any territory or possession of the United States not organized with a legislative body, but shall not include exports to foreign countries.

(f) The term "principal display panel" means that part of a label that is most likely to be displayed, presented, shown, or examined under normal and customary conditions of display for retail sale.

SAVING PROVISION

SEC. 11. Nothing contained in this Act shall be construed to repeal, invalidate, or supersede—

(a) the Federal Trade Commission Act or any statute defined therein as an antitrust Act;

(b) the Federal Food, Drug, and Cosmetic Act; or

(c) the Federal Hazardous Substances Labeling Act.

EFFECT UPON STATE LAW

SEC. 12. It is hereby declared that it is the express intent of Congress to supersede any and all laws of the States or political subdivisions thereof insofar as they may now or hereafter provide for the labeling of the net quantity of contents of the package of any consumer commodity covered by this Act which are less stringent than or require information different from the requirements of section 4 of this Act or regulations promulgated pursuant thereto.

SEC. 13. This Act shall take effect on July 1, 1967: *Provided*, That the Secretary (with respect to any consumer commodity which is a food, drug, device, or cosmetic, as those terms are defined by the Federal Food, Drug, and Cosmetic Act), and the Commission (with respect to any other consumer commodity) may by regulation postpone, for an additional twelve-month period, the effective date of this Act with respect to any class or type of consumer commodity on the basis of a finding that such a postponement would be in the public interest.

Approved November 3, 1966.

Mr. DIXON. I assure you that July 1 is coming toward us, and when the Congress passed this law it included some mandatory things we must do. It is going to be a costly and sizable effort to do the mandatory things and then, on a case-by-case or product-by-product approach, we will start administering our section of the statute in accordance with this new law.

Mr. EVINS. Your large increase is your budget is based primarily on the new law which Congress has enacted with 19 new positions in this new division. I think that for the record we should have the section of the law included, followed by an example of the types of investigations.

PROGRAM FOR ADMINISTERING THE FAIR PACKAGING AND LABELING ACT

Let us place page 83 at this point in the hearings.

(The page follows:)

PROPOSED PROGRAM FOR ADMINISTERING THE FAIR PACKAGING AND LABELING ACT AND RELATED MATTERS UNDER THE FEDERAL TRADE COMMISSION ACT

To achieve quick and decisive action under the new law, and do this in coordination with related activities under the Federal Trade Commission Act, the Commission proposes to center responsibility in a single organizational unit.

It is proposed that beginning July 1, 1967, the Bureau staff be increased by nineteen persons to deal with packaging and labeling matters. These persons would be responsible for handling not only matters arising under the new law, but also matters of packaging and labeling which appear to comprise unfair or deceptive practice under Section 5 of the Federal Trade Commission Act. The additional personnel would include twelve attorneys, one chemist, one secretary, and five clerk-stenographers in the Bureau of Deceptive Practices. Their duties would be as follows:

(1) Complete promulgation of initial regulations under mandatory requirements of the new law.

(2) To the extent that manpower is available, initiate product-by-product (industry) surveys of packaging and labeling practices regarding

(a) characterization of packages as "small," "medium," "large," etc.,

(b) "cents off" and other savings claims,

(c) statement of ingredients or lack thereof, and

(d) slack filling,

with a view of possible promulgation of regulations under the new law, or possible corrective action under Section 5 FTCA, these surveys to include also practices such as

(e) pricing of large sizes at a per-ounce price higher than smaller sizes,

(f) use of premium coupons or reduction of product quantity while increasing or maintaining the retail price, and

(g) use of odd—or fractional-weight packages, as possible violations of the FTC Act, and

(h) proliferation of package weights, measures or quantities,

as possibly being 'unfair" under FTC Act if violative of public policy (declared in the new law) to "enable consumers to obtain accurate information as to quantity of package contents" or "facilitate value comparisons," or, in the alternative, as possibly warranting reference of facts to Department of Commerce for consideration of voluntary product standard proceedings.

(3) Devise and carry out a program of education for both industry and consumers as to meaning and requirements of the new law.

(4) Study effectiveness of the new law with a view of being able to report to Congress at any time regarding adequacy and desirable amendments or additional legislation.

INCREASE IN APPLICATION FOR COMPLAINT

Mr. DIXON. During this past year we saw some 40 percent increase in applications for complaint in deceptive practices. We anticipate receiving something like 7,500 complaints, contrasted with the 6,399 that we received last year.

Mr. EVINS. You mentioned a 40 percent increase in applications for complaints. Did formal complaints follow these applications and, if so, what percentages?

Mr. DIXON. We are trying to resolve these matters as quickly as we can and as broadly as we can across the board.

A number of these things we receive, quite obviously, when you get to playing around with numbers, don't fall within the jurisdiction of the Commission and they wash out. Those matters we can resolve administratively, we do it, by seeing to it that it is done. If it is something occurring broadly through the industry, we try to turn to our guidance program——

Mr. EVINS. A 40-percent increase in applications. Is 20 percent of the increase bona fide complaints in the view of the Commission? Some of them are not sustained.

Mr. DIXON. On page 16 are shown informal corrective actions. In 1965, we took corrective actions in some 2,566 matters. In 1966 this went up to 3,364.

When I say "informal," it is short of complaint, but it gets the same results. It gives a much better dollar value than the complaint and the cease and desist if we get the results.

Mr. EVINS. The letter is written in, the applications for complaint are increasing. You testify to the committee that it results also in a percentage increase in settlements.

Mr. DIXON. Yes, sir. In resolving the problem that is complained about.

Mr. BOLAND. Who are the complainers? Are they generally individual members of the public, or are they people in competition with someone who has been circumventing the law?

Mr. DIXON. If I were to say 50–50, I don't know if I would be far wrong.

Mr. Sweeny, what would you estimate the complaints on deceptive practice would be? Would they come mostly from the business community or the consuming public?

Mr. SWEENY. Slightly more from the consuming public. I would say 60–40.

Mr. BOLAND. That is interesting. It indicates the public realizes there is an agency of the Government that is trying to protect their interests here.

Mr. DIXON. Much of this consumer talk has educated the consuming public to the fact that there is a Federal Trade Commission and there is a place in the Government where they can complain.

It might be anticipated that this is going to constantly go up.

Mr. BOLAND. And where they get results.

Mr. DIXON. Yes.

FEDERAL-STATE COOPERATION

We started here 2 or 3 years ago to establish a Division of Federal-State Cooperation. Here we have been working with the State attorneys general. We have a regular liaison program setup. When we get a matter that is largely within the State, or entirely within a State, when appropriate, we send complaints to the State attorneys general and they in turn send complaints to us that they can't do anything about, or they believe could be better handled at the Federal level.

CONSUMER PROTECTION

Mr. BOLAND. I would imagine this Commission would be working closely with Betty Furness now?

Mr. DIXON. I suppose so. We worked very closely with Mrs. Peterson. With all this talk of the consumer and the consumer issue, I would say anyone who underestimates the consumer movement is in for a sad mistake because these ladies are well educated. I have participated in enough of these statewide programs and the consumer programs to know that it is more than just idle curiosity. I say to you that sometimes the ladies are rather nonplussed and mad that nothing has been done or is being done to solve some of these problems.

Mr. BOLAND. This has really driven them to organizing units within particular areas around the whole Nation to more effectively combat some of the things they are faced with when they market.

Mr. DIXON. Yes, and they have been told over and over again if they want a voice in Washington the way to get it is to speak out and they are beginning to speak. I think you can anticipate hearing from them in the future.

We largely are the agency, as the chairman says, that was created to take care of a large part of these problems. It is no minor figure to get this much mail from the public at large. It has to be handled and we constantly are battling to keep our heads above the waterline here and not to be drowned in it and trying to devise new means to approach it.

Mr. EVINS. I notice somewhere in your budget text that you referred to the strikes against rising prices in the supermarkets by the ladies in various cities, and the Secretary of Agriculture called on the Commission to look into the rising costs——

Mr. DIXON. Bread and milk.

Mr. EVINS (continuing). The rising food costs, but we didn't find in your justification what was accomplished or what was the result. I know you looked into it and I know there was public concern, but you didn't spell out the results.

Mr. DIXON. We gave him what I considered to be an interim report. There were some trouble areas where we are still working, in depth, but by and large the report we gave him was that these increases generally reflected a carrying forward of cost increases from down below.

As a general thesis this is what we told the Secretary of Agriculture, but there are many places where this doesn't quite add up and we are looking here into bread and milk specifically.

Congress appropriated some $2 million for a study by the National Food Commission. A study and a report to the Congress was made which suggested we should carry that on. We can't carry it on without money and no money is in this budget for this work.

A large part of our effort is in the food industry because it is so important.

Mr. EVINS. As these situations develop, the Congress calls on the Federal Trade Commission to investigate, or they set up a special resolution to call on Agriculture, and they in turn refer the job to the Commission because you are supposed to be expert in the field and already have a reservoir of information. You are generally the agency that can give the answers?

Mr. DIXON. We can come close to it if you can equip us to do it, but it does take manpower.

We are constantly told, and reminded, about management and about planning and we must, if we are going to do this major job, we must have the task force to do it with or else we can't do it competently for the Congress.

About 20 percent of our funds are spent now in the food industry in one division or another at the Commission. But in the broad overall economic study of saying, "Are these justified, are they unjustified, what could be done, what can't be done, what law violations, if any, exist?" Takes a lot of digging.

Mr. EVINS. What did the report show as to the price increase? Was it the producer? Was it the middleman, the retailer, the wholesaler? Where did the big spread occur?

Mr. MUELLER. It showed the initial increase came at the farm level, but that this represented only a small part of the total. The biggest part of the increase occurred at the wholesale bakery level; much of this represented a readjustment on the part of bakers who had their margin very severely squeezed and had previously been losing money. They used this as an opportunity to sort of catch up. There wasn't any real gouging of the consumer on their part.

At the retail level it appeared that retailers were largely passive to the increase. If there was no increase to them, they didn't increase their margin. But when there was they passed it on and even added to it.

Mr. EVINS. I thought there had been a gouging of the public. I thought prices went up inordinantly. When the average person goes to the market, his dollar doesn't go as far. I thought the Commission

would find there had been a gouging somewhere along the line and would try to pinpoint the areas of increase.

Mr. DIXON. There are some particular markets that we have continued on in a little more depth in order to more fully explain it.

Mr. EVINS. In any event, it is a continuing problem and some people were even recommending during the war, emergency controls to keep these prices from spiraling.

Mr. DIXON. Certainly it will be with us a long time because it is a fact that at any time the basic cost of wheat and labor and handling charges are increased, the consumer is going to pay the final bill. The question is, does someone along the line take advantage of a situation? I think largely in milk and bread there has been a pyramiding to maintain the traditional markup and, as it goes on toward the consumer, it adds up.

INDUSTRY GUIDANCE PROGRAMS

Mr. Chairman, in our guidance program, I think that here we have a well-balanced program. I think it has served the purposes of the Government very well.

As you mentioned, we do have three divisions here. We have had trade practice conference rules and guides program; we have the trade regulation rule program, and the advisory opinion program. In our "Guidance," we make surveys to determine the degree of compliance that we can get with these rules and guides. For instance, after we put them out, last year some 400 violations were disposed of on assurance of discontinuance. This was an increase over the previous year, but we are trying to get these results without the traditional cease and desist order, if we can. We have been quite successful at it, I believe.

We answered also some 1,300 advisory questions from the businessmen. Now, the businessmen know that we have the program and they are utilizing it.

As an example of this, the troublesome thing, going back to this new law, we met once and we are going to meet again in the very near future with an executive group, a selective group of grocery manufacturers. Now, these are the large and across-the-board manufacturers of food products and we are trying to learn from them their problem so that when we come forward and promulgate our rules, we will at least have the benefit——

Mr. EVINS. Mr. Chairman, we may be getting ahead of you in your budget, but in your Bureau of Industry Guidance you have the Division of Trade Practices Conferences. I think we know what the Trade Conferences are. They draw the industry together and delineate rules of fair play. These are rules the industry can abide by and they approve them and the Commission approves them and puts them into effect.

Then you also have a Division of Trade Regulation Rules and a Division of Advisory Opinions. Spell out for the record the difference between Trade Practice Conference Guides and your Trade Regulation Rules, and your Advisory Opinions. This is all in one shop, but you have three divisions.

Mr. DIXON. You are quite correct. The committee is aware of the Trade Practice Conference. When the industry comes forward and

says, "We would like for you to participate with the industry in promulgating ethical guides for us."

Mr. EVINS. Is that your Guides or your Conference?

Mr. DIXON. A conference, but a rule growing out of a conference is more like a guide.

A trade regulation rule expresses in a more positive manner the experience of the Commission, based on its cases and other information developed in a regular rule-making proceeding. This trade regution Rule Procedure was adopted by the Commission in 1962.

Mr. EVINS. The rules are enforceable and conferences are not, is that what you are saying?

Mr. DIXON. Yes, in a manner of speaking. Trade regulation rules are based on a record and are supported by definite findings. Their use in litigation, we thought, would help us to overcome the problem of lag primarily, Mr. Chairman.

When we envision the promulgation of a trade regulation rule, we must follow the act very carefully. We must give notice in the Register; we must have a record; we must have a basis for our finding—and there is a finding made. There is no finding in TPC. After a trade regulation rule becomes effective, we attempt to find out if it is going to be complied with. If it isn't, we put our other hat on, issue a complaint and the trade regulation rule, in appropriate cases, may be used to speed up the hearing.

Mr. EVINS. When you issue a rule, that is enforceable to all the industry?

Mr. DIXON. It is.

Mr. EVINS. It grows out of one individual case or study?

Mr. DIXON. It will come out of a study or a trade practice that might be prevalent throughout an industry.

Mr. EVINS. When you issue Trade Practice Conference rules these apply to an industry too, don't they?

Mr. DIXON. But it is said, "Why don't we do this and eliminate Trade Practice Conference rules?" The trade regulations rule is more of a force. We don't have an invitation to help. We do it ourselves. We think public interest demands we have better compliance.

Mr. EVINS. The Commission stimulates the conferences too. They say "Why doesn't the industry get together and do this by whosesale methods?"

Does industry knock at your door and plead with you to do this?

Mr. DIXON. We don't have as many Trade Practice Conference applications as we used to have. We have hearings now on many things. For instance, we have had hearings on automobile tires covering price representations, the guarantees, and the confusing statements with which the public is confronted.

Mr. EVINS. They are both enforceable if the Commission decides to proceed with enforcement, but your guides growing out of a rule you think are more current and probably have a greater impact.

Mr. DIXON. The guide is just what it is. Guidance. Trade Practice Conference is a guide in the sense that it comes with the full help of a full industry. It is a form of guidance. A trade regulation rule the way we must handle it under the APA, is supported by findings, and when we issue the rule, it is more readily enforceable than either one of the others where you have to start de novo over again just as

if this was a single matter. We take notice of the record when we enforce the trade regulation rule. In the case of a Trade Practice Conference rule there is usually no record involved.

Mr. EVINS. The rules are more of a new concept?

Mr. DIXON. It is, sir. We came forward with it in the cigarette advertising-labeling procedure. It never came to fruition and there never was a challenge of it because the Congress stepped in and passed a specific statute on it.

Mr. EVINS. Does industry and business generally understand the difference between Trade Practice Conference and Guidance Rules?

Mr. DIXON. I think every lawyer in the United States who is advising his client does understand this and I would believe that the industry largely—I mean the business—does too, sir.

Mr. EVINS. Then you have a third Division of Advisory Opinions where somebody writes in and wants to know if this particular practice is illegal, or whether they can get by with it or whether it is acceptable to the Commission.

Mr. DIXON. Yes, sir.

Mr. EVINS. And this is on an individual, informal letterwriting basis.

Mr. DIXON. It is a little more than informal. When we adopted this procedure, we thought the businessman was entitled to a place in his Government. If he could be sued and fined if he violated any order, he ought to have a place where he can come and say, "I propose to do this," and if it is practical, we should be able to say "yes" or "no" as to whether he can do it. We found this acceptable and we have upgraded this to where we are putting out digests so it will give guidance to others.

I find this very gratifying.

Mr. EVINS. I am a little concerned as to whether there is some confusion in all the guidance. We have three different types and we used to have one.

Mr. DIXON. Mr. Chairman, I don't think there is a bit of confusion from it. In other words, we give guidance in many ways. We can give guidance in a formal complaint case; issuance of complaints and establishment of facts.

When we write the opinions, it is required that we state a reason for what we are doing. We can give that same guidance in the form of a declaratory judgment without an order. We can give it in a statement. We can give it in a guide; a guide is something we can issue without any hearing or anything predicated upon past experience saying that "henceforth we are going to say to our staff that when these matters come to you, you will issue a complaint and proceed," and we tell all the industry about it.

Now, in a Trade Practice Conference, this always deals with one industry. A guide may cut across several industries, such as a pricing guide. A fictitious pricing guide will affect every industry that engages in fictitious pricing. If you have a trade practice conference there might be one of the ethical rules that is adopted here, but the guide would be broader.

Now, the trade regulation rule would be specific. It would have to deal with particular methods or practices.

Mr. EVINS. All of these devices are cutting down on the numbers of complaints and cease-and-desist orders of the Commission?

Mr. DIXON. You are quite correct.

Mr. EVINS. You are now an adviser and you have conferences and give free opinions in the form of letters. If you issue a public statement, does it have more bearing and effect than if a lawyer gave an industry an opinion?

Mr. DIXON. If we give one, it says to him under our rule that we are bound by it until and unless we change our minds and if we change our minds for good cause, we will give him notice of the change and an opportunity to change his ways before we will sue him.

It used to be when we gave advice by individual staff members, the Commission could just say, "We didn't give you the advice and we will sue you anyway."

We think what we are doing today is more consistent with what Congress would desire us to do.

CHANGES IN WORKLOAD

With regard to what you say about the falloff in the number of complaints and orders, this is true, sir, but we are getting the result and you are getting a better dollar value and much more effectiveness than you got out of that other procedure. Six years ago when I came here and promised you this, I wasn't wrong when I promised you the way the numbers would add up and count.

Mr. EVINS. You are getting more applications; you are getting more settlements; you are getting more informal actions but you are having less complaints——

Mr. DIXON. We are getting better results.

Mr. EVINS. And less injunctive orders, less cease-and-desist orders, and probably less matters in the courts?

Mr. DIXON. I don't know if we have any less in the courts or really too much less in the number of complaints. I have looked at some of the charts on that. I would anticipate that in the future our formal side is going to go up.

After you guide an industry to where everyone is on the same notice, then if some one or two or several don't pay any attention to the guidance, there is nothing you can do but to sue and sue quickly or your guidance is of no avail. We have gone full circle. We are arriving at that point on much of our work right now.

TRADE PRACTICE CONFERENCE

Mr. EVINS. Your Trade Practice Conference rules are still in effect and you still enforce them, do you not?

Mr. DIXON. We still insist that within that division they keep constant surveillance over the individual industries, stay aware of developments and call upon them periodically for information to see if they are carrying out their own Trade Practice Conference rules.

Mr. EVINS. You state here that "Highlights of the program for Trade Practice rules calls for issuance of TPC rules to eliminate deceptive practices in the $2.3 billion paint industry, particularly misrepresentations of paint quality; a guide to halt widespread misuse of washability claims for wearing apparel; trade practice rules aimed at false advertising in the $550 million pet food industry." By dollar amounts you make the size of your guidance appear very impressive.

Mr. DIXON. That is right. If we can guide industry without the cease-and-desist formal approach, this is much better than a one-at-a-time approach with a complaint and an order.

We are asking for three new attorneys in this whole bureau. This is a very modest increase. This we are asking for the general work.

RESTRAINT OF TRADE PROGRAMS

When we come to our restraint of trade, we certainly expect, as we have every year, an increasing workload. We estimate that it will be necessary to initiate more than 300 formal investigations, as contrasted with last year's 251. We anticipate the number of litigated cases will rise.

We know it will be necessary to challenge some of our larger corporations. We know that joint ventures have become quite popular with some diversified corporations as a means of entering new product areas without raising the antitrust-antimerger law.

CORPORATE JOINT VENTURES

Mr. EVINS. I wish you would spell out for the committee some examples of joint ventures that might be questionable.

Mr. DIXON. We recently resolved one tremendously large one.

Mr. MUELLER. A case brought under section 7 was settled with a consent settlement against National Distillers, and Phillips Petroleum. These two companies had established a series of four joint ventures in the field of polypropelene and polyethylene. This settlement, requiring the divestiture, the separation of these four companies. What had happened was that these two companies had initially joined in forming one joint venture, which in turn had made a series of acquisitions, and then established successive ones so that instead of competing in these very important and rapidly growing fields, they were developing them jointly. It resulted, in effect, in a merger of the two companies which were both very substantial concerns. This is probably the most important merger case, or certainly one of the most important merger cases that has been brought by the Federal Trade Commission or the Antitrust Division in the last few years.

Mr. MUELLER. Yes, sir.

Mr. EVINS. This was a divestiture order issued within the last year?

Mr. EVINS. They complied?

Mr. MUELLER. They are in the process of compliance.

Mr. EVINS. Tell us about it for the record, Mr. Sheehy.

Mr. SHEEHY. Both of these companies indicated rather definitely they were interested in going into these fields, polypropelene and also polyethylene. Film products and molding products, the plastics, as you know, are made from resins, and these companies were substantial producers of the resins, the basic material. So there was a cross between their basic products and their ultimate products in the nature of fibers, films and packaging materials. Both companies were actual or potential entrants into these businesses.

We had previous correspondence between the companies showing the action they contemplated taking. Both had made extensive studies in this field before joining in creating a new jointly owned company, Alamo Industries. This company then acquired a number of the

users of these products so you had a horizontal and vertical integration effected through Alamo. The joint venture was broken up completely by the Commission order and the Commission did something in that case that I think is rather unusual in that it ordered Phillips to reenter the resin business through the construction of new plants for the production of both polypropylene and polyethylene resins.

Mr. EVINS. You indicate the trend is toward more and more of these joint venture operations?

Mr. SHEEHY. As we get more litigation in the horizontal and vertical fields, it is becoming quite clear, I think, to industry and to their advisers that those are going to run afoul of the law. They are now moving over into the conglomerate area and into the joint venture area. The new ones coming up, and the very difficult ones, are in those two areas.

Mr. EVINS. You mention here in the grocery products industry and the fertilizer industry that there are challenging cases for the new year.

Mr. SHEEHY. In the fertilizer industry you have the petroleum companies to a considerable extent going into that. They are different from the products they usually handle. They may not have the direct horizontal or even the vertical adverse effect on competition, but we would want to examine such factors as the likelihood of adverse competitive effects flowing from the foreclosure of potential entrants. In the grocery products, you have a functional relationship between different products in that they are marketed principally through supermarkets and the large chains.

RETAIL DRUG BUSINESS

Mr. EVINS. Has the Commission ever investigated the doctors, the operating hospitals going into the retail drug business?

Mr. DIXON. No, sir.

Mr. EVINS. Does the Commission propose to investigate this competition to the small independent retail druggist? There have been some indications that the doctors issue prescriptions on formulas, which consist of certain numbers that only the drug stores that they own and control can fill; no one else can read the prescription.

Mr. DIXON. I know of no more troublesome problem than this because the problem generally, Mr. Chairman, is the right of an individual or corporation to go vertically forward toward the consumer. Now, this permeates our whole industrial complex.

It gets very difficult when you get into a kind of a closed business, like drugs, because if a man that orders it does not pay for it, the fellow who pays for it doesn't order it. If he writes a prescription where he owns a drugstore—the question—might it be unethical for a doctor to do a thing like this? I don't know. I know it has been brought up on Capitol Hill and I know there is a bill aimed at doing something about it. I think that the proper way, if you wish to do something about it, is by legislation.

Mr. EVINS. I think the Commission might well make an investigation and develop the facts and give us some information as to the extent and the volume and the potentials. I just wondered if the Commission had.

Mr. DIXON. We do not have it now, sir. We can do that, of course. We can do that.

Mr. EVINS. Proceed, Mr. Chairman.

MERGERS

Mr. DIXON. We were just on the verge of beginning to talk about mergers as such. I think it might be of interest to you, Mr. Chairman, to know that in just over 2 years we have issued some 26 complaints in the merger field. This is nearly one-third of all the merger complaints issued by the Commission since 1950. This is within just the last 2 years.

I might say something else, that these are not just ordinary complaints. These are complaints of some substance and it takes the most highly competent personnel to delve into these problems, because we are coming nearer and nearer to the problem of what, if anything, is to be done about diversification through conglomerate mergers.

CONGLOMERATE MERGERS

What about the true conglomerate merger? I might say for the committee, I could reach into thin air and give you a real definition of the pure type of conglomerate. Take a giant automobile manufacturer that might buy a ribbon manufacturer. Well, this would be a conglomerate. But it also would be a conglomerate if in a sense he had never been in a line of products, and he might not ever have manufactured tires, he might go and buy himself a tire manufacturer. We call that a vertical, but still it is in a sense a conglomerate. Now we are getting closer and closer to that problem.

We have pending, as you know, in the Supreme Court a case involving the Proctor & Gamble-Clorox merger. This was argued recently in the Supreme Court. Proctor & Gamble, largely a soap and detergent manufacturer, acquired Clorox, a bleach manufacturer. We challenged the merger and included that it violated section 7 of the Clayton Act. This mater is now before the Supreme Court. This is the first conglomerate case to reach the Supreme Court. I think this decision will spell out guidelines in the conglomerate merger area.

Mr. EVINS. Is the law pretty well settled on horizontal mergers and is it settled on vertical cases? Now you are going into the third field, the conglomerate field. You say this is unsettled.

HORIZONTAL AND VERTICAL MERGERS

Mr. DIXON. Mr. Chairman, with the *Brown Shoe* case and the *Von* case and the *Pabst* case and the *Crown-Zellerbach* case and others of the horizontal type, the legal advisers to the giant corporations have pretty clear advice that it is rather precarious for them to buy a competitor that they are competing with headon.

In the vertical field, the Bethlehem-Youngstown question was a horizontal one, too. But we have had other vertical cases. We had one against Union Carbide, the Visking matter and also the cement cases. We issued about 15 complaints. Here the giant cement industry started toward the user of cement by buying the ready-mix companies.

Because of the industry-wide nature of the practice we held a public hearing and we have rendered a report to the industry, kind of a guideline if you please, to the industry so that they can anticipate the Commission's action or challenge. We are hopeful that this will slow these mergers down. When one cement company buys a large ready-mix outlet its competitors then look for ready-mix concerns they can buy. Pretty soon the whole independent ready-mix business could disappear in this kind of movement unless something is done about it.

Years ago we found a similar situation in the makers of corrugated boxes and paper and board that went into boxes. We issued a number of complaints here. They were merging forward. We tried to solve that by a number of cases wherein we issued prohibitions against future acquisitions without Commission clearance. We think we did a fair job.

Mr. EVINS. We on this side of the aisle think the Commission is consumer-minded and public interest minded, but we feel that matters are getting more and more complicated. You are not in any way clarifying the situation.

Mr. DIXON. I rather agree with you, because what is facing this giant complex economy of ours is whether or not we want to go forward with a miximum amount of freedom, do nothing, or regulate. Now we are in the middle.

SIZE AND NUMBERS OF MERGERS

In my opinion, you, the Congress, very wisely have chosen the course of attempting to do something about it in the broad body of antitrust law where we fit. Now nothing is simple today, I will tell you that. It is quite complex. Problems that we formerly worried about involved maybe $5 million, now it is $100 million or a billion dollars. We are confronted with a merger now before us that involves nearly $2 billion.

Does the Congress worry about this? They did when they passed the law. The Congress passed an amendment in 1950 called the Celler-Kefauver amendment and they said they were worried about any merger and they did not say whether——

Mr. EVINS. We are still concerned about these mergers we read about in the paper. We are still alarmed by these news reports that the economy is becoming more and more concentrated, as we have more and more consolidations. We sort of look to the Commission to protect the consumer, protect free competition, and preserve our free enterprise system.

We have the worry but we sort of cast it on your shoulder. We want to know: Are you discharging it?

Mr. DIXON. Well, Mr. Chairman, I always say we can do a better job with more people. That is always——

Mr. EVINS. You always come back with the answer.

Mr. DIXON. A pat answer. But I say to you that I fully understand the congressional approach. You here at this committee have as much to do with what we are going to do or not going to do, more so than anybody else. I think we are doing a fairly competent job and that with a few more adjudicated cases the guideline will be loud and clear to the business community as to what they can expect if they continue this kind of a movement.

OTHER RESTRAINT-OF-TRADE PROGRAMS

Mr. EVINS. Mr. Chairman, I just marked a couple items here in your justification. You talked about the boycotts and exclusive dealing in the wearing apparel industry. I thought that was a settled law in the *Sheehy-Fashion Originator* case a long time ago. What about the ad rates and double billing in newspapers, what are you doing in this field?

Mr. DIXON. Well, we have launched out in this field.

Mr. EVINS. You say launched?

Mr. DIXON. Yes, we have launched out in this field. We have got a beginning in this field.

Mr. EVINS. What are you finding with respect to double billing in newspapers?

Mr. DIXON. Double billing may exist in many media. It is a process of sending two types of bills. In other words, if I am getting an allowance from my supplier for the advertising of his product which I place with the media I will receive two bills from the media. I will pay the media on the basis of the lower amount but forward the bill showing the higher amount to my supplier and be reimbursed by him on the basis of that bill.

Mr. EVINS. In other words, secret rebate or a discount?

Mr. DIXON. Yes, sir. I do not think anybody that is engaged in it is very proud of it and I would be hopeful that it would disappear even before we get our hand too hard on it. But our concern is with any discriminatory rates that may exist in television, radio, and advertising generally, particularly with the effect this may have on the small man. This means that he does not get the benefit of these special discounts or special privileges. We are looking into these things.

Mr. JONAS. Will the chairman yield?

Mr. EVINS. Mr. Jonas.

RADIO AND NEWSPAPER ADVERTISING RATES

Mr. JONAS. Do you have any complaints from advertisers that they are compelled to advertise in two newspapers when one group has a monopoly on the newspaper field in X city?

Mr. DIXON. We have had such complaints; yes, sir.

Mr. JONAS. Is anything occurring about that?

Mr. DIXON. I do not know whether we have anything as such.

Mr. SHEEHY. I do not think there is one under investigation at the present time.

Mr. JONAS. Is that illegal?

Mr. DIXON. Well, a tying-in arrangement maybe. It depends upon the facts. If you were to say to a man, "I will refuse to take your ad unless you buy a package," you buy a package. You say, "I have two papers here, I have a joint rate. And this is the way I do business." Then you say, "I want to advertise in one." He says, "Well, this is the way I do business."

What other avenues do you have to advertise? Is this an abuse of your power? Do you have a monopoly? These are very difficult questions.

Mr. JONAS. Have there been any cases on this, any proceedings?

Mr. DIXON. The *Lorain Journal* case that went to the Supreme Court was the nearest thing to this. The Times-Picayune is also this type of case. I remember Lorain Journal generally. A newspaper enjoying a monopoly position refused to accept advertising from any company that advertised through a local independent radio station.

Mr. JONES. What was the decision in those cases?

Mr. DIXON. It was unfavorable, it was against the law. They violated the law there.

Mr. EVINS. Generally the Commission hasn't been in the radio field or the newspaper field but there are areas in which there could be misleading or false advertising which would come within your jurisdiction.

RESTRAINT OF TRADE WORKLOAD

Mr. Chairman, take a look at page 50. That is the workload of your Bureau of Restraint of Trade. You show that complaints issued in 1966 go down from 80 to 30 as to consent settled dispositions. In 1966 you disposed of 80, and you estimate next year 30, which is even more than last year, 22.

You show litigated dispositions increased from 40 to 45, estimated.

Mr. DIXON. Well, we anticipate that they will go up. Was that 80 we had in 1966?

Mr. SHEEHY. That included a very substantial number of the clothing cases. We had 300 complaints in the wearing apparel industry and that concluded that particular group of cases. They were price discrimination cases that were settled almost entirely by consent.

The 30 figure comes closer to the hard-core cases that we can expect to have from year to year.

Mr. EVINS. Thirty, forty, forty-five, in that area?

Mr. SHEEHY. That is correct.

Mr. EVINS. Now the Bureau of Restraint of Trade at the present time investigates the complaint. They also issue the complaint and try the complaint, so it is all handled in one division, is it not?

Mr. SHEEHY. That is correct; and the compliance, after the order is issued.

Mr. EVINS. Applications on hand, you have 414 adjusted. What do you mean by adjusted?

Mr. GLENDENING. That was last year, at the beginning of last year. A minor adjustment of one or two cases.

Mr. EVINS. Then it goes down from 414 to 275.

Mr. SHEEHY. Those are the ones pending at the end of the year.

Mr. EVINS. Formal investigations go down from 930 in fiscal 1966 to 689 in 1967.

Mr. SHEEHY. That is correct. You see, the investigations completed or cases closed has gone up. What we are tyring to do is clean up our old docket and we are doing a pretty good job there.

Mr. EVINS. Investigations completed or closed in 1966 were 492 and in 1967 it was 290.

Mr. SHEEHY. Correct.

Mr. EVINS. And next year 295 it is estimated.

Mr. SHEEHY. A large number of cases came over from some section 6(b) inquiries, initiated about 1960. Those were finally cleared out

of our docket and they are included in that 492 group. Now we are back to a more normal caseload.

Mr. EVINS. Tell us about your litigated cases, 40 and 40? The courts are moving slowly. Forty in 1966; you estimate 40 in 1968. Cases completed in 1966 were 22 and you estimate you will complete 39 in 1968. You say at the end of the year it will leave you with about 46 cases.

Mr. SHEEHY. Right.

Mr. DIXON. Mr. Chairman, under our present procedures the type of litigation that we have that go to complaint and trial are hard core.

Mr. JONAS. May I ask a question, Mr. Chairman?

Mr. EVINS. Mr. Jonas.

TEXTILE LABELING ACTS

Mr. JONAS. Mr. Dixon, I assume you have read the speech of Senator Pastore in the Senate on March 1 in which he discussed the unfair competition in the domestic textile industry, competition which it faces from a flood of imports and in which he points out that there is no effective control over mislabeling of textile exports to the United States. Yet the domestic industry is being required to live up to the Labeling Act and no effective control is exerted by the Federal Trade Commission on imports.

Did you read that speech?

Mr. DIXON. I had it called to my attention and I am very much aware of the problem because I think we are getting very close to solving it. Of course, as you are aware, when the Wool Products Labeling Act was passed in 1939 or 1940, very stringent controls were placed upon the domestic manufacturer.

Mr. JONAS. Right.

Mr. DIXON. Recordkeeping and the ability to do something about it if compliance was not engaged in.

Now in recent years, big buyers and big sellers, big department stores import large quantities of woolen knit sweaters. Primarily the problem came in the form of a sweater that could come in labeled "all wool" or "virgin wool" or "cashmere" if they wished to do it, and apparently they were coming from certain sections of the world.

Their competitors would buy them, have them tested and complain to the Federal Trade Commission. We tried to resolve it by a proceeding. That wasn't a good enough answer because it was after the fact and literally hundreds of thousands of these items might get into commerce and be sold before you could do anything about it.

And so, as a result of what Senator Pastore is talking about the Commission suggested an amended rule. We have rulemaking power under the act to correct this, to set up a procedure at the port of entry.

Now, of course, we got very vigorous support from the domestic manufacturers and we got very vigorous and dire prognostications from the importers. But we have tried to work this out together with the Customs Bureau and all parties involved. I think, sir, that we are very close to a resolution of it.

Mr. Stringer, is that far wrong?

Mr. Stringer is the head of our Bureau of Textiles and Furs and we have this proposal pending right now. It ought to be very close to being resolved.

Mr. STRINGER. That is correct, Mr. Chairman. I hope that before too long, after conferences with all concerned, including the State Department that has interested themselves in the matter, that we will have the import of wool products resolved before too long.

Mr. JONAS. What do you propose to do?

Mr. DIXON. To have them tested.

Mr. STRINGER. We propose to set up a procedure whereby customs will furnish us with a form relating to each import. We will make a determination based upon our knowledge of prices and so forth and the type of product it is, as to whether or not it should be tested for content. If it is tested for content and the goods are found to be mislabeled, then they will have to be correctly labeled before they are distributed to the trade.

Mr. JONAS. Now the Labeling Act applies to imported articles as well as domestically manufactured?

Mr. STRINGER. Yes, sir.

Mr. JONAS. But according to Senator Pastore, you have not been doing anything to restrict mislabeling or eliminate mislabeling by foreign exporters to this country. I just read two paragraphs from his speech:

> It is my fervent hope and expectation that the Chairman of the Federal Trade Commission, Mr. Paul Rand Dixon and other members of the Commission will not be swayed by the pressures of foreign governments which seek to let their exporters of wool products continue to disregard our labeling laws and deceive American consumers. If that is going to continue I say that we should repeal our own labeling law. If we can not enforce them in toto for the benefit of all consumers, then I say a haphazard job should be eliminated completely.

Mr. DIXON. I say amen to what he said.

Mr. STRINGER. We have taken many actions against importers of misbranded products, but as Chairman Dixon explained, the difficulty has been we may get an order against that man but the goods are scattered out all over the country.

Mr. JONAS. That is right. The place to stop it is at the port of entry.

Mr. STRINGER. That is what we propose to do.

Mr. JONAS. Not wait until it gets scattered all over the United States.

Mr. BOLAND. This will require a considerable number of additional employees, would it not? You have 5,000 importers of textile products and if you don't get any cooperation from the customs—and they do not do the inspecting to determine whether or not these importers are fulfilling their obligations and responsibilities under the law, you have to do this, do you not? They do not do it?

Mr. STRINGER. That is correct.

Mr. BOLAND. With the result that the problem is you do not have enough employees to do the job that Congress has handed you the responsibilty to do in this area?

Mr. DIXON. We have a very limited number to do it in the United States. But what Senator Pastore is addressing himself to is that our major problem seems to be coming from abroad. Of course, each

time you raise one of these questions you are told, "This is a nontariff barrier that you are setting up that will discourage this trade from abroad."

Now, the Federal Trade Commission is under a mandate to stop deception generally, and stop this specifically.

Mr. EVINS. What Mr. Stringer has said is if you have issued any injunctive orders it is after the merchandise has been imported and widely distributed, the horse is already out of the barn before you take action.

Mr. DIXON. Our proposed rule is not to let it loose in domestic commerce unless it passes a test.

Mr. EVINS. Can you not get cooperation from another agency of the Government, the Customs Bureau, where it is imported?

Mr. GLENDENING. The Customs Bureau says they do not have the money to furnish the manpower to do the work.

Mr. EVINS. Every problem that comes up they always say they do not have the money.

Mr. JONAS. Well, you could make a start and do it on a sampling basis. You do not have to inspect every box of goods. You will soon find out. It wouldn't take an army to do that.

Mr. DIXON. We are working toward such a rule.

Mr. JONAS. I was disappointed personally when you said the State Department was getting into it.

Mr. DIXON. I did not say they were getting into it. I say people come forward reflecting—these are the views that are told on any problem of foreign origin, we are told. And it is a real problem, you cannot duck it. But our problem is—even taking that all into account, what can we do that will resolve this problem sensibly? And we are driving toward that right now.

Mr. EVINS. That is what we are asking you, Mr. Chairman.

Mr. DIXON. We are one step away from it. We have been on it. Mr. Pastore, I think, is fully aware of it.

Mr. EVINS. Well, we have this foreign competition, products coming in, mislabeled, misbranded, misrepresented, and they are scattered all over before the Commission gets an injunctive order out. I notice in your justification you make a fine claim, one that always interests me; that is, about your helping the balance-of-payments situation.

I do not believe the Federal Trade is helping the balance-of-payments situation. You are not stopping enough of this. If you were, you might be helping the balance-of-payments situation.

Mr. DIXON. Well, I say——

Mr. EVINS. That is just language. You are not showing anything you have done concretely to help the balance-of-payments situation. It is nice language in your justifications. I think Mr. Jonas has a point. I think the Congress is concerned. If every agency of the Government would do its part in this area, there would be substantial progress. They all say, well, it is a small amount, it is minimal. If they all take that point of view very little will be accomplished.

Mr. DIXON. Well, we have a problem on foreign origin. Much of the insides of electronic instruments are coming from Japan, watches are coming from Japan. If you say, "You have to mark where they come from," people tell you, "It doesn't help the consumer, it will destroy the balance of payments, biggest customer, you are going to kill these things."

We have people at our hearings who so testify about those things. We are talking about here hundreds of millions of dollars. We have the right under the Wool Act, for instance, to go to anybody that makes the yarn in the United States, inspect and test and see that his records are kept. But if this yarn is made in Italy, we do not have any such right.

Mr. JONAS. Neither does customs.

Mr. DIXON. No.

Mr. JONAS. You have to do it at customs?

Mr. DIXON. We have to do it at the port of entry somehow. Now if you do it on any sweater that is brought in here, it is going to take some time. We are going to require the man that is importing it to have it tested and give us a report. If we agree with the report then it can be released in commerce. They say, "This will kill the sale. These things have to be ordered a year in advance"——

Mr. EVINS. You proceed on injunctive orders against American industry; they comply voluntarily and otherwise. But when it comes to the competition, you are not as effective as you might be.

Mr. DIXON. Mr. Chairman, we have never tried to proceed this way. We have proceeded after the act on these imports, you see. That is too late. I agree with the problem entirely, that we have been too late. Now I do not know who these people are, whether they are careless or know what they are doing or not, but when they order say 10,000 dozen sweaters to be brought into the United States, will all of them pass muster? There are no records.

The importer could go over there and say, "I don't want to buy a thing from you unless it passes the American law requirement."

The seller says, "We will test it and certify that to you." Then they come over here and they are not up to snuff. What do you do about it? Well, as far as I am concerned, I stand fully for the fact that we should not do anything to our domestic industry that may put them at a disadvantage.

Mr. EVINS. Well, Mr. Chairman, we hope you will be more vigorous and more active and direct more attention to this area. These imports and the competition with American manufactured products, which basically are complying with the law, are becoming more and more competitive and increasing in amount.

Mr. DIXON. The rule that we issue, sir, when we get it out—and I say to you we ought to be very close to it—should go toward resolving that problem.

Mr. JONAS. I would hope so, too.

Mr. DIXON. I would hope that that would resolve it.

Mr. JONAS. Yes; because we have plenty of other competitive factors that put this industry at a disadvantage. This is just adding to it.

Mr. EVINS. You mentioned that products are scattered geographically, a proliferation of new fabrics, particularly synthetics, and a growing volume of imports. This is what you are talking about?

Mr. DIXON. Yes, sir.

Mr. EVINS. It is all interesting reading. You could go on at great length on each and every one of these.

PERSONNEL INCREASES REQUESTED

Mr. DIXON. We only ask for six employees for this whole Restraint of Trade Bureau, none in our General Counsel. In our Textiles and Furs Bureau we are talking about a total increase of eight.

DISCOUNT HOUSES

Mr. JONAS. Do you have any problems with the discount houses?

Mr. DIXON. Well, if we have any problems they come primarily from misrepresentation on a hit-and-miss basis. I don't think we have too many left today, sir. Discount houses, I think, have been finally accepted as a way of doing business. It is competition. Some people don't like it.

Mr. JONAS. I guess some of the competitors don't.

Mr. DIXON. No; they do not.

Mr. JONAS. But the customers do.

Mr. DIXON. The customers always like anything that gives them a chance at a lower price. They love price wars, which are quite destructive.

Mr. EVINS. Mr. Chairman, on page——

Mr. JONAS. Are you leaving the general questions?

Mr. EVINS. No. Mr. Jonas.

Mr. JONAS. I thought you were getting ready to go into the justifications.

I want to talk with Mr. Dixon about a matter that came to my attention which indicates to me a high degree of harassment. I would hope that it is not general and that this is an isolated instance.

INVESTIGATION OF COMPLAINTS

I had a case brought to my attention last March by a company official who said that on February 14 his company received a phone call from a Mr. Daniel Reddy, who identified himself as an attorney with the Federal Trade Commission in the Boston, Mass., office. Mr. Reddy stated that a letter had been received in the Federal Trade Commission's Washington office alleging unfair competitive practices on the part of the company. Mr. Reddy refused to state who the complainant was or the nature of the alleged unfair practice. He would not say where, when, or how the alleged unfair practice took place. He further stated that he would not put in writing what the alleged unfair practices were. At all times he was extremely courteous but made it clear that the Federal Trade Commission has carte blanche authority to make a complete investigation of any business solely upon a complaint letter.

The company official requested that Mr. Reddy send him a letter outlining his position and he did so and asked that the company furnish the full legal name of the company, its affiliates and subsidiaries, the date and State of incorporation, the names of the officers and directors, location of all branches, and an oral statement identifying who formulates the policies and directs and controls the acts and the practices of the company; the gross dollar volume of business of the company for each of the years from 1960 through 1965; the names and addresses of the New England manager of the company, the man-

ager of the Worcester office and all sales representatives in the New England area; an oral statement of the name and address of all competitors in the New England area, the names and addresses of all customers of this company in New England and for the period January 1, 1964, up to the present time access to the following materials: all interoffice correspondence between the New England office of this company and all branch offices in New England, correspondence with customers in New England, minutes of board of directors' meetings, minutes or records of any sales meetings which involved the salesmen from the New England area.

And then this lawyer said he would be down in a few days for an investigation and he wanted all that information available when he got there. He spent 3 days going through all of the records of this company and finally, I was told that the Commission decided there was no basis for any action, after harassing this company and requiring all of these voluminous records information, solely on the basis of a letter somebody wrote to the Commission which you did not investigate, you did not verify, and did nothing but turn it over to this lawyer and he goes down and demands all this investigation.

Now, is that the kind of thing the American businessman has to put up with from an agency of the Federal Government?

Mr. DIXON. Well, Mr. Jonas, I would have to place it in the setting of how a similar matter such as that would arise.

If the Commission receives a complaint from a competitor or someone who feels that he is aggrieved, it would be vested in one of our three bureaus, and those bureaus are under the admonition to not, just on idle curiosity, go out and ask questions but to look behind the complaint to see if there was any merit in it; and to insist upon something other than just an idle complaint letter. But if there is reason to believe that there is a possible law violation of the Federal Trade Commission Act, it might very well have been sent to the Boston office, such as this.

I would hope that our men in the Boston office would act with decorum, but the attorney to whom the case was assigned would be told, in the Boston office, to call upon this party and obtain this information, which he did.

Mr. JONAS. Without making a preliminary investigation to see if this is other than an effort by a competitor to adversely affect his competitor?

Mr. DIXON. No.

Mr. JONAS. Would you think it is reasonable to require him to dig up all that information?

Mr. DIXON. Before it got to Boston I must assume that such a preliminary investigation had been made. Our procedures would call for that determination to be made before it went to Boston.

Mr. JONAS. Why wouldn't you tell this company the nature of the complaint?

Mr. DIXON. We don't tell anyone who the complainants are.

Mr. JONAS. I didn't ask about who the complainant was. Mr. Reddy wouldn't even tell him what the nature of the complaint was and when it was alleged to have happened. I also wrote you a letter and told you that one of the lawyers for this company said that this company had a lawsuit against the competitor in New England pending in the

district court. He called the lawyer in Washington who was representing the other company, and this lawyer said, in effect, if you would adopt a policy of live and let live, maybe your troubles with the Federal Trade Commission would be eliminated.

Mr. DIXON. Our instructions to our men, our lawyers, or anyone contacting the businessman, is to explain in some detail the nature of the complaint that he is investigating. Now, he doesn't have to reveal the complainant's name but I did notice that one of the things you read was that he was mad, because he asked who it was. Very often people are mad and say, "Who is complaining against me? I am not going to tell you a thing unless you tell me his name."

Mr. JONAS. Isn't that in the American tradition? Can you be indicted and not know who your complainant is? I have never heard of it. I never heard of that except in a police state.

Mr. DIXON. Mr. Jonas——

Mr. JONAS. You could let a man write a letter and damage the reputation of a business concern that has a good reputation and you won't even tell the man who is the complaining party? What kind of thing is that going on?

Mr. DIXON. Well, this is civil law, Mr. Jonas. Laying the two things on the scales of justice, and considering public interest, it does give you a pretty tough decision, a pretty tough decision to make. Here is the policy of the Commission, the investigational policy:

> Any person under investigation compelled or requested to furnish information shall be advised with respect to the purpose and scope of the investigation.

Now, that is what our men are instructed to do.

Mr. EVINS. It is the idea that if you disclose the complainants that the Commission might not get the information which is needed?

Mr. DIXON. Very definitely, Mr. Chairman. This is where the policy came from. Now, the Congress has passed a Freedom of Information Act that is going to change this a great deal. But nothing in the act would force the agencies of Government to reveal this. Internal Revenue even has a finder's fee for people that tell these things.

Mr. JONAS. They don't pay any finder's fee until they determine that the taxpayer owes some money.

Mr. DIXON. I agree. But I still say to you here that most of our complaints come from aggrieved parties. Let it be said that the people that have run this agency and the staff have made mistakes because, I daresay, people can be used, if not abused, at times. We try our best under our policies to make that determination before we go into the field to ask for this information. I have never seen many people that when the Federal Trade Commission came to them and asked for information didn't just get mad as the devil. They figure they are not doing anything wrong and they have got a God-given right not to have to answer any question unless they are put on the stand under oath and see the man who is talking about them. But if we did that in trying to enforce the Federal Trade Commission Act, if we had to go to, let us say that the economic power was up here [indicating] and the aggrieved party was here [indicating] and he was saying that "I can't meet the competition of this man because he is giving special deals over here [indicating], but don't tell him about it." It may come from a party involved in it and he says "I

will tell you, it is so, but please don't use my name. If you do my life is ruined."

Mr. EVINS. This particular case was dismissed after investigation by the Commission, it was closed, found not to be warranted.

Mr. DIXON. That was the advice to Mr. Jonas and I must assume that it was.

Mr. JONAS. I have a letter from you saying it was. I wrote you and brought this to your attention, asked that this complaint about the lawyer be investigated. I didn't think the Federal Trade Commission would want to have itself used by a defendant in a lawsuit to direct actions against a party on the other side——

Mr. DIXON. We don't——

Mr. JONAS. Have you checked to see whether the complainant in this case was the defendant in a private suit involving this company and the complainant? Would it interest you to find out that that is so?

Mr. DIXON. I would very definitely like to know that.

Mr. EVINS. You do instruct your staff that they are supposed to be——

Mr. DIXON. I just noticed that this man is one of our newer employees. We try to train these men and we do a pretty good job.

Mr. JONAS. Would you agree that he asked for a lot of unnecessary information here without making a preliminary investigation? Such as "all interoffice correspondence, all customers, all prospective customers." I don't know what is going on.

Miss JONES. I think the point that the Chairman was making that perhaps has been lost to you was that before it went to the Boston office there was a preliminary investigation made here in Washington.

Mr. JONAS. I doubt it. I would like to know what investigation was made and if a thorough one was made I would think that you wouldn't have had to call for all this information and this 3-day investigation of the records because as soon as you did that you dismissed the complaint.

Mr. DIXON. Let's assume I had a charge against that man that he was a price fixer, and I am speaking abstractly——

Mr. JONAS. This is not price fixing. He was talking about his competitor. Of course, if you started investigating every salesman in the United States who starts talking about his competitor, you won't get anything else done.

Mr. DIXON. No, we would not.

Mr. EVINS. Do you have further general questions, Mr. Jonas?

PERSONNEL CEILINGS

Mr. JONAS. Only one. That is, what action did the Commission take in respect of Mr. Schultze's directive last September that you roll back the level of employment to June 30?

Mr. DIXON. We are right on it, I am told, yes.

Mr. JONAS. You are? OK.

Mr. EVINS. General questions, Mr. Boland?

ADEQUACY OF STAFF

Mr. BOLAND. I have a feeling that a number of the regulatory agencies feel that, with the responsibilities handed to them by the Con-

gress, the laws that Congress has passed, putting this enforcement into the regulatory agencies, that, oftentimes, the members of the regulatory agencies feel that we haven't implemented employment sufficiently enough to take care of the responsibility that we give you. This is a complaint that has developed within the last few years. I am sure you must have heard or know about the book written by William Carey, former Chairman of the Securities and Exchange Commission. In his book he seems to indicate that the regulatory agencies aren't given enough money in their budgets, or perhaps they don't like to ask for sufficient funds—they have to go to the Bureau of the Budget and there is a problem getting the funds—and consequently they either do not ask for sufficient funds or refrain from asking because there are some directives by the Budget that you should keep your budget low. Do you share this feeling?

Mr. DIXON. I don't share it. I think if Mr. Carey had been in a regulatory commission as long as I have, he would have been a little bit more charitable in his remarks. I think Congress knows exactly what they are doing. I think the scheme of the plan is, just the way it is laid out to the Federal Trade Commission, these are broad responsibilities which we have and there are many checks and balances upon the way it is done. One of them is how much money you are going to give us which controls the size of the staff we have to do it with. This is one of the checks and balances. I don't know how—since I have been on the job Congress has let us grow about 30 percent. I estimated then that if they would allow us in 5 years to double our size as to the number of personnel and the money to pay them, I thought we could do an adequate job. But we do go to the Bureau of the Budget, as Congress told us to. We go to the Bureau of the Budget and we come up here and we support the budget approved by the President. I tell the Bureau of the Budget and I tell this Congress each time what we need and we could do a better job with it if we get it. You know the responsibilities in appropriating money and where we fit into it. I think you give us the amount of money that you think——

Mr. EVINS. To answer Mr. Boland's question: you look upon the Commission as an arm of the Congress?

Mr. DIXON. I do, sir. You can turn us on or turn us off.

1968 INCREASES REQUESTED FROM BUREAU OF THE BUDGET

Mr. EVINS. For the record, what did you ask of the Bureau of the Budget by way of personnel for 1968? Did they cut you?

Mr. GLENDENING. Over 200——

Mr. EVINS. How many did you ask for and how many did they authorize? You are not supposed to answer that unless we ask you. So we are asking you. How many new jobs to do this enforcement work did you request of the Bureau of the Budget?

Mr. DIXON. We asked for 211 employees, $2,293,000 in the original request.

Mr. EVINS. You requested $2,293,000 and 211 employees, and how many did they give you?

Mr. GLENDENING. Subsequent to that came the Packaging Act and we asked for 26 additional employees and an additional $252,000, a total 1968 request of 237 and $2,545,000.

Mr. BOLAND. You asked for 19 in this budget under the Packaging Act responsibilities.

Mr. GLENDENING. Yes, in the Bureau of Deceptive Practices alone.

STAFF INCREASE SINCE 1961

Mr. BOLAND. You said that the increase in the budget has amounted to 30 percent?

Mr. DIXON. I came back to the Commission as Chairman in 1961. With the appropriation that was given to us then, beginning July 1, 1961, for 1962, yes.

Mr. BOLAND. Of course, this was necessitated by the number of laws respecting enforcement by the Federal Trade Commission. I think it would be fair to say that innumerable laws have been put on the statute books since that time, and this increase was justified because of the added responsibility handed you under the new legislation.

Mr. DIXON. And I would say when I first came to the Commission in 1938 it was about the same size as it was when I came there in 1961 and an increase was long overdue, sir. This country's gross national product and problems have increased many, many times—this is not the same economy that it was 30 years ago. It is changing every day.

Mr. BOLAND. Mr. Jonas.

Mr. JONAS. I just wanted to comment, it looks to me, as I read these figures, you have doubled since 1961.

Mr. DIXON. In dollars, you are correct, sir. I was talking about personnel. In other words, dollars won't buy the same thing today. We are only talking personnel, that is our problem here.

ADEQUACY OF STAFF

Mr. BOLAND. I get disturbed over some of the criticism leveled at some of the regulatory agencies by people who say—in and out of Congress—that they are not doing a job, not doing the job that they are responsible for. You point out very graphically here one of the reasons why it can't be done is because you don't have enough personnel to do it or you just let things go because you don't have sufficient personnel to do the things that you are required to do. Specifically in the area of labeling, you get around to inspecting some of the manufacturers—I don't know how many there are. Did you say 28,000?

Mr. DIXON. Yes, sir.

Mr. BOLAND. You inspect them once every 5 or 10 years. How in the world can you have effective enforcement of the Labeling Act if you inspect manufacturers every 10 years or so? You said it would take you 50 years to complete inspections of particular manufacturers. It would seem to me that this is not what Congress intended. If we pass a law with respect to labeling, and there are violations of it, it is impossible for this agency, as the agency responsible for enforcing that law, to adequately enforce it if you don't have personnel to do it. Also, the number of inspections which you indicate here are so few and far between, there are bound to be violations on the part of manufacturers who will say, "Well, I won't have an inspector coming in here now for 10 years so I can go ahead and—" I don't say all

manufacturers will do it, but human nature being what it is, I think the tendency on the part of fly-by-night operators is to skirt the law. Is that a fair assumption?

Mr. DIXON. It is a fair assumption. I am not wise enough to tell you how many would be enough, because I think our general scheme in America is to draw a law and then create enforcement people to enforce it. Now, we depend a great deal in America on voluntary compliance and we depend a great deal upon the worry that "somebody might pick me up, my time might be next year," or "someone will tell on me."

I just don't think we have enough now to begin to do nearly an adequate job. But if you ask me how many I would have to have to do this every year, in order to be a police state, which we don't want, I don't know what that would be.

Mr. BOLAND. This agency, as all the regulatory agencies are, supposedly an arm of the Congress, and they have the responsibility of carrying out the jobs handed to them by the Congress. These agencies are perhaps as close to the people as any other branch of the Government or any of the agencies in the Government. I think, by and large, the agencies do a good job. I think this agency does a fantastic job, when you consider the number of laws it has to enforce, the number of regulations that it has to look after, with the personnel that it has and the money that it has to do it with.

I certainly want to compliment you as the Chairman of this Commission and all your fellow Commissioners and your excellent staff that stands behind you. Yours is a great responsibility. It is a very difficult one, too; it is not an easy one. It is not an easy one because of the competition in our system and of the feeling that here is a Government agency that constantly wants to move in on you, and harass you. I guess you do at times; with too much eagerness. The case that was cited by Mr. Jonas is an indication of it. But all of us are not perfect. I think this will happen oftentimes with this kind of a setup. The nice part of it is that the vast majority of the cases that you handle are handled in a rather exemplary fashion and that the job that the Congress expects you to do is done under the laws as you see them. I think on that basis alone you and the Commission have done an outstanding job, and all that goes for the whole staff that makes up this splendid agency.

Mr. DIXON. Thank you very much for those kind remarks, sir. We certainly try.

I get disturbed if just one little finger of us get out of joint. That disturbs me, Mr. Jonas, a great deal.

Mr. BOLAND. All of us recognize that the agencies have eager beavers. I think oftentimes we have brought this to the attention of the Commission, many times, as Mr. Jonas and Mr. Evins know. I think that there has been a real effort on the part of the Commission to straighten out some of these problems. I am delighted we have the opportunity to do this because sometimes you will miss these things. And it is nice that we have someone looking over your shoulder to make sure that there is a responsible job done here.

Mr. JONAS. May I make one other comment before you leave this?

Mr. EVINS. Mr. Jonas.

PROCEDURES CONCERNING COMPLAINTS

Mr. JONAS. I just don't see why the Commission wouldn't, if it gets a complaint of this sort that is not verified, which is not a formal complaint, just a letter type complaint, what would be wrong with writing the party and saying "We have received a certain complaint alleging that you have done so-and-so. Before we go into your office and investigate we want to give you a chance to answer." What do you say about that?

Mr. DIXON. We have such a procedure in our Restraint of Trade Bureau, in certain problems that we handle and it has worked very well. But dealing with the problem that this matter refers to, my understanding is, and I believe it is generally carried out and I would hope specifically carried out in every instance, that we have to have enough in our hands so that any ordinary reasonable person would expect, would warrant going and asking the questions.

Mr. EVINS. What Mr. Jonas is pointing out is that it is a matter of approach.

Mr. DIXON. I think it goes beyond that.

Mr. JONAS. He said the man was courteous but he didn't like it because he wasn't advised what he was seeking or didn't have a chance to answer it.

Mr. DIXON. For instance, if it was a deceptive advertising matter, he ought to have been advised specifically what the complaint was about. That is what was important for him to be told.

Mr. EVINS. You look into the matter further, Mr. Chairman, and counsel your investigators.

Mr. DIXON. We certainly shall, sir.

Mr. EVINS. Mr. Giaimo, general questions?

SIZE OF STAFF

Mr. GIAIMO. Well, Mr. Chairman, I am somewhat disturbed the same as Mr. Boland is, not as much, with your regulatory agency, the Federal Trade Commission, as I am with some of the others but I think the same concern probably applies to yours. That is, are we loading your agency up, as we are some of the others, with more and more functions, more and more legislation and are we really giving you the tools to do the job in terms of manpower and whatever else you need? Here we have a gross national product pushing the $800 billion mark with all kinds of new legislation affecting it and I sometimes become concerned that the regulatory agencies have all they can do to just hold their own and not really enough capability to step back, perhaps, and to take an overall look at the new problems which come up, new ideas, new approaches which have to be formulated to get much more efficient compliance. Is that a problem?

Mr. DIXON. You see, your whole regulatory family is quite a family. We kind of stick out, especially, in a sense, compared to the other agencies. The large number of them are true regulators, they are licensers, under your authority, and regulators. Now, quite obviously if that was the type bureau you are talking about, if you have more and more applications and more and more of this——

Mr. GIAIMO. This is basic.

Mr. DIXON. If you can't handle that, then obviously you just need bodies to handle these things. Here sat Congress with an overall responsibility to deal with problems. Then we had to choose, in America, what kind of an overriding system we wanted. Did we want regulation or did we want free enterprise? Congress chose free enterprise with the exception of those agencies that you license and regulate. This is the broad sector of the economy that gives you the real increase. Now, who in effect, for Congress, regulates or oversees this crowd? Well, you did it in two ways: you took the antitrust law and you assigned the Sherman Act to the Department of Justice and then created the constitutional court system. That didn't work very well.

The problems were too complex. The courts were pretty good at resolving; that is, resolving per se things or self-executing laws but pretty sorry at mixing into economics. So you created a Federal Trade Commission. Then you said to that Agency "Now, look here, we are going to give you all of our powers to investigate." You gave them to the Federal Trade Commission and you said "In addition to that, we want you to also enforce a new law, a law that nobody had ever thought of, as to unfair methods of competition." Then you added unfair or deceptive practices; then you passed the Clayton Act and you gave us half of it and gave the rest to Justice. We are largely a law enforcement agency through the administrative processes because it was believed that more expertise could be vested among five than an individual district judge sitting here, there, and the other place, getting one case, if he is unlucky, in his lifetime, in this field. Now, we are a different agency. You can decide how much law enforcement there should be through the Federal Trade Commission or how much through antitrust law that you want by the amount of money that you give.

But when you are talking about how many applications that the FCC can pass on or the CAB or ICC; well, they may be increasing all the time and you get farther and farther behind and they have to be passed on but you can determine how much we are going to do by the amount of money you give us. Now, I have a hard time——

Mr. GIAIMO. At that point, then, in effect are we limiting you?

Mr. DIXON. Every time you create an appropriation at the Federal Trade Commission you are setting a limit. You have set this constantly. This is obvious because we only do things through bodies and people. You could strip us down to five Commissioners and an assistant or two.

Now, FTC had to start somewhere and they started about like this. The only employees they had were from the old Bureau of Corporations because they had the bodies there, and they made reports and studies. Then they gradually started hiring staff.

And by the passage of the Wheeler-Lea amendment, when they put the Commission into the advertising business fully, the Commission grew to several hundred people by 1938. Every time we got into a depression or a war where we had to have regulation, price or wage controls, then the Commission steps back. So you had this kind of regression but we are now in a period of extreme prosperity in this country. We have had more growth since 1960 than we had had for

the past 30 years. There are industries being born that we don't know anything about. There are new problems coming.

ABILITY OF AGENCY TO MEET ITS OBLIGATIONS WITH FUNDS REQUESTED

Mr. GIAIMO. This is what disturbs me, whether you have sufficient manpower and personnel and money to properly perform your functions. Take this budget, your increase for this year is an increase of $847,000 and 69 positions.

Mr. DIXON. Yes. That is not many.

Mr. GIAIMO. How much of that $847,000 is for the 69 positions?

Mr. DIXON. $590,000.

Mr. GIAIMO. Are there mandatory increases and pay increases that account for the rest of it?

Mr. DIXON. Yes. That is what I meant, that is about $110,000; and increased operating expenses accounts for the balance.

Mr. GIAIMO. So that in effect—I am really concerned as to whether this agency is growing the way it should because, as you say, we are in a period of intensive prosperity, we are in a period of great economic growth, we are in a period of all kinds of new relationships between industries, between various segments of the economy. I am not saying they should be regulated. I am for a free economy. But I am saying that over the years Congress has said that some aspects of these relationships should be looked into. I am wondering if you have enough manpower to give them more than a cursory examination.

Mr. DIXON. The shortage of manpower is making our lawyers better managers.

I might say lawyers are notoriously poor managers or planners. Lawyers are trained. You give them a problem and they work out the answer. But managers have to think on a broad level.

Mr. JONAS. Would the gentleman yield?

Mr. GIAIMO. Yes.

Mr. JONAS. As a matter of fact, it would take an army to touch every activity.

Mr. DIXON. Agreed.

Mr. JONAS. That is, to touch every activity that you would have, if you policed the whole spectrum of the economy.

Mr. DIXON. Agreed.

Mr. JONAS. So you have to decide, somebody has to decide how much of the money that is available should be allocated to you.

Mr. DIXON. That is correct.

Mr. JONAS. And how fast you should grow.

Mr. DIXON. That is right.

Mr. JONAS. And while you haven't grown more than 30 percent in manpower you have doubled your budget, dollarwise, in 5 years, by 100 percent.

Mr. DIXON. Nearly doubled from 1961 through 1967.

Mr. GIAIMO. So even if you had 2,500 employees, you could do a little bit more, but——

Mr. DIXON. I do not like to talk about my fellow agencies in the regulatory field, but I want to tell you you are getting your best dollar in this agency, in my opinion, than any of the rest of them, because if you will take a pure regulatory agency, I know one that has doubled

in size and they only regulate just this narrow field, you see. Here we are in a field that says, we are trying to keep it free and competitive. I do not like regulation but I know it is necessary in certain areas. We turned in 1961, 1962, 1963, to our new procedures of attempting across-the-board guidance statements, hearings, all the things that the chairman asked me about earlier here, to try to take the small body we are and give a greater service.

Now we have about run full circle now, because in doing this, if the guidance and clarification we have given hasn't taken effect, then there is nothing left to do but to try cases. Nof if you are going to try all your cases, you can very simply predict how many you can try and what you can do, because you can say, "I have so many men, they can handle so many cases, this is all I can do." But we turn from that, trying to get a result in a different way, or meld it into the overall procedures. But you are correct.

Mr. EVINS. This has all been very interesting, Mr. Chairman. You always speak eloquently for the free enterprise system. We are all concerned that you effectively do the job.

You said something earlier about "Give us more manpower and we will speak out loud and clear in these merger cases, antimonopoly cases." And you also say two or three times in your justifications, "As the Commission becomes better known, we will do more."

You have been in business 50 years. You should be pretty well known by now. You have grown up. They used to call you the "grandfather of the avenue." You are not young.

Mr. DIXON. They called us a little old lady.

Mr. EVINS. Whatever it is, you keep referring to "as we become better known." When are you going to reach that pinacle? You are known in the business world all over. You do not have to make any apologies about becoming known. But my thought was if you crack one of these big cases, you will become known more decisively.

Mr. DIXON. Mr. Chairman that was used in connection with direct consumer protection where we are not yet as well known as in the business community.

Mr. EVINS. Some of these antitrust cases, to my view, are more important than some of these smaller cases that you turn out in great volume. This is the area in which I think you can really do a great service to this Nation.

Mr. DIXON. This was the reason, Mr. Chairman, that I——

Mr. EVINS. I would like to read your opening statement here for emphasis and your closing statement. The man who wrote this did a good job.

He says here:

> The decision is whether the nation's fiscal well being is better served by determining to pare expenditures to the bone regardless of consequences, or whether our economy is better served by paying for an ounce of prevention that will save many pounds of cure.

That starts off real well. Then in closing you say, "Granted that governmental agencies seeking money can always invent reasons for needing it, it is also true—and particularly in our own case—that agencies confronted with responsibilities given them by Congress and desperately trying to meet them, plead simply for the money and manpower to do so."

You talk about the Vietnam situation trying to preserve human liberty on foreign shores. "It is offered at a time when fiscal belt tightening is of transcendent importance. But it also is offered at a time when this Nation can least afford to allow our system of free competitive enterprise to be undermined by violations of the law."

So you start loud and strong and you close loud and strong. This is a good statement. We will put all of this in the record. We could talk at length on it. There are a lot of unanswered questions to my mind, just in the general language.

SUMMARY OF FISCAL YEAR 1968 BUDGET

Place "A" through "J" into the record, Mr. Reporter.

(The pages follow:)

SUMMARY OF 1968 BUDGET REQUEST

A basic decision is needed for considering this request for fiscal 1968 funds for the Federal Trade Commission. The decision is whether the nation's fiscal well being is better served by determining to pare expenditures to the bone regardless of consequences, or whether our economy is better served by paying for an ounce of prevention that will save many pounds of cure.

With no increase in staff for the past three years, the Commission has undertaken to cope with a mounting volume of work by making an unprecedented effort to enlighten businessmen on the requirements of our trade laws and to encourage a maximum of self policing. A heartening amount of cooperation has been gained because businessmen have had faith that the FTC will fulfill its responsibility to crack down on those for whom self policing is no more than a pious dodging of the law. In effect, a tremendous bargain in law enforcement is to be had: the vast majority of businessmen have been and are willing to forego illegal methods of competition if unprincipled competitors can be forced to do likewise. Already at stake are years of investment in money and effort to gain this voluntary compliance. What is now required, and will be increasingly so in fiscal 1968, is that the FTC live up to its law enforcement obligations. The alternative is loss of faith in the Commission's capacity to maintain fair and honest competition. And such loss of faith, opening the doors to greed and scurrility, would be vastly more costly to the nation's economy than the appropriation we ask.

A total of $15,225,000 will be required in fiscal 1968. This represents an increase of $847,000 over FTC's fiscal 1967 appropriation. The total is a small price indeed for the vigor which adequate enforcement of the antitrust laws gives our economy as well as savings to consumers through protection from false advertising and dishonest methods of selling.

Significant, too, is the fact that the greater cost of inadequate law enforcement falls heaviest on consumers least able to afford it. It is not the well-to-do whose family budgets are threatened by sly and power prompted price rises, nor do the prosperous find it necessary to forego proper but costly medical advice and rely instead on bargain promises of "Amazing Relief!" in the ads.

Our presently authorized staff is 1175, but due to the need to absorb pay raises voted by Congress, we have had to limit the staff to an average employment of 1142, a number insufficient even for our present workload. To do what we must in fiscal 1968 we will need 69 additional employees, including 43 to bolster understaffing for our long established programs and 26 to carry out FTC's responsibilities for administering the newly enacted Fair Packaging and Labeling Act. The latter alone accounts for $252,000 of the increase we need, almost a third.

To achieve fast and meaningful action under the Packaging and Labeling Act will require a 19-man organizational unit under our Bureau of Deceptive Practices. Work would include promulgation of initial regulations under mandatory requirements of the new law, product-by-product surveys of packaging and labeling practices, the taking of appropriate action to eliminate consumer deception, and a program of education to alert industry and consumers as to the meaning and requirements of the new law. We believe it is of utmost importance that this unit be sufficiently staffed to give this legislation the impact that Congress intended.

As for other areas of FTC's war on consumer deception, we anticipate, indeed already have noted, a sharp increase in significant complaints from consumers regarding business cheats. The past year saw a 40% increase in applications for complaint, and even this trend is up. We anticipate receiving some 7500 applications for complaints, contrasted with 6399 last year.

The reasons are conjectural, but certainly a principal factor is a greater public awareness of FTC's purpose, generated in part by a closer relationship between the Commission and state and local law enforcement bodies and with consumer protection agencies. In addition, wide publicity given FTC's industry guidance efforts, particularly in the fields of fictitious pricing, misleading guarantees, and advertising and labeling of automobile tires, has been alerting consumers to the FTC's mission. They have found a lap into which to dump their injustices.

To this workload must be added a vigorous enforcement program in support of the Commission's industry guidance efforts. Surveys are now being made, and will continue, to ascertain just how much attention is being paid by businessmen to guides already issued. Evidence indicates the need for many a crackdown; for example, during fiscal 1966, a check on compliance with our shoe guides revealed more than 200 instances warranting further attention.

As the total workload mounts, we must be ever more selective in choosing which matters reflect the greatest degree of public interest. This means, of course, that too many valid consumer complaints can not be given the attention they warrant, simply for lack of FTC manpower. The best we can do is select the gravest offenses for attack.

Areas in which stepped-up activity can be expected in fiscal 1968 include reports on cigarette advertising and labeling, claims for filters and for drugs to break the smoking habit, and overly broad claims for the efficacy of vitamins and other food supplements. Also, a comprehensive review of TV commercials is underway to check on whether visual deception is present.

In guarding against other types of consumer deception, high priority will be given scrutiny of advertised work-at-home opportunities. Here misrepresentation works particular hardship on the poor, the invalid, and the elderly seeking to augment too slender incomes. Also to be given special attention will be the complicated problem of how well automobile dealers are honoring terms of car warranties. We will look too, at the advertising of correspondence schools to make sure that prospective enrollees are not being misled. And we can be sure that a wide variety of home improvement and bait-and-switch schemes will need attention.

Another area in which the FTC needs bolstering is in its Division of Scientific Opinions, for here is lodged much of our capacity to challenge successfully false and misleading claims for products affecting the consumer's health. We ask that its staff be increased by $31,000 for two chemists; one of whom will be assigned to the Fair Packaging and Labeling Act program.

Knowing that protection of consumers can often be achieved more quickly and at less cost by guiding consumers as to their rights and by guiding business methods into legal channels as an alternative to mandatory actions, the Commission has planned an intensification of its guidance work for fiscal 1968. By taking advantage of the willingness of most businesses to to abide by the law, after the shady areas have been illuminated by FTC rules or guides, the Commission can cope with the defiant few.

Our guidance work takes three forms: (1) trade practice conference rules and guides interpreting the law as it applies to the practices of a particular industry or to practices common to many, (2) trade regulation rules, and (3) advisory opinions which are binding upon the Commission.

Not only is guidance proffered, but surveys are made to determine the degree of compliance with Rules and Guides. For example, 400 violations were disposed of in fiscal 1966 on assurances of discontinuance, a 41 percent increase over the previous year. Also, the FTC provided answers to questions for more than 1300 businessmen seeking advice as to how particular provisions of rules and guides applied to their business practices.

Highlights of the program for trade practice rules calls for issuance of TPC Rules to eliminate deceptive practices in the $2.3 billion paint industry, particularly misrepresentations of paint quality; a guide to halt widespread misuse of washability claims for wearing apparel; trade practice rules aimed at false advertising in the $550 million pet food industry; updating of TPC rules for the $4 billion poultry hatching and breeding industry; and revision of rules for the $500 million Beauty and Barber Equipment and Supplies industry. In addi-

tion, compliance work will be carried out to assure that Guides outstanding are being observed; for example, a major effort will be made to check on whether the huge tire industry is complying with FTC's recently issued Tire Advertising and Labeling Guides.

Trade Regulation Rules on which either final action will be taken in fiscal 1968, or, (if certain of them can be promulgated in fiscal 1967) compliance work commenced, include: prohibiting the use of misleading terms in advertising light bulbs; proper disclosure of laundering and other characteristics of glass fiber products; Robinson-Patman Act violations in the Dry Bakery Products Industry; deception in the sale of stereo and high fidelity phonographs; Robinson-Patman Act violations in the Corset, Brassiere and Allied Products Industry; health claims in the sale of household cooking utensils; and misleading comparative claims in the advertising of dentifrices, soaps and detergents.

While we are not asking for additional personnel for the Division of Advisory Opinions, we anticipate a continuation of the steady increase in productivity of this Division. Each year since its formation in 1963, more requests for advisory opinions have been received and acted upon. Moreover, in the past year the usefulness of advisory opinions has been greatly extended due to the fact that the guidance they offer has been widely publicized, particularly in the trade press.

To handle the increased workload of the Bureau of Industry Guidance in fiscal 1968 will require an additional $29,000 to provide for two additional attorneys in the Division of Trade Practice Conferences and Guides and one in Trade Regulation Rules.

While the Commission will continue to make fullest use of its guidance procedures to gain compliance with the law, guidance must be backed up with formal adversary proceedings when defiance is encountered. And in no area of FTC's enforcement responsibilities is opposition so vigorous and skilled as in the antitrust field. Here predators have most at stake, and their defense of profitable illegalities presents the FTC with its most formidable problems.

We expect to encounter a considerably heavier workload in restraint of trade cases, in fiscal 1968. We estimate that it will be necessary to initiate more than 300 formal investigations as contrasted to 251 in fiscal 1966, and we anticipate that the number of litigated cases will be 45 as compared to last year's 13. Moreover, it will be necessary to challenge some of the nation's largest corporations in little explored areas of trade restraint; for example, we know that joint ventures have become popular with some diversified corporations as a means of entering a new product area without risking antitrust dangers inherent in an outright acquisition.

One area of danger that continues to worsen is illegal mergers. Not only has the post-war merger trend continued upward, but even more significant is the continuing high number of acquisitions of firms with assets of $10 million or more. Also, we are confronted with the need to develop more case law in curbing trade restraining conglomerate mergers which are now occurring more frequently than the horizontal or vertical type.

Fiscal 1968 will find the FTC seeking to halt dangerous concentration in the textile, cement, vending machine, department store, paper and paper products, confectionery, plastics, and food retailing businesses. The latter, of course, is the largest—$53½ billion—and illegal acquisitions will be attacked on a wide front.

Topping the list of conglomerate acquisitions that will be given attention in fiscal 1968 are those in the grocery products industries. Another conglomerate merger problem which appears to warrant attention is the acquisition of fertilizer companies by three major oil companies.

In FTC's attack on discriminatory practices, fiscal 1968 should produce a sharp increase in formal actions. We anticipate stepping up investigations from the 85 in fiscal 1966 to 135, and to issue more than 60 complaints. In addition, of course, will be increased activity in support of industry guidance efforts.

The trial of pending and foreseeable major cases in fiscal 1968 will require substantial manpower, inasmuch as such cases involve some of the nation's largest corporations and will be stoutly defended. They involve multi-company trade restraints in the apparel, railway equipment, prescription drug, dairy and bakery industries. In addition, we will be confronted with important cases involving only individual companies. At the close of fiscal 1966, 318 cases were pending in various stages of investigation or review.

Other areas in which corrective action will have to be taken are: discriminatory pricing in the automotive replacement parts industry; illegal brokerage in the fresh fruits and vegetables industry; discriminatory allowances in the ap-

parel industry; price discrimination, illegal brokerage and commercial bribery in the railway equipment industry: discriminatory payment of allowances in the publishing industry; discriminatory pricing by manufacturers of modern furniture who are believed to be granting price concessions to large retail buyers; and discriminatory and selling below cost practices in the dairy and baking industries.

In the field of general trade restraints, viloative of Section 5 of the FTC Act, problems to be tackled include: price-fixing in the proprietary drugs, the fine paper, and the LP gas industries; discriminatory rate structures, ad rates and double billing in the newspaper industry; monopoly activities in the petroleum coke industry; pricing practices in the sale of TV tubes; boycotts and exclusive dealing in the wearing apparel industry; price-fixing in rental linen supplies; below cost selling by steel companies; tying-agreements in the sale of office equipment; and resale price maintenance by several furniture manufacturers.

Obviously, as more cease and desist orders are issued, the task of policing compliance with them grows heavier. Even now more than 1400 restraint of trade orders are in effect.

For the entire Restraint of Trade Bureau, we are asking for only six more employees, one attorney each for the divisions of General Trade Restraints and of Compliance, and four for the Division of Discriminatory Practices. The increase requested totals only $66,000, yet this is a necessary expenditure if our workload in the field of antimonopoly is to be kept the bare capacity of the staff to handle.

What the workload for the General Counsel's Office will be in fiscal 1968 depends, to a great extent on how many of the Commission's decisions are appealed to the courts, the number of Commission orders settled by the consent procedure, nad how much proposed legislation in the Congress requires analysis and comment from the FTC. We nevertheless anticipate increased activity in these as well as other functions of the General Counsel's Office, and particularly do we expect a sharp increase in our federal-state cooperation program begun last year. As state officials become better acquainted with the availability of our assistance in combatting unfair and deceptive practices, requests for it will increase. We expect such requests to triple in 1968. Even so, we are not asking for additional funds for any of the functions of the General Counsel's Office.

No more important area of consumer protection comes within FTC's responsibility than to halt the mislabeling and false advertising of the clothes we wear and the textile products we need for our homes. It is an area, too, that demands closer surveillance.

Of particular urgency is the need to intensify inspections of low-price or discount type stores selling textile products in large volume. These are primarily the places in which the lowest income families do much of their purchasing and here the likelihood is greatest that inferior or misbranded products, especially inferior imported woolen fabrics, are offered, often at inflated prices. And the products are basic necessity items: work clothes, daytime dresses and undergarments.

All levels of the manufacturing and distribution of clothing, textiles and furs have to be inspected. Here the problem is to so program inspections that they will have an impact despite the immensity of the job. For example, there are more than 28,000 manufacturers of textiles and furs, about 20,000 wholesalers dealing in these products, some 5,000 textile importers, 60 million raw and dressed skins imported, plus 19 million raw skins produced in this country, and more than 200,000 retail stores selling substantial amounts of textiles and furs.

To cope with this volume with meaningful effectiveness, our investigators should call on mills and manufacturers at least once in five years, wholesalers once in eight years, retailers once in 10 years, plus spot-checking of other retailers.

In addition to the number and diffusion of distribution outlets for clothing, textile and fur products, other factors pose enforcement problems; for example, in the past five years there has been a trend toward low margin or "discount" selling, and many discount houses appear to have reduced quality as well as price (and the lower quality is not always revealed on labels and in advertising!) Also, production of these products has become scattered geographically, making the inspection job more difficult. A further factor has been the proliferation of new fabrics, particularly the synthetics. And finally, there has been a growing volume of imports of clothing, textiles and furs, much of it coming from areas of the world with a higher frequency of violations than imports of the principal foreign countries supplying U.S. markets in past decades.

We feel that the number of inspections made in fiscal 1966 definitely does not measure up to the responsibility placed on the FTC by Congress when it passed the Wool, Fur, Textile and Flammable Fabrics laws. For example, it would take us almost 50 years to cover the wholesalers and importers who are dealing substantially in textile and fur products; similarly, at our present capacity, to inspect more than 28,000 mills and manufacturers would take us about 21 years.

Therefore, as a start in the reduction of the inspection cycle, we are asking for an increase of four investigators, one attorney and a clerk for our Division of Regulation. The total increase requested is $42,000.

Also badly in need of buttressing is the Division of Enforcement in the Bureau of Textiles and Furs. Here the caseload for attorneys continues to be far too heavy for attention to be given each matter that, in the public interest, should be investigated. Moreover, the future caseload is expected to continue to increase as it has over the past few years, particularly in enforcement of the Textile Act, which although relatively new now provides the largest volume of formal cases. An additional $16,000 to provide two attorneys is requested.

In no area of our responsibilities does the Commission need to push forward with more vigor than in our investigations and analyses of the nation's economic problems and in the assembly of economic evidence necessary to support actions to halt monopolistic or deceptive practices.

During fiscal 1968, the Division of Economic Evidence in the Bureau of Economics will continue its investigation of the impact of mergers, diversifications and integration of the largest manufacturing and mining companies, as well as the competitive effects, if any, of the increasing number of conglomerate mergers which dominate American industry.

Preliminary examinations will be given between 1,500 and 2,000 acquisitions during fiscal 1968, and formal investigations are expected to continue at the rate of from 50 to 65. Many will be of conglomerate mergers which require more staff resources than horizontal or vertical acquisitions. There is no question that our Division of Economic Evidence will play an important role in virtually all of the Commission's anti-merger proceedings.

It is also certain that investigations now underway will continue to make demands on this staff into fiscal 1968. These include investigation of mergers in the petroleum, chemicals, paper, textiles, machinery, apparel, grocery products, food retailing, department stores, drug and cosmetics, and dairy industries. Also, Division economists will be assisting in the investigation of anti-competitive reciprocity cases in several basic industries. They are particpating, too, in an intensive investigation into the economic aspects of certain merchandising and promotional methods in food retailing, including so-called "sweepstakes" and other games of chance.

To aid in the administration of the recently passed "truth in packaging law," an economist will be assigned to work closely with the attorneys in the Bureau of Deceptive Practices.

To strengthen our staff for these and other responsibilities will require $30,000 which will provide three additional economists in the Division of Economic Evidence.

We also need strengthening of our Division of Industry Analysis. Providing as it does, fast and authoritative information on special economic problems of concern to the President, the Congress, and the Commission, its work provides a better understanding of the economic significance of current problems so that appropriate action can be taken to meet them. In addition to casting light on "trouble spots," the Division makes more detailed economic investigations, such as the inquiry into recent price increases in the bread and fluid milk industries in response to a request from the Secretary of Agriculture.

During fiscal 1968, the Division will continue its investigation of the impact of mergers, diversification and integration on the largest manufacturing and mining companies, as well as the competitive effect of the increasing number of conglomerate mergers in American industry. It also will make a study of the problem of discriminatory rates in TV advertising, as well as making a careful examination of the effect of private label products on price competition.

For this work, $35,000 is requested to provide three additional economists in fiscal 1968.

Our field staff also needs strengthening. In addition to its casework investigations, it will be called upon to make surveys of outstanding cease and desist orders to determine the extent of compliance with them, and in all likelihood will be called upon to make special surveys and investigations. Also, it will be

called upon to make investigations in connection with FTC's rule making and guidance work.

A further and very important activity by our field force supports FTC's increased emphasis on educational efforts to acquaint both businessmen and the public with the laws' requirements. Last year field attorneys provided answers to more than 10,000 inquiries from the public, held nearly 2,000 personal conferences, and furnished speakers on 133 occasions. Such activity is expected to increase in fiscal 1968.

Despite faster completion of field investigations, the backlog of cases continues to increase. On last December 31, it stood at 904 cases, an increase of 178 over the backlog at the beginning of fiscal 1967. This also represents an increase of 25% in the six-months period. The field offices received 723 new matters for investigation during the first six months of fiscal 1967, a 22% increase over the previous year. Obviously, an insufficient field force limits the Commission's capacity in all of its efforts; consequently, we urgently request $153,000 which will provide for 15 attorney positions to cope with the additional workload and mounting backlog of field investigational work, plus additional field responsibilities under the Fair Packaging and Labeling Act.

Granted that governmental agencies seeking money can always invent reasons for needing it, it is also true—and particularly in our own case—that agencies confronted with responsibilities given them by Congress and desperately trying to meet them, plead simply for the money and manpower to do so.

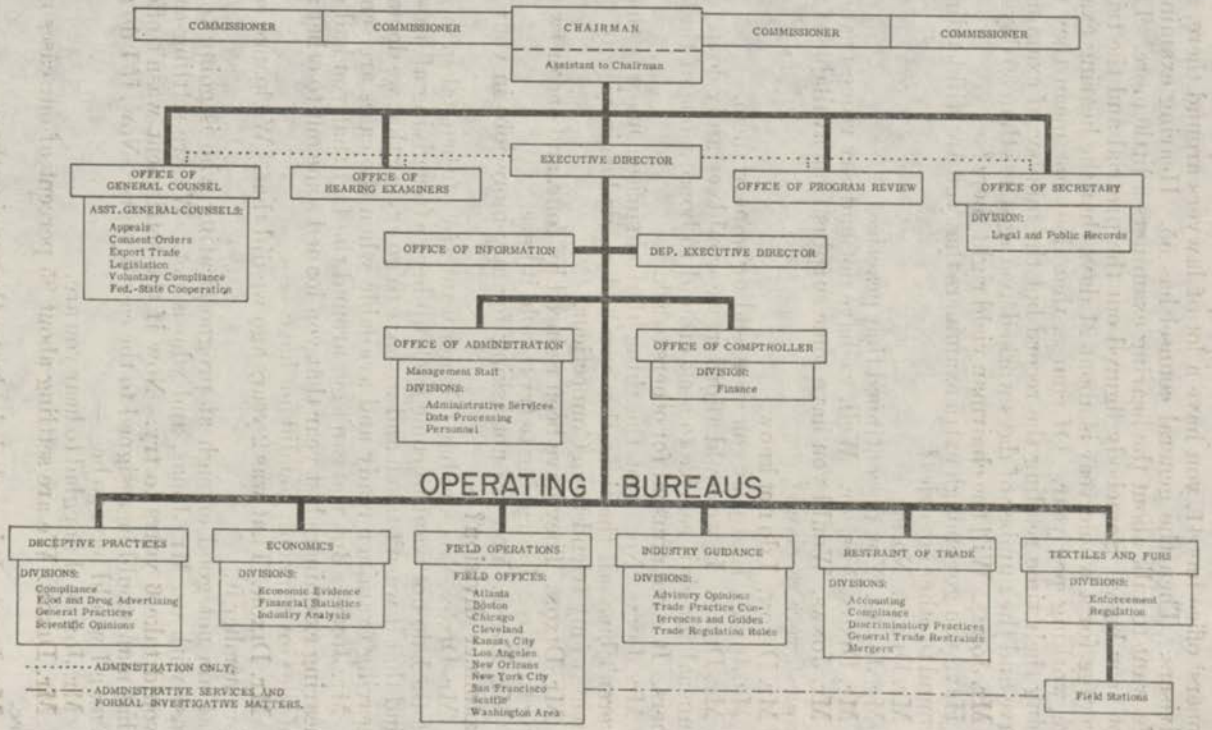
We have presented the highlights of the Commission's program for fiscal 1968. Our request for funds is offered at a time when the nation is confronted with the solemn and costly obligation to fight for human liberty on foreign shores. It is offered at a time when fiscal belt tightening is of transcendent importance. But it also is offered at a time when this nation can least afford to allow our system of free competitive enterprise to be undermined by violations of the law.

ORGANIZATIONAL CHART

Mr. EVINS. Looking at your charts, we will put in No. 1, but not No. 2. But you look at No. 2 and you will also see how you have grown.

(The page follows:)

FEDERAL TRADE COMMISSION



Mr. EVINS. This shows your appropriation and personnel. Commissioners' office has 41, you have a lot of lawyers around there, a lot of advisers. Then the general counsel has 55. Hearing examiners, 29. We want to talk about the hearing examiners a little more. They are not very busy. Somebody figured out the pretrial and the trial time average for a whole year is about 21 days that the hearing examiners are working per year. Of course, that does not mean they are not using their time reading the record but the number of examiners you have and the number of days worked averages less than 30 days a year.

Mr. JONAS. Will the chairman yield right there?

Have you got enough extra examiners that you are still lending them around to other agencies?

Mr. DIXON. No, sir.

Mr. JONAS. You discontinued that practice?

Mr. DIXON. Yes, sir. Well, we have not had any requests and——

Mr. JONAS. Would you have some surplus time available if another request were received?

Mr. DIXON. I do not know.

Mr. JONAS. Last year you were lending some of them.

Mr. DIXON. If we could afford it, we would certainly do it. It is not unusual for civil service to seek around to borrow one of these examiners. It is not unusual for others to ask.

Mr. JONAS. No. But the thing that surprised me was that yours weren't busy all the time, that you had a surplus, in view of the comments of my friend from Connecticut.

Mr. DIXON. They have been reduced by four, and one or two are going to retire. I am going to try to hold it here.

Mr. EVINS. You are not asking for any more jobs in your hearing examiner division?

Mr. DIXON. No, sir; but I do not want any of them taken away. Because I do not want to come back up here after giving all this advice, find that it wasn't taken and we have to go crying that we do not have a hearing examiner ready and available when the cases are sent down.

Mr. JONAS. But you can't get around the fact that you had so many hearing examiners last year that you loaned some out to other agencies of the Government, you did not have——

Mr. DIXON. That was 2 years ago we did that. We loaned some and I remember it.

I am not good enough at prognosticating who is going to settle a case with us, Mr. Jonas, and who is not. We are settling cases that would take 6 years to try. Now if the settlement wasn't effectuated that man would be assigned to the case 6 years. Now, if I do not have a man I would have to be——

Mr. JONAS. I am glad to hear you are.

Mr. DIXON. We are settling about 85 percent of our cases now, you see.

Mr. JONAS. It is a whole lot better than trying them.

Mr. DIXON. It saves everybody money.

Mr. EVINS. Can't you use these hearing examiners somewhere else?

Mr. DIXON. We are using them right here in our own shop. They are not wasted. That number, if you make a mathematical computation, includes clerks.

Mr. EVINS. No. This is exclusive of clerks.

Mr. DIXON. There are 15 hearing examiners and 14 clerks.

Mr. EVINS. I did not figure this out, one of our counsel did. There are 71 matters disposed of in various procedures. During this period the examiners had 65 days of pretrial conferences and 242 days of formal hearings. Excluding the clerks, this works out to 21 days per examiner.

STAFF OFFICES

Looking at your chart some more here, you have an Office of Program Review and you have the Office of Administration and Office of the Comptroller. You have three offices there. Could they not be consolidated into one and be a little more streamlined?

Mr. DIXON. Our Program Review Office as such comes under all the Commission, not under me, nor does it come under the Chairman and Executive Director. We are now using that man in a dual function as a deputy to the Executive Director. The Comptroller is there, Mr. Chairman. It is just a nice looking chart but he comes up through that same chain.

Mr. EVINS. You have 19 in the Office of Comptroller, 97 in Administration and two in Program Review. Then you go down to your big bureaus, Deceptive Practices, 119; Economics, 118; Bureau of Field Operations, 255.

Mr. DIXON. We asked you for 15 this year for that, if you will notice in our request. We need 15 new men in our field. We are way back.

Mr. EVINS. In Industry Guidance you have 56; Bureau of Restraint of Trade, 191; and Bureau of Textiles and Furs, 94. Then you go down to 11 field offices and one suboffice. Where is your suboffice? You do not show that.

Mr. DIXON. It is in Houston.

Mr. EVINS. The Commission has grown. You have a heavy staff in New York, then you have three offices out on the west coast—San Francisco, Seattle, and Los Angeles.

STATUTES ADMINISTERED

We referred earlier to the amount of statutes that the Commission administers, the Federal Trade Commission Act, Robinson-Patman Act, Clayton Act, Export Trade Act—not doing too much there—Wool Products Labeling Act, Insurance Regulation Act. What do you do under that statute?

Mr. DIXON. That is Public Law 15. Well now, we have a responsibility there of regulating principally deceptive advertising practices in insurance where we have jurisdiction.

Mr. EVINS. We talked about that last year and the year before and urged you to move in on these health care, medicare programs, to get more protection.

Mr. DIXON. We did. We have just about completed it. We made a study, starting on the west coast and covered—give the chairman a little rundown.

Mr. EVINS. Have you had any cases under this Insurance Act?

Mr. DIXON. How many cases?

Mr. SWEENY. So far the Commission has issued three complaints. We have about eight more in the process of preparation for submission at this time

Mr. DIXON. This came out of that study that we made completely on the mail order type of insurance, Mr. Chairman, where we have responsibility. We think this pretty well brings it up.

Mr. EVINS. Personally, I think you would find more misrepresentation, more misleading, and more deception in this field than probably any other one, if the Commission would look into it in greater depth.

Mr. DIXON. Mr. Chairman, you understand that the Supreme Court said that the Federal Trade Commission has no jurisdiction where any State has passed a law assuming the responsibility and a company is registered.

Mr. EVINS. Do you want to repeal the act?

Mr. DIXON. I might suggest to you, sir, that I would do to that act the same thing I have done in all other laws dealing with problems, I would say give it a joint responsibility. There is no reason to exclude it.

Mr. EVINS. I am just pointing out you are making claims here that you do work under this act and I do not think you have done very much.

Mr. DIXON. We have done what we can within our jurisdiction.

Mr. EVINS. OK. Lanham Trade Mark Act of 1946, the Fur Products Labeling Act, the Flammable Fabrics Act, and the Packers and Stockyards Act. That is administered by the Department of Agriculture.

Textile Fiber Products Identification Act is a new one.

Mr. DIXON. With respect to your mention of the Packers and Stockyards Act, the O'Mahoney statute, which closed loopholes that various supermarket chains were using to try to get out from under the Federal Trade Commission Act by saying they are in the packing business and under Agriculture, not Federal Trade.

Mr. EVINS. You have not had any cases on that.

Place pages 3 through 6 in the record.

(The pages follow:)

STATUTORY AUTORITY AND DUTIES OF THE FEDERAL TRADE COMMISSION

Statutory Authority—The Federal Trade Commission, an administrative agency, created by the Act of September 26, 1914, is charged with the enforcement of the Federal Trade Commission Act as amended by the Wheeler-Lea Act, approved March 21, 1938 (52 Stat. 111–117); Section 2 of the Clayton Act, as amended by the Robinson-Patman Act, approved June 19, 1936 (49 Stat. 1526), and sections 3, 7 as amended and 8 of the Clayton Act of October 15, 1914 (38 Stat. 730); the Export Trade Act, approved April 10, 1918 (40 Stat. 516); the Wool Products Labeling Act, approved October 14, 1940 (54 Stat. 1128); the Insurance Regulation Act, approved March 9, 1945 (59 Stat. 33); the Lanham Trade-Mark Act of 1946, approved July 5, 1946 (60 Stat. 427); the Fur Products Labeling Act, approved August 8, 1951 (65 Stat. 175); the Flammable Fabrics Act, approved June 30, 1953 (67 Stat. 111); amendment to the Packers and Stockyards Act, 1921, approved September 2, 1958 (72 Stat. 1749); and the Textile Fiber Products Identification Act, approved September 2, 1958 (72 Stat. 1717).

Duties—The principal duties of the Commission under the above-mentioned statutes are:

(1) *The Federal Trade Commission Act.*—Under this Act, the Commission is charged with (a) the prevention of unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce; (b) the conduct of investi-

gations relating to (1) alleged violations of the Antitrust Acts (2) the manner in which decrees in Antitrust suits brought by the United States have been carried out, and (3) the organization, business, conduct, practices and management of corporations engaged in commerce (with certain statutory exemptions) and their relation to other enterprises; (c) the making of reports and recommendations to the Congress with respect to legislation; and (d) the conduct of trade conferences of industries for the elimination of unlawful and unethical business practices.

(2) *Clayton Act.*—Under Sections 3, 7 and 8 of this Act the Commission is charged with the duty of preventing and eliminating unlawful tying contracts, corporate mergers and acquisitions and interlocking directorates. Under the Clayton Act, as amended by the Robinson-Patman Act, which greatly enlarged and increased the jurisdiction and duties of the Commission in respect to unlawful price discriminations, the Commission is charged with the prevention of certain specified practices, i.e., unlawful price and related discriminations.

(3) *Amendment to Packers and Stockyards Act.*—The provisions of this amendment extend the Commission's jurisdiction to cover certain matters previously subject to the exclusive jurisdiction of the Secretary of Agriculture.

The amendment, in effect, grants the Commission jurisdiction over the activities of packers not related to livestock, meats, meat products, and the like. The Commission is granted additional power and jurisdiction over all transactions in commerce in margarine and oleomargarine and over retail sales of meat and related products. Other matters involving meat and related products are made subject to the Commission's jurisdiction where the Secretary requests the Commission to investigate and report or where, under certain circumstances, action by the Commission is necessary to exercise effectively its power or jurisdiction with respect to retail sales of meat and related products.

(4) *Export Trade Act.*—The Commission is responsible for receiving and filing articles of association or incorporation of "associations" organized under the Export Trade Act; investigating their operations which may adversely affect competition within the United States; making recommendations to the associations for readjustments deemed necessary therein; and, where considered appropriate, making recommendations to the Attorney General for penal action.

(5) *Wool Products Labeling Act.*—Under this statute the manufacture for introduction into commerce, or the introduction, sale, transportation or distribution, in commerce, of misbranded wool products, is unlawful, and constitutes an unfair method of competition and an unfair and deceptive act and practice under the Federal Trade Commission Act. The Commission is authorized to make inspections, analyses, tests and examinations of all wool products subject to the Act and to make such rules and regulations as may be necessary and proper for the administration and enforcement of the Act. In addition, the Commission is also empowered under the statute to prevent the movement of misbranded wool products in commerce by injunction and to proceed by libel action in certain cases for condemnation of such products.

(6) *Insurance Regulation Act of 1945.*—The provisions of this Act limit the application of the Federal Trade Commission and Clayton Acts as amended, to practices in the insurance field which have not been regulated by the States. This has imposed upon the Commission the task of not only determining whether any given matter concerning insurance violates any of the Acts it administers, but also whether the practices involved have been regulated by the States within the intent and meaning of this Act.

(7) *Lanham Trade-Mark Act of 1946.*—Under this statute it is the duty of the Commission to make applications for the cancellation of registered trade-marks under certain specified conditions. The Commission, as applicant, must secure the proper evidence on which the application for cancellation is based, prepare the application, stating the grounds relied upon, be represented at the hearing before a Patent Office examiner for the purpose of presenting such evidence and otherwise prosecute the matter to a conclusion.

(8) *Fur Products Labeling Act.*—The Commission is charged with the administration and enforcement of this consumer legslation which requires the mandatory labeling of fur articles of wearing apparel, as well as truthful invoicing and advertising of furs and fur products to show, among other things, the true English name of the animal from which the fur was taken. The Commission is also charged with issuing a Fur Product Name Guide and is authorized and directed to cause compliance inspections, analyses, tests and examinations to be made of furs and fur products subject to the Act and to prescribe rules and

regulations governing the manner and form of disclosing required information under the Act. In addition to administrative enforcement, injunctive and condemnation proceedings are also provided for.

(9) *Flammable Fabrics Act.*—Under this Act which became effective July 1, 1954, the Commission is directed to prevent the marketing in commerce of all wearing apparel and fabrics intended for use in wearing apparel which when tested under the prescribed standard set forth in the Act is so highly flammable as to be dangerous when worn by individuals. Its enforcement is to be carried out through administrative procedures provided for under the Federal Trade Commission Act as well as injunction condemnation and criminal proceedings in the federal courts.

(10) *Textile Fiber Products Identification Act.*—This additional "truth-in-fabrics" legislation takes up where the Wool Products Labeling Act leaves off. It became law September 2, 1958, and covers the broad field of mandatory content disclosure in labeling and advertising of textile fiber products. Under its terms, misbranding as well as false and deceptive advertising of textile fiber products is unlawful.

The Commission is authorized, under the Act, to make inspections, analyses, tests, and examinations of all textile fiber products subject to the statute, and further, to make such rules and regulations as may be necessary and proper for administration and enforcement of the Act. In addition, the Commission is directed to establish generic names for those man-made fibers which have not as yet attained one.

Its enforcement is to be carried out through administrative procedures provided for under the Federal Trade Commission Act, together with injunction and criminal proceedings in the U.S. District Courts.

(11) *Fair Packaging and Labeling Act.*—This Act (P.L. 89–755) requires the Commission to issue regulations having the force of law respecting net contents disclosures, identity of commodity, and name and place of business of manufacturer, packer or distributor; and the Act authorizes additional regulations when necessary to prevent consumer deception or facilitate value comparisons in respect to declaration of ingredients, slack fill of packages, use of "cents-off" or lower price labeling, and characterization of package sizes. The act becomes effective July 1, 1967 and gives the Commission responsibility for consumer commodities other than food, drugs, therapeutic devices and cosmetics. Violations of regulations issued under the Act will be treated as violations of Section 5 of the Federal Trade Commission Act.

Obligations by activities

	Actual, fiscal year 1966	Allotment, fiscal year 1967	Requested, fiscal year 1968	Increase or decrease, fiscal year 1968
Antimonopoly:				
Investigation and litigation	$5,937,000	$6,258,000	$6,468,000	$210,000
Economic and financial reports	955,000	992,000	1,052,000	60,000
Trade practice conferences, industry guides, and small business	244,000	282,000	297,000	15,000
Deceptive practices:				
Investigation and litigation	3,633,000	3,813,000	4,232,000	419,000
Trade practice conferences, industry guides, and small business	490,000	564,000	593,000	29,000
Textile and fur enforcement	1,272,000	1,283,000	1,375,000	92,000
Executive direction and management	325,000	338,000	344,000	6,000
Administration	815,000	848,000	864,000	16,000
Total obligations	13,671,000	14,378,000	15,225,000	847,000
Unobligated balance lapsing	189,000			
Appropriation transfer to GSA	2,000			
Appropriation	13,862,000	14,378,000	15,225,000	847,000

INCREASES REQUESTED FOR FISCAL YEAR 1968

Mr. EVINS. You have your offices pretty widespread and you are still requesting an increase in travel. Communications are up.

Mr. JONAS. Printing is up.

Mr. EVINS. Printing goes up from $74,000 to $105,000.

Mr. DIXON. We have one case on the way to court that costs $50,000 to print the record.

Mr. JONAS. $50,000?

Mr. DIXON. $50,000. It is astounding.

Mr. GLENDENING. We are estimating $62,000 for printing that record, one record.

Mr. DIXON. That is only our cost. The other side cost substantially more than that.

Mr. JONAS. Is that the *Procter & Gamble* case?

Mr. DIXON. No, sir.

Mr. EVINS. A $25,000 increase for typewriters and other office equipment.

Place in the record chart No. 7.

(The page follows:)

Object classification

		Actual, fiscal year	Allotment, fiscal year	Requested, fiscal year	Increase or decrease
11	Personnel compensation:				
	Permanent positions	$11,642,000	$12,329,000	$12,972,000	$643,000
	Positions other than permanent	60,000	36,000	43,000	7,000
	Other personnel compensation	3,000	11,000	11,000	
	Total personnel compensation	11,705,000	12,376,000	13,026,000	650,000
12	Personnel benefits	848,000	911,000	959,000	48,000
21	Travel and transportation of persons	337,000	370,000	412,000	42,000
22	Transportation of things	6,000	8,000	8,000	
23	Rents, communications, and utility services:				
	Rents	70,000	82,000	82,000	
	Communications	176,000	180,000	195,000	15,000
24	Printing and reproduction	74,000	90,000	105,000	15,000
25	Other services	77,000	119,000	144,000	25,000
	Services of other agencies	46,000	32,000	35,000	3,000
26	Supplies and materials	171,000	170,000	194,000	24,000
31	Equipment	161,000	40,000	65,000	25,000
	Total obligations	13,671,000	14,378,000	15,225,000	847,000
	Unobligated balance lapsing	189,000			
	Appropriation transfer to GSA	2,000			
	Total appropriation	13,862,000	14,378,000	15,225,000	847,000

Mr. JONAS. This is the first agency that has not wanted ADP equipment.

Mr. DIXON. What is that?

Mr. EVINS. Computer.

They have the brainpower down there, they do not need the computers.

Mr. DIXON. We finally got our computer.

SUMMARY OF OPERATIONS BY INDUSTRY GROUPS

Mr. EVINS. This next chart shows you that manufacturing consumes about 62.6 percent of your operations, and wholesale-retail trade about 25 percent; service establishments about 8 percent; finance—a lot of misrepresentation in that field, a bill is pending on it—only 1.4 percent.

Mr. DIXON. That is the truth in lending.

Mr. EVINS. Place page 8 in the record.

(The page follows:)

Summary of Federal Trade Commission operations by industry groups, fiscal year 1966

Division	Industry group	Percent to total
A	Agriculture, forestry, and fisheries	1.1
B	Mining	.3
C	Contract construction	.9
D	Manufacturing	62.6
E	Transportation, communication, etc	.2
F	Wholesale and retail trade	25.5
G	Finance, insurance, and real estate	1.4
H	Services	8.0
	Total	100.0

Mr. EVINS. Your chart on 9 again shows where you are going to have your increases. Your Office of Program Review has three positions and you are reviewing programs all the time; the Commission reviews the programs, Congress reviews the programs, each agency reviews the programs. The Executive Director reviews the programs.

Mr. DIXON. Mr. Chairman, in 1950, with Reorganization Plan No. 8, you made it possible to have a permanent chairman, you made one. Now you did not relieve the other four Commissioners from their responsibility on programs and policy. The Office of Program Review is to assist the other four, as well as me now. But the Program Review Officer is independent of me.

INCREASES REQUESTED FOR FISCAL YEAR 1968

Mr. EVINS. Administration goes up to 104 from 102, your hearing examiners still remain at 29, Bureau of Restraint of Trade, 6 new jobs there: Deceptive Practices, 127 to 152, up 25. This is the new law.

Mr. DIXON. Nineteen in packaging and six in the various other functions.

Mr. EVINS. In view of your expertness and the fact that you have been doing this before the passage of the act, do you really need all those people for this new law?

Mr. DIXON. We do, Mr. Chairman, or I would not ask for them.

Mr. EVINS. Field operations, 258 to 273, you are asking for an increase of 15. I notice in your justification you said you had lost 27 attorneys that resigned in the field. They must not have had enough work to do or they would not have resigned.

Mr. DIXON. No, sir; they were promised some of that green stuff, Mr. Chairman. We are having a 10-percent turnover in our professional staff. This means——

Mr. EVINS. They come to the Commission, get the experience and they go with a law firm. Then they oppose you.

Mr. DIXON. Where they do not have a conflict they do. But we are training some mighty fine young lawyers for them, I know that.

Mr. JONAS. They get experience down there and them come to Congress, do they not?

Mr. DIXON. I do not——

Mr. EVINS. How long do you have to stay out before you can practice before the Commission?

Mr. DIXON. My fellow Commissioners tell me the only thing I can do is teach school because I am supposed to be responsible for everything. But really——

Mr. EVINS. Do you have a rule?

Mr. DIXON. We sure have and it is a pretty good one. It reaches right down. You are responsible—you cannot change sides. Our rule is stringent, based on apparent conflict and not on time. Lawyers are all under the code of ethics.

Mr. EVINS. How is this apparent conflict determined?

Mr. DIXON. With your younger and lower men, where the turnover is, of course they do not have as many responsibilities or as many cases, but really what controls it is the knowledge of facts of the matter.

We have a rule that requires them to apply for clearance. We have to pass on that at the table as to whether he can participate in the case or not.

COMPARISON OF SALARIES AND EXPENSES, 1967 AND 1968 AND TABLE OF CASES

Mr. EVINS. Place in the record page 9, Mr. Reporter, and this table of cases, page 10.

(The pages follow:)

Comparative summary—Salaries and expenses, fiscal year 1967, with requested funds, 1968

	Allotment, fiscal year 1967				Funds requested, fiscal year 1968				Increase requested, fiscal year 1968			
	Positions	Personal services	Travel and other	Total	Positions	Personal services	Travel and other	Total	Positions	Personal services	Travel and other	Total
Commissioners' offices	41	$552,500	$8,000	$560,500	41	$555,500	$8,000	$563,500	-------	$3,000	-------	$3,000
Office of Program Review	3	47,500	-------	47,500	3	47,500	-------	47,500	-------	-------	-------	-------
Office of Executive Director	9	118,000	2,000	120,000	9	119,000	2,000	121,000	-------	1,000	-------	1,000
Office of Administration	102	718,500	2,000	720,500	104	732,000	2,000	734,000	2	13,500	-------	13,500
Office of Comptroller	21	174,500	500	175,000	22	182,000	500	182,500	1	7,500	-------	7,500
Office of Secretary	49	337,000	500	337,500	50	343,000	500	343,500	1	6,000	-------	6,000
Office of General Counsel	59	718,000	12,000	730,000	59	723,000	14,000	737,000	-------	5,000	$2,000	7,000
Hearing examiners	29	438,000	7,000	445,000	29	445,000	7,000	452,000	-------	7,000	-------	7,000
Bureau of Restraint of Trade	202	2,321,000	99,000	2,420,000	208	2,387,000	107,000	2,494,000	6	66,000	8,000	74,000
Bureau of Deceptive Practices	127	1,518,000	89,000	1,607,000	152	1,739,000	103,500	1,842,500	25	221,000	14,500	235,500
Bureau of Textiles and Furs	96	945,000	55,000	1,000,000	104	1,005,000	58,000	1,063,000	8	60,000	3,000	63,000
Bureau of Field Operations	258	2,664,000	185,000	2,849,000	273	2,817,000	210,000	3,027,000	15	153,000	25,000	178,000
Bureau of Industry Guidance	56	703,000	1,000	704,000	59	732,000	1,000	733,000	3	29,000	-------	29,000
Bureau of Economics	123	1,110,000	18,000	1,128,000	131	1,188,000	26,000	1,214,000	8	78,000	8,000	86,000
General operating expenses (not included above)	-------	-------	1,534,000	1,534,000	-------	-------	1,670,500	1,670,500	-------	-------	136,500	136,500
Total	1,175	12,365,000	2,013,000	14,378,000	1,244	13,015,000	2,210,000	15,225,000	69	650,000	197,000	847,000

Complaint actions for fiscal years 1963–66

[RT—Restraint of trade; DP—Deceptive practices; T. & F.—Textiles and furs]

Fiscal year	Approved for complaint issuance or consent order negotiation	Withdrawn	Complaints and consent orders to cease and desist issued (C-Series)	Complaints docketed for litigation (D-Series)	Pending consent order negotiation June 30	Complaints pending litigation July 1	Complaints docketed for litigation (D-Series)	Orders to cease and desist [1]					Other closings	Complaints pending litigation June 30
								Reopened	Contest	Consent	Defaults and admissive answers	Orders of dismissal		
1963:														
RT	150	------	213	17	106	179	17	1	33	14	1	7	------	142
DP [2]	149	4	86	43	59	94	43	4	26	2	7	11	------	93
T. & F	94	1	66	6	38	11	6	------	6	------	------	3	------	8
Total	393	5	365	66	203	282	66	5	65	16	8	21	------	243
1964:														
RT	30	11	80	15	28	142	15	2	28	23	1	18	------	89
DP	117	14	97	32	34	93	32	------	53	2	8	14	------	47
T. & F	76	2	83	2	27	8	2	------	3	------	2	3	------	2
Total	223	27	260	49	89	243	49	2	84	25	11	35	------	138
1965:														
RT	96	10	18	8	88	89	8	3	10	10	1	19	20	40
DP	47	5	47	19	10	47	19	1	15	------	5	12	4	31
T. & F	60	4	67	2	14	2	2	------	1	------	1	------	------	2
Total	203	19	132	29	112	138	29	4	26	10	7	31	24	73
1966:														
RT	34	11	80	14	17	40	14	2	11	3	------	7	1	34
DP	66	8	37	11	20	31	11	1	10	1	3	3	1	25
T. & F	47	4	49	3	5	2	3	------	2	------	------	------	------	3
Total	147	23	166	28	42	73	28	3	23	4	3	10	2	62

[1] Excludes orders partially disposing of cases.
[2] DP includes T. & F. cases.

NOTE.—Columns will not necessarily total because of multiple actions involving individual cases.

INVESTIGATION CASELOAD

Mr. EVINS. This shows you that there are all types of cases. Investigation caseload, insert page 11.
(The page follows:)

Investigation caseload, fiscal years 1963 through 1966

	1963	1964	1965	1966
Pending 1st of year, total	2,872	3,064	2,908	2,283
Restraint of trade	1,513	1,531	1,417	930
Deceptive practices [1]	1,359	1,533	1,491	1,353
Initiated and reopened, total	1,504	1,401	1,085	1,168
Restraint of trade	364	353	242	251
Deceptive practices [1]	1,140	1,048	843	917
Completed, total [2]	1,312	1,557	1,710	1,473
Restraint of trade	346	467	729	492
Deceptive practices [1]	966	1,090	981	981
Pending end of year, total	3,064	2,908	2,283	1,978
Restraint of trade	1,531	1,417	930	689
Deceptive practices [1]	1,533	1,491	1,353	1,289

[1] Includes textile and fur work.
[2] Includes investigations approved for consent negotiation but pending consent action.

Petitions to review filed in courts

Fiscal year	Cases filed	Cases disposed of	Cases pending end of year
1962	27	21	46
1963	41	27	60
1964	51	31	80
1965	26	33	73
1966	20	32	61

OFFICE OF ADMINISTRATION

Mr. EVINS. Office of Administration develops long-range policy, too.

Mr. DIXON. This is administrative policy.

Mr. EVINS. Division of Data Processing. This Division has the continuing job of machine preparation of payrolls and workload statistics and equipment inventory, the maintenance of personnel information.

Mr. DIXON. This is housekeeping, Mr. Chairman.

Mr. EVINS. Place pages 25, 26, 27, and 28 in the record.
(The pages follow:)

OFFICE OF ADMINISTRATION

The Office of Administration gives policy guidance and general supervision to the management and organization programs, administrative services activities and personnel programs of the Federal Trade Commission. Plans for effective organization and administration of the Commission's management programs. Formulates and puts into effect basic administrative policies. Develops long-range plans relating to needs for personnel, space, supplies, equipment, computer services, etc. The Office of Administration includes the Management Staff, the

Division of Personnel, the Division of Administrative Services, and the Division of Data Processing.

Management interns are assigned to the Office of Administration and are detailed during their training period to administrative positions throughout the Federal Trade Commission.

MANAGEMENT STAFF

The Management Staff in the Office of Administration is responsible for conducting agency-wide organizational and procedural studies; coordinating and issuing procedural and policy statements through a Directives System in the form of an Administrative Manual, Administrative Bulletins, and notices; conducting the Workload, Production and Manpower Reports System which also includes a Highlights narrative for all program functions; operating the Progress Report System covering the status of formal and informal casework; and the performance of special studies as assigned.

The Management Officer, as Executive Secretary to the ADP Steering Committee, is responsible for ADP systems analysis and design studies, including ADP applications and feasibility studies, in accordance with work areas defined and priorities established by the ADP Steering Committee.

An additional $500 is requested for mandatory within-grade increases.

DIVISION OF PERSONNEL

The Division of Personnel initiates, develops, and administers personnel policies and programs in the spheres of recruitment, appointment and placement, training, position classification, performance ratings, employee relations, welfare, and health and recreation.

Also this Division has been given the responsibility for position management and manpower utilization surveys and maintenance of necessary controls.

An orientation pool for stenographers and typists predominately consisting of employees initially entering on duty with the Commission has been established under the Division of Personnel. This group expedites overflow work from the substantive bureaus and is used for relief assignments to Commissioners' Offices, the Office of the Executive Director, and other top offices throughout the Commission.

An additional $1,000 is requested for mandatory within-grade increases.

DIVISION OF DATA PROCESSING

The Division of Data Processing operates a Burroughs computer and peripheral equipment to service operating bureaus' needs for data processing. These include both administrative and substantive program activities. On the administrative side, this division has the continuing job of machine preparation of payroll, the maintenance of equipment inventories, the maintenance of workload statistics for attorneys, and among other administrative programs, the maintenance of personnel information concerning both employees and attorney applicants.

In regard to the substantive programs of the Commission, this Division prepares information relating to financial statistics (a sample of 9,000 businesses are covered by the F.T.C. segment of this study), various economic and legal programs, including rates of return for the Division of Accounting, and master case cards on legal cases currently being worked on in the legal divisions of the Commission.

This Division, in connection with the above programs and others, is responsible for advising operating officials in regard to adequacy of information supplied to accomplish objectives, the development of programs as required for various administrative and operating studies, and the establishment of good, workable priorities for the expeditious handling of data processing activities.

DIVISION OF ADMINISTRATIVE SERVICES

The Division of Administrative Services is a central administrative unit established for the purpose of publishing the material made public under Section 6(f) of the Federal Trade Commission Act; for the procurement of supplies and equipment; and for supplying other services essential to the functioning of the Federal Trade Commission. The Commission's Library is also located in this Division.

The Publication Branch of the Division of Administrative Services clears for format, economy of reproduction, and distribution, all material printed or duplicated by the Federal Trade Commission within the limitations of the laws and regulations as applicable thereto. This branch also operates a Class A Printing Plant established under the provisions of the regulations by the Joint Committee on Printing of the United States Congress; and provides photographic, photostat and drafting services. These services are performed by the following sections:

The Composition Section edits for format and typography, material to be printed by the Government Printing Office or printed or duplicated in the Federal Trade Commission Printing Plant and provides stenographic services when bureau pools are over-burdened. During fiscal year 1966 over 4,000 pages of copy were produced by this activity for lithographic reproduction in the printing plant.

The Photographic Section provides the Commission with photographic, copyflo and photostat services for use in connection with the Commission's legal proceedings and economic reports. Production reports for this section show that over 522,793 photographic and photostat and copyflo prints were produced during fiscal year 1966.

Functions of the Printing Plant are the printing of the Commission's orders, press releases, legal and economic reports, speeches, Trade Practice Rules, pamphlets, forms, letters, etc. Production during the fiscal year 1966 was more than 14,520,324 pages.

The Library System of the Federal Trade Commission consists of: (1) the Commission Library; (2) the Medical Library in the Division of Scientific Opinions; (3) a small library in the Office of the Hearing Examiners; and (4) a small library in each of the Commission's 11 field offices.

These libraries provide facilities for research by personnel of the bureaus and offices of the Commission and assist in disseminating information regarding the antitrust laws and trade regulation.

The combined holdings of these collections total more than 125,000 bound volumes. Extensive files of legislative documents and statistical publications of other Government departments and agencies, and of trade associations are also maintained.

More than 350 different periodicals are received, indexed and routed among the staff on a weekly, monthly, quarterly or other frequency basis. Approximately 75,000 reference questions were answered during the year and more than 125,000 books were loaned for use outside the library.

The Procurement and Services Branch is responsible for providing services and controls in the necessary housekeeping functions as follows: procurement and maintenance of supplies, equipment, furniture, etc.; space control and building maintenance; communications including mail, telephone and telegraph, and messenger.

An additional $7,000 is requested for one Messenger, GS–1 and one WP–7 Bindery Worker. Also, an additional $4,500 is necessary for mandatory within-grade increases.

OFFICE OF THE SECRETARY

Mr. EVINS. Office of the Secretary keeps the seal.

Mr. DIXON. Keeper of the keys. He is our clerk of the court.

Mr. EVINS. Well, he has the workload, dockets, informal dockets, and correspondence. You tell about each one of them having correspondence, but it says the Secretary handles the correspondence, dockets, informal dockets, and distribution. His work bears a direct relationship to the professional staff.

Place page 33 in the record.

(The page follows:)

OFFICE OF THE SECRETARY

The Secretary and his immediate office receive and handle mail on all phases of the Commission's work. He signs all orders and certain other official papers. He also is responsible for liaison with the Congress and Government agencies and for decisions on informal cases not submitted to the Commission.

The Assistant Secretary for Minutes takes the minutes of, and records the executive meetings of the Commission, prepares directives for the signature of the Secretary and keeps the docket of pending matters before the Commission.

LEGAL AND PUBLIC RECORDS

The Division of Legal and Public Records embraces the Formal Docket, Informal Docket, Correspondence, Public Reference and Distribution Sections.

The Formal and Informal Docket Sections are responsible for the establishment, management, safety, completeness and accuracy, uses and retirement of the legal and related records of the Commission.

The Correspondence Section receives incoming mail, opens, date stamps, establishes index and tickler when appropriate, conducts history search and forwards letters to proper office for action.

The Public Reference Section furnishes information and assistance to the public, and to the staff of the Commission in relation to public, legal and court proceedings and in matters of related procedure. The Section is responsible for the custody, location, safety, conditions, etc., of dockets, files, exhibits, etc.

The Distribution Section controls the supply and distribution of all publications issued by the Commission, such as economic reports, annual reports, trade practice rules, etc.

The workload of the several sections of this Division bears a direct relationship to the professional staffs of the operating bureaus. The number of attorneys and hearing examiners on the Commission staff has increased steadily during the past five years while the number of employees in this Division has remained the same.

One additional position is requested for fiscal year 1968, and an additional $2,000 is required to cover the cost of mandatory within-grade salary increases, a total of $6,000.

OFFICE OF THE GENERAL COUNSEL

Mr. EVINS. General Counsel, you do not ask for any more jobs, but he is the legal light, the judge. This shows the workload and some of the current cases.

The Division of Consent Orders, the workload is shown on 42 and the forecast for 1968. That is the language where it says, "When the Commission becomes better known." I think the Commission is well known. You also make reference to the fact that you answer inquiries of the Congress. Well, that is helpful.

Place 36 through 44 in the record.

(The pages follow:)

OFFICE OF THE GENERAL COUNSEL

The General Counsel is the chief law officer of the Commission. He is its legal counselor and adviser. He represents the Commission as its lawyer in contacts with other departments, agencies and branches of Government, and in controversies before the courts of the United States. He directs the work and performance of the following:

Handling the preparation of briefs, and oral arguments before the courts of appeals on appeals taken from decisions of the Commission;

Collaborating with the office of the Solicitor General in preparing and presenting Commission cases before the United States Supreme Court;

Handling matters before the United States district courts concerning enforcement of Commission subpoenas and seeking injunctions;

Preparing opinions on matters of law for the Commission and the staff;

Analyzing new legislation, preparing the Commission's reports thereon, and representing the Commission before congressional committees;

Supervising and directing all functions of the Commission in the operation of the Webb-Pomerene (Export Trade) Act of 1918;

Handling the negotiation of consent orders;

Handling the cancellation proceedings of trademarks as authorized by the Lanham Trade-Mark Act of 1946;

Advising the Chairman of the Commission on clearance of voluntary industry agreements sponsored by other agencies in carrying out the Defense Production Act and Small Business Act of 1953, as amended;

Passing upon trade practice rules, trade practice industry guides, and trade regulation rules;

Encouraging effective programs of cooperation between the Commission and agencies enforcing State antitrust, antideceptive practice, and consumer protection laws, through the Office of Federal-State Cooperation;

Examining from the standpoint of enforcibility the investigational demands for access, demands for special reports, and subpoenas duces tecum;

Preparing legal manuals and studies for staff use.

The increase in the work of the Division of Appeals, the legislative activity affecting or designed to affect the work and duties of the Commission; the interest in an expanded export trade, governmentally and privately inspired; the broadened enforcement efforts of the operating bureaus which culminated to a large extent in consent settlements; all are expected to continue and to accelerate during fiscal 1968. The Commission is active. It emphasizes its work on restraints of trade. It initiates industrywide investigations and proceedings. It adopts trade rules and regulations which tend to dispose of minor matters expeditiously, but which bring into sharp contention larger cases of financial and economic importance to the business community. An upsurge of antitrust cases is foreseeable from recent Supreme Court decisions broadly questioning business organization practices. The Commission's staff makes necessary and more numerous demands for special reports and investigational subpoenas authorized by the Federal Trade Commission Act and for their enforcement in the courts. An increase in the work of the General Counsel's Office will result in fiscal 1968.

On October 14, 1965, the Commission directed the General Counsel to establish within his office, an Office of Federal-State Cooperation with responsibility to develop programs of effective cooperation between the Commission and agencies responsible for enforcing State antitrust, antideceptive practice and consumer protection laws. The purpose is to encourage action at state and local levels to stop unfair, anticompetitive and deceptive practices before they grow into problems of interstate significance, and thus free the Commission to give more expeditious and effective attention to regional and national problems.

Effective liaison has been established with all of the State Attorneys General and with numerous other State agencies. They are devoting increased amounts of time and attention to identifying and reporting to the Commission any unfair or deceptive practices of an interstate character which occur in their States; and the Commission is referring an increased number of matters to them for consideration of possible action under State law. Where the State law is inadequate to reach unfair or deceptive practice of a type which would violate laws administered by the Commission if used in interstate commerce, the Commission is, upon invitation, furnishing assistance to State and local officials in drafting of new laws.

State officials are referring to the Commission a growing number of complaints about unfair or deceptive practices allegedly used in interstate commerce. Such referrals increased from a trickle at the beginning of the fiscal year 1966 to a total of 94 during the last quarter of the year. This increased to 233 during the first half of fiscal 1967 and further increase is expected as State officials and their constituents become more acquainted with availability of governmental protection against unfair and deceptive practices.

Similar increase has occurred in the number of referrals from the Commission to State officials of complaint correspondence respecting alleged use of unfair or deceptive practice in intrastate commerce. During the fiscal year 1966, 37 such referrals were made; and 37 such referrals were made during the first half of fiscal 1967. It is expected that this volume will continue to increase, as more and more of the States are becoming interested in preventing practices which are merely unfair or deceptive, in addition to those previously prohibited which comprise criminal fraud, larceny or obtaining money under false pretenses.

There is a growing demand from State officials for advice or assistance in connection with their law enforcement problems or legislative proposals. Seventy-three such requests were answered during the fiscal year 1966, and sixty during the first half of fiscal 1967.

Realizing that many of the States have inadequate laws to cope with unfair, anticompetitive and deceptive practices, the Commission during fiscal year 1966, forwarded to the Council of State Governments Committee on Suggested State Legislation, proposals for enactment of uniform State laws in three areas, i.e.,

general deceptive and unfair trade practices, licensing of hearing aid fitters and dealers, and regulation of correspondence and vocational schools.

The Assistant General Counsel for Federal-State Cooperation has appeared before the Legislative Council of Kansas, Labor and Industries Committee, to discuss proposed deceptive practice legislation; and he served as panelist on three occasions with State Attorneys General before consumer groups to discuss Federal-State Cooperation in the prevention of consumer fraud and deception. He attended two regional and two national meetings of the National Association of Attorneys General where he talked with all of the State Attorneys General and members of the Association's Committee on Antitrust and Consumer and Investor Protection, and he addressed a Seminar of the National District Attorneys Association, concerning the Commission's program of Federal-State Cooperation. An article on this subject also was published in *State Government*, official organ of the Council of State Governments in February 1966.

Serving as liaison between the Commission and the President's Committee on Consumer Interests, this office also dispensed some 10,000 items of informational literature to consumer groups during the past year.

The activities of this office will be continued in fiscal year 1968 along the lines set out above. Although this is likely to involve a growing workload, no increase in positions is requested.

A section of the office directed by an Assistant to the General Counsel enforces the provisions of the Lanham Trademark Act in which certain duties are delegated to the Commission.

The Legal Research and Reporting Section, in the Office of the General Counsel, prepares and publishes the volumes "Federal Trade Commission Decisions." It compiles, prepares and publishes the volumes "Statutes and Court Decisions Relating to the Commission," a legal reporter of court decisions to which the Commission has been a party, or which interpret and construe statutes administered by the Commission. The section also prepares all the headnotes and syllabi for Commission decisions as they are published in the Federal Register.

The work of the Legal Research and Reporting Section is important since it communicates to the trial and apellate staffs, by means of its publication, the recent case law in these fields. It furnishes a reliable source of court precedents for the use of Commission personnel and for the guidance of business itself. Its publications, available for purchase through the Government Printing Office, fulfill a part of the Commission's duty under Section 6(f) of the Federal Trade Commission Act to provide for the publication of its reports and decisions in such form and manner as may be best adapted for public information and use.

Increases requested for 1968

No increase in positions is requested, however an additional $1,000 is requested for the cost of mandatory within-grade promotions.

DIVISION OF APPEALS

The principal function of this Division is to represent the Commission in the federal courts. Any party against which the Commission has issued an order to cease and desist may petition a federal court of appeals for review. The Commission may apply in a federal district court for the enforcement of a subpoena or an order requiring a special report. Disobedience of a court's decree enforcing a Commission order or subpoena may be punished as a contempt. Collateral suits challenging the Commission's jurisdiction or procedure may be brought under certain circumstances in a federal district court. The Division handles these and similar matters both directly and in participation with the Office of the Solicitor General in Supreme Court matters, and with offices of the United States attorneys in certain other cases affecting the Commission. The Division is also often called upon to render formal and informal advice and assistance to the Commission and to the staffs of other bureaus and divisions.

General case workload

The workload of the Division is variable, and since the vast majority of it arises from actions taken by the Commission or parties being proceeded against, its timing and volume is governed by factors over which the Division has little or no control. Insofar as court litigation is concerned, during fiscal 1966 the Division handled 112 cases. It completed litigation in 46 cases, of which 20 were restraint of trade matters, 12 involved deceptive business practices, and 14 were miscellaneous matters, including suits brought against the Commission for in-

junction or declaratory judgment. Based on present available information, we project that the requirements of the Division during fiscal year 1968 will at least equal that for fiscal 1966 and 1967.

Workload expected in fiscal 1968

A. From current cases

At the beginning of fiscal 1967 the Division's workload included 66 cases open for further action or pending final disposition in the courts. Numbered among these pending cases are many appeals from final Commission orders which, because of a combination of such factors as voluminous records, important, complex, and vigorously disputed legal and factual issues, masses of economic data, conflicting expert opinions, and great financial consequences to the companies involved, are considered to be major cases. Of this category those which we project may require a substantial effort carrying over into fiscal 1968, together with the respective size of the records, exclusive of exhibits, now before the courts, are: *Alhambra Motor Parts*, 5300 pages; *American Cyanamid Co., et al.*, 30,000 pages; *Beatrice Foods Co.*, 30,000 pages; *The Borden Co.*, 10,000 pages; *Dean Milk Co.*, 17,000 pages; *Flotill Products, Inc.*, 1500 pages; *Lloyd A. Fry Roofing Co.*, 13,000 pages; *General Foods Corp.*, 4000 pages; *Jantzen, Inc.*, 500 pages; *Emile M. Lapeyre, et al.*, 23,000 pages; *Luria Brothers, et al.*, 25,000 pages; *Merck & Co., Inc.*, 4500 pages; *Proctor & Gamble Co.*, 10,000 pages; *Texaco, Inc., et al.*, 9500 pages; *Universal-Rundle Corp.*, 3500 pages; and *The J. B. Williams Co.*, 11,000 pages.

B. From projected Commission activity

At the beginning of fiscal 1967, there were approximately 70 complaints in various stages of litigation within the Commission. While there can be no certainty as to which ultimately will be decided adversely as to the respondents involved and thereafter appealed to the courts, on the basis of past experience we estimate that three-fourths of this number eventually will be handled by his division. Thus, in addition to our carryover from 1967 and other cases of a more routine nature which will be appealed, we expect from 27 to 30 major cases to be on our appellate docket during fiscal 1968.

The records in these cases will range from 2,000 to 15,000 pages each and exhibits from 200 to 5,000 each. This total volume of more than 100,000 pages of records and more than 20,000 exhibits will require a minimum of 35 man-years to complete.

In addition to the foregoing cases and those appeals of a more routine nature, we expect that the volume of district court litigation to be handled will increase substantially in fiscal 1968. A principal reason for this projection is the enactment of the so-called "freedom of information" bill. The bill, S. 1160, was signed into law on July 4, 1966 and its provisions will become effective at the beginning of fiscal 1968. Owing to its expansive provisions as respects both matters probably subject to discovery and new jurisdiction conferred on district courts, we project that the development of authoritative case law will require that, as compared to fiscal 1966 and 1967, the work required to defend the Commission in district court litigation may be tripled in fiscal 1968. We further expect an increase in the volume of enforcement proceedings instituted by the Commission, as we are informed that use of the provisions of § 6 of the Federal Trade Commission Act will be expanded in order to obtain industrywide information by the Bureau of Industry Guidance. Thus, our projection is that district court litigation will require a minimum of 7 man-years during fiscal 1968.

This Division believes, on the basis of present information, that its current appropriation is minimal for the proper performance of its assigned functions during the fiscal year to come. We are requesting no increase in staff, however, an additional $2,500 is necessary for mandatory within-grade promotions.

DIVISION OF CONSENT ORDERS

The principal function of this Division is to supervise and control negotiations looking towards the disposition of matters by the entry of consent orders under the procedure provided in Part 2 of the Commission's published rules.

A large majority of the Commission's formal proceedings are disposed of by the entry of consent orders. Under its procedures, when the Commission has reason to believe that a law administered by it has been violated and that a

formal proceeding should be instituted, the suspected violator is notified of the Commission's determination in that respect, and is provided with a form of complaint and a proposed order. The proposed respondent has 10 days after service of that notice within which to indicate whether or not he is interested in disposing of the proceeding by the entry of a consent order. If the proposed respondent fails to indicate such an interest, the Commission's rules prescribe that the complaint shall issue and be served forthwith.

If the proposed respondent indicates an interest in entering into an agreement containing a consent order, the files are referred to the Division of Consent Orders, where the proposed respondent may participate with members of the Commission's staff in the preparation and execution of an agreement. Unless the time is extended by the Commission, an executed agreement containing a consent order must be submitted to the Commission within 30 days after the receipt of the respondent's initial reply expressing interest. If an agreement is not so submitted, or if at any time it appears to the Division of Consent Orders that the execution of an agreement is unlikely, the files are returned to the Commission for its consideration with appropriate recommendation. After a complaint is issued, the consent order procedure prescribed under Part 2 of the published rules is not available.

Current workload

The Division disposed of 243 matters during fiscal year 1966. Of these, 124 were cases in which executed agreements containing orders to cease and desist were forwarded to the Commission with recomendations for their acceptance and issuance of complaint and decision as authorized by such agreements. In 41 others, the files were returned to the Commission after negotiations terminated without an agreed-to order and 10 matters were returned after negative response under Part 2 of the rules. Thirty matters were reported back to the Commission with recommendations which, in most instances, related to patterns of settlement proposed by the staff and requesting authorization for further negotiations with respect thereto. Under § 1.42 of the Commission's rules which became effective on June 1, 1962, parties to matters in the informal or investigative stage may be afforded an opportunity to submit to the Commission, through the Division of Consent Orders, executed consent agreements, together with proposed complaints drafted by the Commission staff. The above-mentioned 124 matters in which executed agreements were forwarded to the Commission in fiscal year 1966 included 57 matters submitted under this procedure. Also included in the above overall figure of 243 matters disposed of were 38 miscellaneous assignments.

The Division's assigned duties additionally include the review of proposed complaints and orders prior to their initial submission by the operating bureaus to the Commission for its consideration of the investigational files and determinations of whether corrective action should be directed. Two hundred thirty-three drafts of proposed complaints and orders were reviewed in the Division during fiscal year 1966.

Workload forecast for fiscal year 1968

The future workload of the Division of Consent Orders will be governed largely by the number of proceedings and investigations instituted by the Commission. It is essential that the work be kept current at all times. As outside attorneys become more familiar with the consent order procedure, more protracted negotiations are required to secure agreements containing appropriate orders.

No additional staff is requested, however, an additional $500 will be required for mandatory within-grade promotions.

DIVISION OF LEGISLATION

Present and projected program

The Division of Legislation of the General Counsel's Office is the liaison, with references to legislative matters, between the Federal Trade Commission and Congress. It advises the Commission upon all such matters.

When a committee of Congress or the Bureau of the Budget requests the Commission's views on any proposed legislation, the Division prepares reports for submission and approval by the Commission.

The Division drafts, and assists in the drafting, of legislative proposals on behalf of the Commission which, after clearance by the Bureau of the Budget, are submitted to the Congress. The Division likewise prepares for submission to

the Commission for inclusion in the Commission's annual reports, a list of legislation which the Commission believes is needed to make more effective its operations.

During the last two sessions of Congress and in the present session, the Division has prepared reports on approximately 125 bills for each session.

Projecting this into the future, it is our belief that the number of such reports probably will increase. Much legislation has been introduced which would broaden the jurisdiction of the Commission, and while very little of this has become law, there is every indication that as the work of the Commission becomes better known and its success in administering various labeling and other laws is appreciated, it is reasonable to expect there will probably be at least 175 bills introduced affecting the Commission during the future sessions of Congress. Also, during this same period, reports on approximately 35 bills per session have been prepared in response to Bureau of the Budget requests and by 1968 we expect this number to increase to about 60.

The Division will continue to prepare for the Commission's approval, the reports to be submitted to Congress on which the Commission's views are requested, and will continue to perform the task of answering the numerous inquiries from Congress and Congressional committee staff members concerning a broad range of pending legislation.

No increase in staff is requested for 1968, however $500 will be required for mandatory within-grade promotions in 1968.

DIVISION OF EXPORT TRADE

The Webb-Pomerene Export Trade Act of 1918 is administered by the Commission through its Division of Export Trade in the Office of the General Counsel. This Division does not perform all specific functions relating to the Act's administration, but coordinates and supervises the Commission's administration through its other operating bureaus. This administration includes, *inter alia*, economic studies on Webb associations undertaken by the Commission's Bureau of Economics; investigations of association activity by the Bureau of Field Operations; formal proceedings before hearing examiners directed towards recommendations for readjustment of association practices by the Bureau of Restraint of Trade, and requests by associations for advisory opinions on contemplated future programs in export trade under the Commission's Bureau of Industry Guidance.

In addition to performing the Commission's coordinating functions over the above activities in the Commission's operating bureaus, the Divisions of Export Trade is also the Commission's clearinghouse for matters relating to its jurisdiction in foreign commerce. Accordingly, the Division of Export Trade is the Commission's liaison on matters affecting foreign commerce with the Departments of Agriculture, Commerce, Justice, State and Treasury, and coordinate the Commission's activities with the Agency for International Development and the Office of the President's Special Trade Representative. The Assistant General Counsel for Export Trade also represents the Commission on the working party of the Restrictive Business Practices Committee of the OECD and on various governmental committees studying the problems of international trade, balance of payments, and export expansion. Answers to congressional inquiries regarding the administration of the Webb-Pomerene Act and Commission reports to Congress on legislation affecting the Commission's jurisdiction in foreign commerce are also prepared by the Division.

Increases requested

No additional positions are requested for fiscal year 1968, however an additional $500 is required to cover the cost of mandatory within-grade salary increases.

An increase of $2,000 is requested for travel in the Office of the General Counsel.

Mr. EVINS. Page 46, Hearing examiners. We have discussed this earlier.

Bureau of Restraint of Trade is one of your big bureaus and the workload is on page 50, which we have discussed.

Gentlemen, we will suspend until about 1:15 p.m.

AFTERNOON SESSION

Mr. EVINS. The committee will come to order.

BUREAU OF RESTRAINT OF TRADE

The Bureau of Restraint of Trade is one of the large and important bureaus of the Commission.

This unit litigates charges of unlawful conduct, prepares motions, prepares findings and conclusions with argument of law, prepares briefs, argues appeals before commissions and courts.

We discussed the caseload earlier. Include in the record pages 49 and 50.

(The pages follow:)

BUREAUS OF RESTRANT OF TRADE

This Bureau has the responsibility in the antimonopoly area for the administration and enforcement of Section 5 of the Federal Trade Commission Act, and Sections 2, 3, 7 and 8 of the Clayton Act. It has responsibility for all preliminary investigational activity in this field. All correspondence relating to these matters and all preliminary applications for complaint are received and processed by the Bureau. Decisions are made by this Bureau as to the matters which warrant investigations. Several techniques are used in conducting these investigations: (1) in some instances memoranda are forwarded to the Bureau of Field Operations outlining in detail the scope and area of investigations; (2) the staff of the Bureau of Restraint of Trade conducts field investigations for the purpose of interviewing and assessing available public witnesses and obtaining documentary material; (3) the staff conducts investigations by informal questionnaires and correspondence; (4) the staff conducts investigations by the use of investigational hearings under the subpoena power of the Section 9 of the Federal Trade Commission Act and the use of special reports under Section 6(b) of that Act.

This Bureau also has the responsibility, under the above mentioned statutes, for all adjudicative proceedings in the antimonopoly areas. In furtherance of such responsibility, the attorneys on the staff (1) draft complaints and cease and desist orders; (2) prepare trial briefs; (3) handle negotiation of consent settlement agreements (4) litigate charges of unlawful conduct; (5) prepare motions and legal arguments in support therof; (6) prepare proposed findings and conclusions with argument of law; (7) prepare appeal briefs and reply briefs and argue appeals before the Commission.

In the antimonopoly area, this Bureau also has the responsibility for securing compliance with final cease and desist orders issued by the Commission. The Bureau passes upon reports of compliance filed initially and maintains surveillance over final orders for the purpose of assuring the continuance of complaince, conducts or supervises investigation of violations of orders, prepares such cases for civil penalty actions and assists in the civil penalty proceedings.

Bureau workload summary

	Fiscal year 1966	Estimate, fiscal year 1967	Estimate, fiscal year 1968
Applications for complaint: [1]			
On hand beginning of year	[2] 414	275	325
Applications received	1,450	1,500	1,500
Applications disposed of	1,589	1,450	1,500
Applications pending end of year	275	325	325
Formal investigations:			
Pending beginning of year	930	689	694
Investigations initiated	251	295	305
Investigations completed or closed	492	290	295
Investigations pending end of year	689	694	704
Complaints issued:			
Pending beginning of year	88	17	40
Approved for negotiation	33	85	90
Dispositions:			
Consent settled	80	22	30
Litigated	13	40	45
Other	11		
Pending end of year	17	40	55
Litigated cases:			
Pending beginning of year	40	34	40
Complaints issued	16	40	45
Cases completed	22	34	39
Pending end of year	34	40	46

[1] Division totals do not necessarily total Bureau summary because of matters handled directly by the Office of the Director.
[2] Adjusted.

CURRENT MERGER MOVEMENT

Mr. EVINS. In 1965, firms with $100 million or more in assets accounted for 27 percent of the 1,008 mergers of manufacturing and mining companies compared to only 17 percent of 954 such mergers in 1961.

The companies are getting bigger in assets and the mergers are increasing.

Seventeen percent in 1961; 27 percent in 1965. The mergers are up 10 percent according to your own figures, Mr. Chairman.

Can the FTC hold the line? That is the question.

Mr. DIXON. Together with the Antitrust Division of the Department of Justice, we are trying. The type cases we are bringing are in the very large and most important areas of the economy. I am hopeful that with the further pronouncement by the Supreme Court that the line will be easier to hold as the business community gets the message.

Mr. EVINS. There are more and more mergers by your own figures. I have here a report entitled "Antitrust Slowdown." "Liberal critics score the trustbusters." "More mergers." "FTC says its workload rises." "The FTC is a place where people are plodding along, making trouble for hardly anybody. It is a very dreary place."

That is unkind, isn't it?

Mr. DIXON. Mr. Chairman, I am happy you brought that up. I have to answer that question in another place next week and I suspect that the Wall Street Journal subscribers will be a little unhappy when they discover they received poor advice.

Let me add hastily, though, that false and misleading advice that we can give doesn't quite go to them, but let me review the facts a little bit.

First as to the alleged slowdown in merger cases, this just is not true. During the period 1961 to 1964 when, according to that article, we

allegedly were "prosecutionminded," the Commission issued an average of three merger complaints per year. It may come as quite a surprise that during the last 2 calendar years, when there allegedly was a "slowdown" in prosecutions, we issued a total of 23 merger complaints, and so far this calendar year we have issued three more, so just in 2 years we have issued 26 complaints, or nearly a third of all the merger complaints issued by the Commission since 1950.

Now, about the charge that antitrust agencies pick on only "small" companies while letting "big ones get away," that is in that article too. I have summarized here, and will give it to the committee if you want it, by asset size of acquiring companies, the total complaints issued by the FTC against manufacturing corporations since 1950. The Commission issued another 13 complaints against nonmanufacturing companies. This shows clearly that the great majority of complaints challenged acquisitions by large companies. About three-fourths of all complaints involved companies with assets of $100 million or more. Only three complaints challenged an acquisition by a company with assets between $5 and $10 million. I am still impressed by $5 and $10 million, but that simply is not so.

Mr. EVINS. Perhaps this information was obtained from the lawyers. It says:

> Lawyers in Washington and lawyers in New York who earn their living defending corporations against antitrust suits complain their business is in the doldrums.

It implies that you are not very active. That may be the source of their information.

Here is another quotation from this same article:

> Merger activity is exceedingly brisk. Acording to statistics, the FTC compiled itself, the 1966 report isn't out yet, but FTC sources say it will probably show a tally of mergers and acquisitions close to the record high of 1,893.

Mr. DIXON. Usually out of that number there are about 300 of them that should be looked at very carefully and they are being looked at, Mr. Chairman. I say that again, if somebody wanted to say we should look in depth at all of them, we would have to have more people, but I think we have our head above the water.

Mr. EVINS. Well, Mr. Chairman, here they quote the chairman of the Senate Antitrust Committee. He says the United States is right on the crest of the greatest merger tide in history, with more in sight. That indicates that you have a big job ahead of you.

Mr. DIXON. We sure have, sir, because this will largely shape the type of America we are going to live in.

As I tried to point out, I believe that most of the mergers of consequence today, are beginning to fall in the conglomerate field, and a very difficult question lies here. You can't just say it is bad in and of itself. The law has a test in it, and we must be able to satisfy that test by reliable evidence.

Mr. JONAS. Is it true that in many of the merger cases there are a number of cases where it is in the interests of the weak member to be merged?

Mr. DIXON. It may be very well in his interests to be merged, Mr. Jonas, looking at it from his standpoint, but the overriding question is, with whom? Congress doesn't say you can't merge with anyone. Congress said the only parties who couldn't merge would be those that may substantially lessen competition or tend to create a monopoly.

So a vast number of mergers don't fall in that category, but there are the very important mergers—as we say, the horizontal level is the easy one. The vertical is not too difficult. We had product extension, market extension. We had a case involving reciprocity that was in the conglomerate area and, as I said, the *Procter & Gamble* case, the case with *Clorox*, that one is in the court. We have questioned several others. Many of them have been settled, but we are approaching the pure question of eventually determining just what is to be done about the real giant corporation merging with a really giant corporation that is fairly well removed in product lines and activities.

Also in this merger field the Congress recognized the failing-company doctrine. In other words, there is no prohibition against the merger with a failing company doctrine. I will say in administering the law we try, though, to see that even here monopoly is not added to.

If you can find someone else that won't create quite the same problem; it is probably the most difficult question in antitrust today because we have a great deal of concentration and, if not monopoly, we have oligopoly; not classical competition, certainly.

Now, if it is to be made more sticky, or a larger problem, by merger, then we are going to have to come back to the Congress and lay such facts before you because as yet Congress has not said, "No one can merge that has so much money." Congress said "No one can merge to bring about certain results." I think it was a very wise decision.

Mr. Evins. Isn't it true that there is a lessening of competition by a certain degree with every merger?

Mr. Dixon. Mr. Evins, it possibly could be so, but it could also increase competition on the other side. For instance, if you and I are very small and we join our forces, we may be more vigorous against someone larger. That is starting on the other end.

Where do you reach the area though where you begin to destroy enough competition between us?

Now, in the *Von* case we had 4 plus 4 in an industry that was wrapping itself up.

Mr. Evins. It depends upon the industry itself. You have to look at a lot of factors in the selection of cases.

Mr. Dixon. That is correct. When you get to the pure conglomerate, you have to look at this: "Did you take yourself out by moving into this industry? You have eliminated yourself by reaching over and taking another party's place. You didn't come in and create competition; you just substituted."

What effect, if any, by virtue of this new amalgamation, what effect, if any, on the ease of entry has taken place? Have you set up new barriers? Will others fail to come in? A $100 million corporation buying a $10 million corporation. It isn't the $10 million corporation that is facing its competitors, it is a $110 million corporation that is facing them.

All these factors must be examined. There are no pat answer to them.

Mr. Evins. Your justification shows that your studies for three periods indicate that conglomerate mergers are increasing, vertical mergers are increasing, but your horizontal mergers are on the decline.

Mr. Dixon. I think here the lawyer is giving his client very good advice, that it is very difficult not to get in trouble in this area now.

LIAISON WITH DEPARTMENT OF JUSTICE

Mr. EVINS. Where is the line again where the FTC proceeds and the Justice Department proceeds in these matters?

Mr. DIXON. As we told you before, we maintain a daily liaison. Here we or they will give the other notice that we have a matter that we intend to look into within 24 hours. We try to tell each other if there is anything pending before us where we would do a better job or they would do a better job. Based on that, we will proceed individually in separate matters.

This is done to keep from duplicating effort.

Mr. EVINS. The Chairman sets out division projects for 1967–68. Dairy industry, baking industry, textiles, cement, department stores, vending machines, paper and paper products, confectionery industries, plastics, retailing, fertilizers, apparel, teaching devices, and phonograph records.

JUSTIFICATION MATERIAL

We shall place all this material in the record.

(The pages follow:)

DIVISION OF MERGERS

The Division of Mergers has responsibility for investigations and for adjudicative proceedings relating to corporate mergers and acquisitions, joint ventures and interlocking directorates, under Sections 7 and 8 of the Clayton Act (15 U.S.C. 18 and 19) and Section 5 of the Federal Trade Commission Act (15 U.S.C. 45), where applicable.

Workload statistics

	Fiscal year 1966	Estimate, fiscal year 1967	Estimate, fiscal year 1968
Preliminary investigations: Mergers studies	1,750	1,600	1,600
Applications for complaint:			
On hand beginning of year	[1] 24	13	23
Applications received	115	50	50
Applications disposed of	126	40	50
Applications pending end of year	13	23	23
Formal investigations:			
Pending beginning of year	95	108	108
Investigations initiated	52	50	50
Investigations completed or closed	39	50	55
Pending end of year	108	108	103
Complaints issued:			
Pending beginning of year	2	8	13
Approved for negotiation	19	15	15
Dispositions:			
Consent settled	7	5	8
Litigated	5	5	5
Other	1		
Pending end of year	8	13	15
Litigated cases:			
Pending beginning of year	12	13	10
Complaints issued	7	5	6
Cases concluded	6	8	9
Pending end of year	13	10	7

[1] Adjusted.

Workload, fiscal years 1967 and 1968

Preliminary investigations

A merger screening committee (made up of the chiefs and members of the staffs of the Division of Mergers and the Division of Economic Evidence) makes preliminary examinations of all acquisitions within the Commission's jurisdiction. It is anticipated that such acquisitions will continue at the rate of approximately 1600 a year. A substantial number of these acquisitions will

be cleared to the Antitrust Division of the Department of Justice, pursuant to clearance procedures between the Commission and Justice.

Formal investigations

It is anticipated that formal investigations will continue at the rate of from 50 to 65 a year. When added to the expected carry-over from fiscal 1966, this will result in a workload of about 150 active investigations during fiscal 1967 and a similar number is anticipated in 1968.

Docketed cases

While the number of adjudicative proceedings which will be initiated during the coming year is uncertain, it is expected that cases docketed for trial or settled by consent agreement will number about twelve. With a carry-over of 13 cases, this will represent a projected workload of 25 adjudicative proceedings in fiscal 1967, with a slight increase expected in fiscal 1968.

The workload of the Division of Mergers continues to increase because of the continuing acceleration of the post-war merger trend, which in 1965 reached another new high of almost 1900 new mergers, surpassing the 1964 high by almost 100 additional mergers. Even more significant is the continuing high number of acquisitions of firms with assets of $10 million and over. There were 91 such acquisitions in 1965, with the consideration paid for such companies totaling $3.8 billion. Of equal significance is the contrast between the increasing percentage of acquisitions being accounted for by companies with assets in excess of $100 million and the decrease in the percentage of acquisitions accounted for by firms wtih assets of $10 million or less. In 1965 firms with $100 million or more in assets accounted for 27 percent of the 1008 mergers by manufacturing and mining companies, compared to only 17 percent of 954 such mergers in 1961. On the other hand, firms with $10 million or less in assets accounted for 45 percent of the mergers in manufacturing and mining in 1961, compared to 30 percent in 1965. These figures demonstrate the increase in concentration and the dramatic changes which mergers are bringing about in the structure of the American economy.

Joint venture activity is another phase of business conduct which comes within the purview of Section 7 of the Clayton Act and which has added to the workload of the Division of Mergers. In 1965, the first year the Commission has recorded such data, 171 new joint ventures were recorded.

Conglomerate mergers, i.e., acquisitions of firms in different product or geographic markets are now occurring more frequently than are the horizontal and vertical type mergers. This is made dramatically apparent by dividing the large mergers (those of companies with $10 million or more in assets) occurring in manufacturing and mining industries since 1948 into three six-year periods (1948–1953, 1954–1959 and 1960–1965). Thirty-four conglomerage mergers represented 59 percent of the total in the first period, increased to 193 or 62 percent in the second period, and soared to 312 or 71 percent of all large mergers in the most recent six years. Vertical mergers have also increased since 1948, rising from 6 or 10 percent, to 43 or 14 percent, and finally to 70 or 16 percent of the total. On the other hand, horizontal mergers decreased from a total of 18 or 31 percent in the first period, to 78 or less than 25 percent in the second period, and finally declined to only 13 percent or a total of 57 in the most recent period.

The development of the case law with respect to conglomerage mergers is in its infancy compared to the state of the prevailing case law concerning horizontal mergers. While the case law with respect to vertical mergers is more developed than that pertaining to conglomerates, much remains to be done in this area. The anticompetitive effects of conglomerage mergers, such as elimination of potential competition and the raising of barriers to the entry of new firms, are complex and difficult to establish. This is one of the main areas in which, through the use of sound economic data and criteria, and proper selection and preparation of cases, the Division of Mergers is attempting to bring about clarification of the law.

To the extent possible within the range of cases available, the Division of Mergers follows a policy of selecting those industries within which mergers may present the most serious competitive consequences and of directing its investigations and cases to the achievement within these industries of specific economic goals of arresting and decreasing concentration and promoting and maintaining a wholesome competitive atmosphere. In the selection of those industries where its limited resources may find their most effective use, the Division relies upon the experience and knowledge of its own staff, economic studies prepared by the

Bureau of Economics, and other industrial studies and surveys. The liaison arrangements between the Commission and the Department of Justice have a significant bearing on the allocation of the resources of this Division.

The criteria considered in the selection of industries and cases in which to concentrate the Division's efforts include: (1) the importance of the industry to the national economy; (2) the competitive significance of mergers within the industry; (3) the concern within and without the industry as to mergers in the industry; (4) the remedy that can be achieved; (5) the need for and possibility of further clarification of the law with regard to mergers in the industry; and (6) the economic and legal resources necessary to accomplish the desired economic goals. In the latter regard, it may be more desirable to spend the Division's resources on a less concentrated industry where prompt action may prevent the development of an anticompetitive merger trend, than on an industry where past mergers have resulted in a high degree of concentration and where effective relief may be difficult or impossible to attain.

Division projects for fiscal 1967 and 1968

The following are the activities of the Division of Mergers, described on an industry basis, which are being carried on in fiscal 1967 and which will probably be continued during fiscal 1968.

Dairy industry

The dairy industry had a long history of acquisitions and mergers and was a classic example of industry concentration at the time Section 7 was amended in 1950. The Commission took action on a broad front when it issue complaints in 1956 against the four leading national chains (Beatrice, Borden, Foremost and National). After protracted hearings and litigation, orders were issued against all of the respondents involving substantial divestitures and a prohibition against future acquisitions for a period of ten years.

In December 1965 Dean Foods Company's acqusition of Bowman Dairy Co. provoked another Commission complaint. This was a regional market area situation, and as the assets were in danger of being dissipated the Commission proceeded in the Court of Appeals for a preliminary injunction under the "All Writs" Statute. Although the Commission's petition was denied by the Court of Appeals, the Supreme Court upheld the Commission's position in a landmark decision in June 1966. In November 1966, the Commission issued an order of divestiture and a ten year prohibition against future acquisitions. Other dairy acquisitions are under investgaton.

Baking industry

The baking industry is vital to the public and to the food industry in general, accounting for over 4% of supermarket sales. It is an industry of local markets, usually within 300 miles of a plant. Upon a national basis concentration has increased to a point where the 8 largest wholesale baking companies have 35% of the market—though their combined share of some local markets is much higher than this. To challenge this merger trend the Commission has issued two complaints, one of which was settled by consent order calling for partial divestiture, and the other resulted in an initial decision calling for divestiture and a 20 year prohibition against future acqusitions. A decline in the number of horizontal acquisitions occurring in the baking industry has been noted since these complaints were issued. Technological changes in mixing plants, with higher cost of entry, apparently caused a freeze on new entry into the industry, but the Commission's divestiture orders have encouraged bidding for the divested assets and stimulated some new entrants. It is the purpose of the Commission's interest in this industry to slow concentration, promote new competition and prevent additional market extension acquisitions which raise barriers to new entry.

Textiles

The giant textile industry, with annual sales approaching $17 billion, has always been a model of pure competition in operation. However, in recent years (1951–1964) the 11 leading textile mill products companies have acquired 122 competitors. The Commission has been investigating textile mergers for several years in an effort to determine to what extent they may be due to technological changes and if they may have anticompetitive effects. It has been noted that the merger trend has changed from a vertical forward type to a definite horizontal

or conglomerate (product extension) type. Much competition has already been eliminated and the trend continues unabated, with the entry barrier now at a very high level. Thirteen investigations are being processed and a determination should be made by the end of fiscal 1967.

Cement

Cement is a vital and growing industry, with sales in excess of $1 billion. Between 1956 and 1963 there were 22 mergers involving cement companies, and at present the 8 largest control 50% of industry capacity. The main Commission interest has been in halting vertical forward integration by cement producers acquiring ready-mixed concrete manufacturers. To some extent such acquisitions have resulted in a chain reaction effect, with over 30 separate ready-mix mergers occurring since 1959. The nonintegrated ready-mix is in jeopardy and new entrants are almost nonexistent. The Commission has issued a number of complaints involving members of this industry and has issued several orders of divestiture, some through consent procedures. In addition, six docketed matters and ten investigational matters remain to be processed. The overall objective, one which appears to have had considerable success to date, is to seek divestiture of the ready-mix plants wherever feasible and to arrest a merger trend that has been in full swing for several years.

Vending

Two related industries, vending machine manufacture and vending machine operation, comprise the vending industry. The manufacturing industry is highly concentrated, having fallen off from 130 in 1957 to 66 in 1964, with the two leading firms having 45% of the market. The acquisition trend has been very significant. One complaint has issued and hearings began in November, 1966.

Vending machine operation is a large and growing industry, and in 1965 total sales of tobacco, food and beverages through vending machines amounted to $3.8 billion. During the last 6 years over 600 small machine operators were acquired, but the industry still has many independent members. In some metropolitan areas concentration is very high, and in a number of them the top 4 firms control 50–80% of the sales. The Commission's complaint against Automatic Retailers of America, Inc., was settled by consent in fiscal 1965 and the merger movement almost ceased insofar as the large market-extension type of acquisitions are concerned. Investigations are pending, and it is expected that surveillance of this type of operation will continue.

Department stores

Department stores are the third largest group of retail stores in the U.S., with sales of $23 billion. Concentration increased to a point where 56% of sales in 1961 were made by the ten largest department store chains. Between 1951–1965 the 20 largest chains acquired 84 companies operating 160 department stores, plus 200 other stores. This eliminated many competitors and raised entry barriers for an untold number of others. During fiscal 1966 three complaints issued and consent orders were accepted with one order containing divestiture and a prohibition against future acquisitions for 10 years and the other two prohibitions against further acquisitions for 5 years, without prior Commission approval. In two additional matters, consent orders were obtained in early fiscal 1967.

Paper and paper products

Several investigations involving forward vertical integration by pulp producers into corrugated and container-board production were concluded, either by consent settlement or closing, during fiscal 1966. The emphasis during fiscal 1967 and 1968 will be on mergers involving makers of fine papers and uncoated book papers, of a geographic market-extension type. An investigation of acquisitions by a large vertically integrated lumber and paper company is being actively conducted. The vertical integration type of acquisition continues and requires constant study and analysis.

Confectionery industry

In 1964 there were about 1,200 companies in the confectionery industry, with annual sales of $1.3 billion. While there are many small producers, 89 firms account for about 72% of total sales, due in great part to a significant merger trend in recent years. Since 1955 there have been over 87 acquisitions, with companies not previously in this business accounting for 35–40% of them. The Division has five pending investigations.

Plastics

The plastics industry was an outgrowth of technical developments during World War II and has had a phenomenal growth. The Division's interest has centered around special groupings—thermoplastic resins, high and low density polypropylene, polyvinyl chloride, and vinyl chloride monomer—which have involved chemical companies producing the resin raw materials which join in various combination, and/or with large converters which fabricate finished plastic film and other products. Some $2 billion in annual sales are involved, and the concentration ratio is very high. Exclusive of the joint ventures, seven investigations are being conducted in this area.

Food retailing

Food retailing is a $53.5 billion business which has experienced increased concentration and change during the last decade. The 20 largest chains by 1960 had 37% of the total grocery store market, much of it attributable to acquisitions of independents and smaller chains. The Commission has entered the field of enforcement under Section 7 with its decision in the National Tea Case. That decision, as well as the recently released Report of the National Commission on Food Marketing, make it clear this program will likely continue. A recent investigation of acquisitions by Winn-Dixie stores terminated in a consent order calling for a ten-year ban on future acquisitions. Four additional investigations are under way.

Conglomerate acquisitions

Emphasis is being given to development of techniques with which to attack conglomerate mergers which are currently so prevalent. There follow two industry categories in which the conglomerate has been widely used.

Grocery products

Grocery products actually cut across a number of industries, and include numerous low-cost, high-turnover household consumer products sold through grocery stores by means of the same channels of distribution, and the same advertising techniques. Since the Procter & Gamble-Clorox litigation, a number of similar conglomerate acquisitions have been challenged under this general heading, and this will continue to be an active field of merger investigation for the Commission. Presently the emphasis is upon two substantial acquisitions of independent coffee companies by large diversified marketers of low-cost, high volume household products. One of these acquisitions has horizontal implications, in that the acquirer was already in some phase of the coffee business, which is a highly concentrated industry. There has been no significant new entrant in the regular coffee industry since 1950. Another product line which has held recent attraction to all types of food processors in the potato chip and snack food industry. The Commission has five docketed cases and several investigations under way in this industry.

Fertilizers

Farmers spend over $1.5 billion annually for fertilizers, and within this market the manufacturers of mixed fertilizers have sales of $612 million. Three major oil companies acquired three of the largest mixed fertilizer companies, thereby changing drastically competitive relationships within the mixed fertilizer field. Five investigations are pending, and any challenge by the Commission of these transactions would have as its purpose divestiture by the oil companies of the formerly independent mixed fertilizer producers.

Other conglomerate acquisitions under investigation relate to cold storage facilities, railroad cars, hand tools and electric motors, paints and related finishes, heavy duty stapling devices, office supplies and electromagnets. A number of plywood and building material acquisitions may also be placed in the conglomerate category, in spite of some evidence of vertical integration.

The following areas of merger activity indicate an industry merger trend, and therefore may provide the Division with a substantial challenge in an effort to stop the trend in its incipiency.

Apparel

This is a very broad category which includes clothing and related goods worn by men, women, and children. Some 30,000 firms are manufacturing these items and industry sales are estimated at $26 billion. It has always been a highly competitive industry with low barriers to entry, but in recent years mergers have

increased concentration all along the line, from textile mill to apparel manufacturer to retailer. The trend is one which calls for careful study and scrutiny under the antimerger law. Three formal investigations are under way by the Commission.

Teaching devices

A great evolution is taking place in the teaching profession, and promises to accelerate in the coming years. It concerns the use of electronic devices, such as computers, and other mechanical devices to facilitate class instruction. It is a nebulous industry at this time due to the fact that textbook publishers, electronic firms, and newspaper and book publishers are all dabbling in this new field. The teaching aid sales alone were over $200 million in 1965, and this is merely the beginning. The importance of this new industry to the public cannot be overstated, but it is clear that many of the biggest corporations are getting a foothold in one or more aspects of the business, and many are doing so through acquisitions. Joint venture is a common procedure, and this industry will require careful study for several years to come, and one matter is under investigation at this time.

The Division is involved, as follows, in investigation of the use of reciprocity power and joint ventures.

1. *Reciprocity.*—The Supreme Court decision concerning the Consolidated Foods-Gentry matter pointed the way for future cases involving the use of anticompetitive reciprocity power, and a number of similar transactions are under study. These involve printing ink, materials handling equipment, industrial gases, and paints. Other products may be included in future years.

2. *Joint ventures.*—This type of activity is becoming popular with large, diversified corporations which want to enter a new product area without perhaps chancing the antitrust dangers inherent in an outright acquisition. Two industries of current interest to the Division at this time are listed below.

Plastics

The growth of a plastics industry after World War II was a phenomenon. Huge industry complexes and tremendous financial resources were required, and even the largest corporations were hesitant to go it alone. For this reason, numerous joint ventures were effected to spread the risk, pool technical talent and financial resources, and perhaps to avoid the legal risks inherent in outright acquisitions and mergers. Among those investigated by the Commission were two joint ventures between Phillips Petroleum Co. and National Distillers & Chemical Corp., not to mention five separate acquisitions by one of the joint ventures. This matter was disposed of through a consent order calling for divestiture of the joint interests and establishment of competitive facilities where appropriate and practical, plus a ten year ban on similar ventures in the future. Another separate investigation involves a joint venture in the field of vinyl chloride monomer. These matters have been investigated and much information obtained which will be of use in other similar cases. In a $2 billion a year industry, where the concentration ratio runs from 47% to 74% in specific product lines, these cases will demand a significant part of the Division's manpower resources.

Phonograph records

This is a highly concentrated industry having sales of over $800 million, and with the 3 leading firms having 40–50% of the market. Numerous mergers have occurred in the past, but the significant trend at this time is toward joint ventures between record companies and motion picture producers, with resulting reciprocal arrangements that involve the talent (performers) used and the exclusive use of record clubs. Such joint venture arrangements may have the effect of foreclosing independent record companies from obtaining sound tracks of the popular motion pictures.

Miscellaneous cases

In addition to the industry groupings, there are a number of investigations going on and docketed cases being litigated which should be mentioned. A bottle cap merger is in litigation and should be concluded in fiscal 1967. A dairy company acquisition of a substantial interest in a wholesale drug company, and several acquisitions by poultry feed producers will require considerable staff time. An initial decision ordering divestiture by American Brake Shoe of a manufacturer of sintered metal friction materials issued in August 1966 and an appeal to the Commission is scheduled for February 1, 1967. A second acquisition involving abrasives is under investigation at this time.

Other miscellaneous matters include pharmaceutical, cosmetic, soil and vitreous pipe manufacturers, cotton gin machinery manufacturers and materials handling equipment manufacturers. One acquisition of a manufacturer of key blanks has been challenged by complaint and is in the pre-hearing stage. Other products subject to study and investigation include clothing, farm machinery, mobile homes, refrigerated truck trailers, electric blankets, rope, cane sugar processing, fishing tackle, and specialized hardware products. At this time there are five merger investigations involving interlocking directorates. These indicate no evidence of an industry trend, but will require a substantial portion of the staff resources.

No increase in personnel is requested for fiscal 1968. However, within-grade promotions will require an additional $4,000.

DIVISION OF GENERAL TRADE RESTRAINTS

The Division of General Trade Restraints has responsibility for investigations and for adjudicative and other proceedings relative to general trade restraints, under Section 5 of the Federal Trade Commission Act, 15 U.S.C. 45.

This Division is presently responsible for 202 investigations both in the field offices and in the Division itself. These investigations involve approximately 110 separate industries or portions thereof, according to SIC breakdown, and approximately 10 different types of practices that are actionable under Section 5 of the Federal Trade Commission Act. The industries range from aeronautical radio equipment to zippers. Some of these industries, such as chemicals, are complex. It is extremely time consuming to ascertain the validity and actionability of complaints in such an industry or segments thereof. Some of the Division attorneys are devoting time more and more to a particular industry; and others are spread over ten to fourteen matters at different stages of investigation or litigation.

The average number of formal investigations assigned to the 30 attorneys is about 10 cases per attorney. The average preliminary investigation load is about 6.4 per attorney.

In addition to the above-described workload, this Division is daily engaged in preliminary matters, referred to as "small business" procedure. Even the most simple letter of complaint warranting this procedure receives time-consuming consideration. This area of the Division's work does not include the handling of the literally hundreds of letters and inquiries from Congressmen, businessmen, other Agencies and the general public that again are highly specialized and extremely time-consuming.

There is an increasing awareness by the business community and the public, that the Commission is an effective instrumentality through which relief and corrective action may be obtained for alleged violations of laws administered by this Agency. As a consequence, the Commission has been receiving a substantially high number of applications for complaint requesting investigations and adjudicatory or other corretcive action to halt alleged conduct constituting unfair acts, practices or methods of competition. These matters involve a variety of allegedly unlawful activities, such as attempts to monopolize, exclusive dealings, conspiracies to fix prices, boycotts, sales below cost, and other unreasonable restraints of trade that adversely affect competition and are prejudicial to the public, including the consumer. Each of these matters preliminarily requires the expenditure of substantial man-hours in analysis and research (factual and legal) and further communications with the correspondents or applicants.

In fiscal 1966, this Division received 781 applications for complaint and, including referrals from other Bureaus and Divisions, processed 3,676 letters from different persons or firms complaining of law violations. Few of these matters involved the same allegedly illegal conduct by the same parties. It is anticipated that this Division will receive about 1000 new matters in each of the fiscal years 1967 and 1968, based upon present trends.

Detailed workload statistics shown in the following table:

Workload statistics

	Fiscal year 1966	Estimate, fiscal year 1967	Estimate, fiscal year 1968
Applications for the complaint:			
On hand, beginning of year	[1] 212	143	183
Applications received	781	940	1,000
Applications disposed of	850	900	975
Applications pending, end of year	143	183	208
Formal investigations:			
Pending, beginning of year	227	254	224
Investigations initiated	105	120	120
Investigations completed or closed	78	150	150
Investigations pending, end of year	254	224	194
Complaints issued:			
Pending, beginning of year	5	4	7
Approved for negotiation	8	15	15
Dispositions:			
Consent settled	6	7	7
Litigated	3	5	5
Other			
Pending, end of year	4	7	10
Litigated cases:			
Pending, beginning of year	8	7	6
Complaints issued	3	5	6
Cases concluded	4	6	7
Pending, end of year	7	6	5

[1] Adjusted.

Workload, fiscal years 1967 and 1968

Permeating many of the above listed practices is a procedure that has been used by this Division for several years. Essentially, when complaints are entered that obviously are too localized for formal action by the Commission or are truly incipient in nature, this Division invokes its "Small Business Procedure". Complaints processed under this informal procedure may involve anything from conspiracy to boycott, to refusal to sell.

An increasing number of applications for complaint received by this Division involve small scale but serious violations of law which adversely affect the economic growth of the American business community and as a consequence are prejudicial to the consuming public. The small business procedure of this Division provides a prompt and inexpensive means to obtain corrective action through administrative adjustments for such violations. This activity has been increasing as more businessmen and lawyers are becoming cognizant of the Commission's authority and success in attempting to correct unfair methods of competition and unfair acts and practices in their incipiency. It is anticipated that in fiscal 1968 the staff of this Division will be handling a still greater number of these matters which will require a substantially greater expenditure of time in writing letters, doing legal research and holding conferences to amicably resolve the issues involved and to obtain corrective action beneficial to the existence and vigor of small business, the consumer and the nation as a whole, without costly litigation and with the attendant good will and gratitude of the parties involved.

During fiscal 1966, the Division employed the small business procedure in 111 matters and successfully completed 45. In the period, July 1, 1966, through December 30, 1966, the Division employed the small business procedure in sixty-five matters and successfully completed forty-one.

Not all applications for complaint contain information indicating a substantial basis for investigation or corrective action by the Commission. However, in applying required criteria to matters which indicate possible violations of law, investigations are initiated for the purpose of developing and obtaining all necessary factual information and evidence so that a final appropriate determination may be made as to whether or not corrective action through an adjudicatory or other proceeding is warranted and in the public interest. This Division will probably be required to initiate about 100 investigations of practices complained about in inquiries and applications for complaint received during fiscal 1967.

The following is a description of alleged unlawful practices and the projects in which this Division is involved and which will require substantial commitments of resources and manpower in fiscal 1968.

1. Resale price maintenance

This Division records indicate that one prevalent practice confronted by this Division is resale price maintenance. Such practice involves either an outright vertical price fixing conspiracy or the assurance of the maintenance of a selling price by use of systems which coerce resale dealers into maintaining prices. Recently a complaint was formally issued by the Commission involving the latter practice, i.e., coercive resale price maintenance, against Lenox, Inc., a major china producer in this country. Hearings are expected to commence early this year.

At a more preliminary stage, this Division is concerned with investigating resale price maintenance practices in the auto parts after market, bearings industry, the ski industry, the household furniture industry and the women's foundation garment industry.

The Commission generally, and this Division in particular, has devoted considerable effort over the years to promoting and retaining competition in the petroleum industry where price fixing and other forms of unlawful practices have been found to be prevalent. Complaints are being received continually. During Fiscal 1966 a report based upon hearings involving all facets of this industry was submitted to the Commission. It is expected that after the Commission issues its report, this Division will be required to devote substantial manpower to investigation and enforcement of law in this industry.

2. Horizontal price fixing

In line with a number of matters that the Commission has investigated and litigated the Division has presently under study the practices in the linen rental supply industry. Involved in these particular situations is horizontal price fixing as well as the allocation of customers among several conspirators. Additionally, in the category of horizontal price fixing, there are presently three investigations in the drug industry.

3. Selling below cost

In recent years, this Division has received numerous complaints from several industries concerning the practice of selling below cost. One of these complaints culminated in the issuance of a formal complaint against the *Curtiss-Wright Company*, Docket No. 8703. It is expected that hearings in this matter will commence some time in the Spring of 1967. Three substantial investigations involving the same charge have been going on for some time. Involved in the first are those companies responsible for the manufacture of rebuilt TV tubes. The other involves similar practices in the steel industry. Finally, an automobile manufacturer is being investigated for selling the cabs it manufactures at below cost which it is alleged is causing serious injury in the affected market. Because of the extremely difficult burden of proof in the demonstration of selling below cost, many complaints are given very thorough and time consuming study, but few are formalized into complaints. It is expected, however, that more and more complaints will be entertained because of the greater prevalence of the practice in more and more industries.

4. Monopoly and attempt to monopolize

Several industries are under investigation by this Division regarding the charge of monopoly. The first of these is in the petroleum coke industry in which the major producer is gradually precluding competition in the supply of this product. The second industry, of interest involved herein, is the drug industry wherein in effect international control of the supply of quinidine has driven prices unrealistically high and competition is almost absent.

As a result of numerous letters of complaint from the independent garage dealers associations, this Division recently inaugurated an extensive investigation of the practice by automobile manufacturers of refusing to sell automobile body parts to independent garage owners.

This Division has recently completed an investigation in the coffee industry of certain practices of a major coffee producer regarding promotional activities that lend themselves to the charge of attempt to monopolize.

Additionally, this Division recently completed negotiations toward a voluntary compliance in the resorcinol manufacturing industry. Essentially, the monopolistic practices entails the use of long term requirements contracts with users which preclude the entrance of new competition into the field.

5. Advertising discriminations

This Division initiated a full scale investigation of allegedly discriminating rate structures, advertising rates, and the practice of double billing in the news-

paper industry. Accordingly, this Division expects the results therefrom during Fiscal 1967 and 1968.

6. Reciprocity

The practice of reciprocity in the past several years has taken on new proportions in the complaints received by this Division. Several industries are under study with regard to this practice and it is expected that as our knowledge of this practice increases, our attention and activity regarding it will increase proportionately.

7. Conspiracy

The Division recently completed formal hearings against The Sperry and Hutchinson Stamp Company. The purpose of the complaint has been to eliminate vertical and horizontal conspiracies to control the number and value of stamps dispensed by retailers, and to prevent foreclosure of trading stamp exchanges. An initial decision is expected in the near future. Additionally, this Division is continuing to review and investigate other complaints received against other trading stamp companies for possible violations of Section 5 of the Federal Trade Commission Act.

8. Tying arrangements

This Division presently has an investigation against a major producer of officer equipment involving the practice of excluding customer use of competitive equipment and supplies by "tying" equipment, service and supplies together. The Division has been receiving a number of similar complaints and is giving careful attention to each.

9. Conspiracy to boycott

The Commission recently issued a complaint against National Association of Women's and Children's Apparel Salesmen. The gravamen of the complaint is that the association and affiliates are illegally preventing manufacturers of women's and children's apparel from having their lines offered for sale and sold at trade shows. Hearings are expected to commence in the near future.

This Division requests an increase of $7000 to provide a GS–9 attorney for fiscal 1968 and $2500 for within-grade promotions, a total of $9500.

DIVISION OF DISCRIMINATORY PRACTICES

The Division of Discriminatory Practices is responsible for the investigation and trial of cases involving violation of Sections 2(a), (c), (d), (e) and (f) of the amended Clayton Act, Section 3 of said Act, and Section 5 of the Federal Trade Commission Act, on the part of buyers through knowingly inducing and receiving discriminatory allowances and services from suppliers.

Pursuant to direction, this Division is required to devote a considerable number of man-hours on a continuing basis to matters for which other Bureaus and Divisions are primarily responsible, viz., advisory opinions, formulation of trade practice and trade regulation rules, processing reports of compliance, and enforcement of cease and desist orders.

The Division's legal staff consists of 44 attorneys, including the Chief of the Division and 2 Assistants. Staff attorneys, with varying talents and experience, are responsible for the processing of applications for complaint, initiation and review of the results of investigations, preparation and trial of cases, preparation of memoranda recommending closing of cases and other disposition.

The major case work activity of the Division in fiscal 1968, and to the extent predictable in fiscal years 1969, and 1970, will require substantial manpower commitments to cases which evolve from a number of pending projects. While considerable progress has been made in achieving the goals established in each of the projects, it has been necessary to expand some of the projects to include other practices, or to encompass other segments of the industry. In addition to project cases, the Division's involvement in individual cases greatly exceeds our present manpower resources. In view of the Division's priority commitments to project cases, it has been necessary to limit the individual case work activity to selected cases.

The extent of the Commission's enforcement activity involving price discriminatory practices is illustrated by the workload statistics for fiscal year 1966 and estimated for fiscal year 1967 and fiscal year 1968, as set forth in the following table.

Workload statistics

	Fiscal year 1966	Estimate, fiscal year 1967	Estimate, fiscal year 1968
Applications for complaint:			
On hand beginning of year	[1] 134	85	95
Applications received	391	510	525
Applications disposed of	440	500	520
Applications pending end of year	85	95	100
Formal investigations:			
Pending beginning of year	608	318	353
Investigations initiated	85	125	135
Investigations completed or closed	375	90	90
Investigations pending end of year	318	353	398
Complaints issued:			
Pending beginning of year	81	5	20
Approved for negotiation	6	55	60
Dispositions:			
Consent settled	67	10	15
Litigated	5	30	35
Other	10		
Pending end of year	5	20	30
Litigated cases:			
Pending beginning of year	20	14	24
Complaints issued	6	30	33
Cases concluded	12	20	23
Pending end of year	14	24	34

[1] Adjusted.

This Divsion's involvement in the trial of pending and foreseeable *major cases* in fiscal 1968 will require substantial manpower commitments. Many of these cases involve some of the country's largest corporations and they are represented by able and experienced antitrust lawyers. As a consequence, the cases are vigorously contested and the litigation is in progress over a protracted period of time.

Workload, fiscal year 1968

This Division's major enforcement effort in Fiscal 1968 will be directed to a number of projects in which the problem of wide-spread non-compliance with the Robinson-Patman Amendment to the Clayton Act in a number of industries is of importance to small independent concerns threatened with extinction. This approach is consonent with the Commission's policy of stopping violations on an industry basis rather than proceeding against a few law violators in a given industry, leaving their competitors free to gain competitive advantage by engaging in the same unlawful practices. The following is a description of the alleged unlawful practices and the projects in which this Division is involved, which will require substantial manpower commitments in Fiscal 1968.

Section 2(a) of the Clayton Act, as amended—Discriminatory pricing, through the granting of preferential prices, discounts, rebates, and allowances

The Commission continues to receive a large volume of complaints from independent dairies and bakeries alleging discriminatory and selling below cost practices by large national and regional competitors. These complaints must be analyzed and appropriate action taken where possible violations are indicated. In situations involving local price wars, it has been the practice to send letters to the alleged offending parties requesting pertinent information as to their pricing practices. In many instances our inquiries have resulted in a discontinuance of the questioned practices. In those instances involving substantial charges it is necessary to institute a field investigation.

At present, 19 cases in the Dairy industry and 9 cases in the Baking industry are pending either in the investigational stage or in the process of review for appropriate action through the issuance of complaint, closing or other disposition.

In a pending litigated case, Beatrice Foods Co. is charged with selling private label milk to the Kroger Company at lower discriminatory prices. The complaint charges Beatrice with violation of Section 2(a) and Kroger with violation of Section 2(f).

There are presently pending, on appeal before the Commission and the Courts, outstanding cease and desist orders issued against National Dairy Corporation, Borden Company and Dean Milk Company. An order against Foremost Dairies

became final when certiorari was denied from a decision by the U.S. Court of Appeals sustaining the Commission's Order.

In the Dairy and Baking industries the problem of price discrimination steamming from private label versus company label require increasing attention by this Division in view of the recent decision in the Borden-Evaporated-Milk case.

The contemplated proceedings in the prescription drug field involve the manufacturers' use of an arbitrary system by which they select direct accounts, usually the large drug chains, thus enabling these accounts to purchase drugs at substantially lower prices than those paid by independent retailers who are precluded from buying direct on the same price basis. It is anticipated that these proceedings will involve many prescription drug manufacturers and distributors.

In addition to the above, this Division has found it necessary to expand its activities into the following industries: 1) Automotive replacement parts—discriminatory pricing continues to be one of the Division's major enforcement activities. The problem arises by reason of the manufacturers granting the warehouse distributor discount to jobbers affiliated with buying organizations and jobbers having multiple outlets with the result that these jobbers purchase at prices substantially lower than the prices charged competing jobbers. In addition to involvement in investigations and anticipated complaint proceedings the Division is required to participate in the preparaton of advisory opinions. In previous litigated cases, the Commission and the Courts found that automotive parts jobbers operated on extremely low margins and that it was necessary for them to take advantage of the 2% cash discount in order to realize a profit. 2) Furniture—a recent proceeding against Knoll Associates gave rise to investigations involving discriminatory pricing by manufacturers of modern furniture who were found to be granting price concessions to large retail buyers. It is anticipated that complaint proceedings may be instituted against leading manufacturers and possibly others. 3) Cigars—involving the granting of higher discounts by leading cigar manufacturers to retail chains and the granting of substantially lower discounts to wholesalers whose customers compete with the favored chains at the retail level.

Illegal payments and/or receipt of brokerage commissions in violation of section 2(c) of the Clayton Act, as amended

The fresh fruit and vegetable industry has had a long history of violation of the brokerage section of the Robinson-Patman Amendment to the Clatyon Act. Notwithstanding the issuance of a very large number of cease and desist orders against sellers, buyers and agents representing the buyers, the illegal brokerage problem continues to make substantial demands on the resources of this Division.

On May 15, 1966, the Commission promulgated Trade Practice Rules for the Fresh Fruit and Vegetable Industry. Among other practices, the Rules specifically dealt with illegal payment of brokerage. Notwithstanding the fact that many members of the industry have become signatories to the Rules, the Commission continues to receive complaints alleging that shippers are granting illegal brokerage to large retail grocery chains or to their buying agents. Investigations are being conducted in several geographic areas of the United States.

Price discrimination, illegal brokerage payments, and commercial bribery are involved in connection with the sale of freight car components by 9 leading manufacturers to one of the country's largest railroad systems. The investigations completed and in progress indicate the probable existence of law violations and the need for corrective proceedings. The investigations developed information indicating that other supliers engage in the same practices in the sale of their products to other railway companies and consideration is being given to broadening the investigation to include other parties.

Violation of section 2 (d) and (e) of the Clayton Act, as amended, through the payment of discriminatory promotional and cooperative advertising allowances and the furnishing of discriminatory services or facilities

The Division is continuing its major effort to secure meaningful compliance in the wearing apparel industry. In fiscal 1966, the Commission made final the cease and desist orders entered against over 300 manufacturers and assigned to this Division the task of approving compliance reports and the cooperative advertising plans which manufacturers were required to submit. Prior to the submission of their coperative advertising plans, many manufacturers sought and obtained advice and guidance from the Staff in the formulation of their

plans. As of December 30, 1966, the plans of over 150 manufacturers were reviewed and accepted. The plans of a large number of manufacturers were found to be deficient and the manufacturers were requested to make the necessary changes to bring their plans into compliance.

This Division is participating in the Trade Regulation Rule Proceeding for the Men's and Boys' Tailored Clothing Industry and in the informal advisory opinion program for the Negligee, Lingerie and Underwear Industry.

A major portion of the Division's present and immediate future activity in the wearing apparel industry involves investigation and litigation of large specialty stores and chain department stores charged with inducing and receiving discriminatory allowances from manufacturers. A consent order was recently issued against Peck and Peck and an adjudicative proceeding is pending against Best & Co.

On October 4, 1965, the Commission issued a press release stating that previous investigations disclosed widespread violations through discriminatory payment of allowances by publishers of hardback and prestige softback books. The Commission announced that it would give the publishers 6 months to bring their practices into compliance and urged them to review their plans with members of the Staff of this Division. This proposal was enthusiastically endorsed by the American Publishers Council which invited the Staff to lecture the Council's members on the requirements of the law. Thereafter, a large number of publishers sought and obtained the views of plans which appear to meet the requirements of the law.

This Division now plans an inquiry to be directed to approximately 100 publishers requiring the submission of reports dealing with their cooperative advertising and promotional allowance plans. The task will require a substantial amount of time and effort by the Staff members working on this project. In the event the inquiry does not show meaningful compliance with the requirements of the law, it will then be necessary to initiate field investigations.

Violation of section 2(f) of the Clayton Act, by inducing and receiving unlawful price discriminations by large buyers

As noted under Section 2(a) above, the automotive parts industry is involved in pending investigations in which violation of this subsection is alleged by jobber buying group organizations and independent jobbers having multiple branch outlets.

In another pending proceeding of major proportions, the Commission's complaint charges Associated Merchandising Corporation, et al., Docket No. 8651, with inducing and receiving discriminatory prices from suppliers of merchandise through the instrumentality of a wholly-owned wholesale corporation. Twenty-six large department store chains, named as parties respondent in this proceeding, own and operate over 100 large department stores located throughout the United States. Investigations of similar buying group operations in the department store field may be required.

Increases requested, fiscal 1968

This Division requests an increase of $31,500 to provide four attorneys (three GS–9 and one GS–12) and $7,500 for mandatory within-grade promotions, a total of $39,000.

PENALTY JUDGMENTS

Mr. Evins. During 1966 the Division collected in excess of $70,000 in civil penalties. Do you have a figure as to the amount of assessments totaled over the years? It is $70,000 in 1 year.

Mr. Dixon. We have such a statement.

Mr. Evins. Supply that table for the record, if you will, Mr. Chairman.

(The table follows:)

Penalty judgments assessed fiscal years 1947 through 1966

Year	Amount
1947 [1]	$38,000
1948	
1949	16,900
1950	7,000
1951	80,000
1952	11,600
1953	59,538
1954	8,950
1955	40,133
1956	19,343
1957	24,704
1958	21,557
1959	55,650
1960	39,300
1961	33,915
1962	100,400
1963	126,200
1964	101,000
1965	125,100
1966	255,300
Total	1,164,590

[1] Information prior to 1947 not available.

Division of Deceptive Practices

Mr. Evins. Refer to the Division of Deceptive Practices. This is another of your big divisions.

The Office of Director is increased by $145,000. The other Divisions include General Practices, Compliance, Food and Drug Advertising, and Scientific Opinions. You want 19 jobs in the Office of the Director.

Mr. Dixon. The 19 positions are required for this new packaging legislation.

Mr. Evins. In the workload you have applications disposed of 4,395. This is on page 80. This is 1,965; 6,298 disposed of in 1966 and you estimate 7,600 for 1968. This is applications for compliants disposed of. This doesn't mean complaints are issued?

Mr. Dixon. No, sir.

Mr. Evins. Formal investigation. You start out with 987 pending at the beginning of the year and the investigations at the end of the year, 937. About a reduction of 50. You can read a lot into those figures, but on the estimated last figure at the top and bottom there is about a difference of 50 between the beginning of the year and the end of the year.

Complaints issued, 60 by consent; 25 litigated, and 10 disposed of in some other way.

We discussed industry guidance program earlier.

PACKAGING AND LABELING LAW

Mr. Boland. Why do you need 12 attorneys in this area? I refer to page 83. Why do you need 12 attorneys?

Mr. Dixon. This is the best estimate we can make in view of the statute itself. It will take attorneys to do this job, Mr. Boland. It

fits right into the deceptive practice work. We know there are time limitations here. We know we are going to have to organize this group within this overall project and this is our estimate as to what it will take to do it.

DISTRICT OF COLUMBIA CONSUMER PROTECTION PROJECT

Mr. EVINS. You have a Consumer Protection Office in the District of Columbia. You imply this is new, but I think you have had this office for some time, haven't you?

Mr. DIXON. It started in early 1966, fiscal year.

Mr. EVINS. You answer complaints even by telephone. How busy are they over there?

Mr. DIXON. We thought they would be a lot busier than they were. Then with these neighborhood offices within OEO, with this contact, it produced quite a bit of work, Mr. Chairman. We resolved some of it by complaint. We have proposed some guides that will specifically deal with the type of retail purchases that specifically go into the poor elements of the District of Columbia.

We have special responsibility here, you know, that goes right on down to the bottom level. I might say frankly to you with the urging of your counterpart on the other side, Senator Magnuson, where we started this project, we finally had to put it in the nature of a special project and we hope that some degree of guidance will come out of it to the States. We are going to make available what we have done here, and what we propose through the formal guides, and through the individual States. The problems we have here are things happening right on Broad Street in a given community.

JUSTIFICATION MATERIAL

Mr. EVINS. Include in the record pages 84 through 93.

(The pages follow:)

BUREAU OF DECEPTIVE PRACTICES

Increases requested—1968

An increase of $154,000 is requested to provide 19 additional position as follows:

Attorney, GS–15	1
Attorney, GS–14	3
Attorney, GS–12	2
Attorney, GS–11	3
Attorney, GS–9	3
Chemist, GS–14	1
Secretary, GS–7	1
Clerk-Steno, GS–4	5

All of the above positions are requested for the Office of the Director ($141,000) except the chemist ($13,000) who will be assigned to the Division of Scientific Opinions.

An additional $3,000 is requested for one additional clerk-typist in the stenographic pool plus $1,000 for within-grade promotions, making a total of $145,000 for the Office of the Director.

Special projects

The Bureau of Deceptive Practices has several dozen projects pending for attention, in various stages. Certain of them which are typical are discussed below, and in the portions of this report concerning each division.

Consumer protection, District of Columbia.—During fiscal 1966, the Commission, acting on the suggestion of Senator Warren G. Magnuson, initiated an

intensive consumer protection program in the District of Columbia. This project is in recognition of the Commission's special plenary jurisdiction and responsibilities in the District. It is also anticipated that it will be evaluated as a pilot program whose results might be achieved in other cities by such concentrated effort, thus reflecting in at least some degree the state of consumer deception existing at this time.

A consumer complaints office has been established, manned by an experienced attorney, where those persons who have been misled and deceived in commercial transactions may report their experience informally, even by the telephone. Several dozen investigations have been initiated in connection with the program. At year's end these were being completed and it was estimated that corrective action would be warranted in at least several instances.

Deceptive pricing.—During fiscal 1966 the Bureau of Field Operations conducted a nationwide survey of pricing practices in advertising, particularly in those respects covered by the Commission's pricing Guides. More than a hundred instances were detected wherein advertising was considered to be possibly deceptive and in violation of the Guides. These are now pending complete investigation in the field. It is expected that in 1967, and in subsequent years, a substantial and increasing amount of manpower will be expended in the corrective actions resulting from these investigations and subsequent policing of price advertising. The public interest in this project flows from the facts that price advertising is an extremely potent sales tool and a fertile source of consumer deception. The honest businessman can suffer fatal losses to the competitor who engages in predatory and irresponsible "bargain" offers. Thus regulatory action must be firm and quick if the consumer and legitimate business are to have effective protection, calling for a continuing, intensive program.

Softwood lumber.—The possibility of substantial deceptions occurring in this industry has been a rather thorny problem for some time. The practices involve the mis-grading or mis-marking or the failure to grade lumber used for residential or other construction purposes. In addition to ultimate users of the product there are also involved the lumber mills, wholesalers, retailers, trade associations, government agencies, etc., who are vitally interested in these problems.

A task force has been set up which has engaged in conferences with the Departments of Commerce, Justice, and Agriculture, General Services Administration, Federal Housing Administration, and Defense Supply Agency. Contacts have also been made with various trade associations and rule-making bodies. Investigations have been made in the field in the timber areas on the West Coast.

Because of the myriad problems involved, the Commission has scheduled public hearings in this industry to be held later this year. All interested parties have been invited to submit their comments in writing prior to the hearing. Voluminous material is being received daily and is being reviewed by the task force in preparation for the public hearing. Subsequent to the hearings, additional work will be necessary to prepare a report and recommendations for further action.

The projects discussed hereinabove illustrate situations wherein it is desirable to create a task force within the Bureau but cutting across division lines because the subject matter is not limited to the area of responsibility assigned to any one division.

DIVISION OF FOOD AND DRUG ADVERTISING

The Division of Food and Drug Advertising has primary responsibility for the protection of the public against false advertising of foods, drugs, therapeutic devices and cosmetics; also, advertising in such other health-related matters as medical books (to the lay public), health and accident insurance and cigarettes.

Analgesic advertising.—This project, involving the advertising of some 25 pain-relieving drugs whose annual sales approach ½ billion dollars, is nearing fruition. The planned clinical testing has been completed and the results are being evaluated. The basic themes being considered go to the safety, efficacy, speed and duration of relief afforded by such preparations. It is anticipated that during 1967 the project will be reported to the Commission for corrective action on an industrywide basis. Additionally, all advertising for analgesics is being analyzed to determine the need for action against practices not susceptible to correction on an industrywide basis.

Cigarettes.—The Federal Cigarette Labeling and Advertising Act directs the Commission to submit, to Congress, annual reports to include the following: (*a*) the effectiveness of cigarette labeling, (*b*) current practices and methods of cigarette advertising and promotion, and (*c*) such recommendations for legislation as it may deem appropriate.

The first of such reports is to be submitted not later than June 30, 1967. Additionally, the current advertising is being scrutinized to insure against deceptive representations in violation of Section 5 of the Federal Trade Commission Act. Closely related to the advertising of cigarettes is that being disseminated for separate filters and for drugs claimed to be effective in curing the smoking habit.

Vitamins and other food supplements.—A landmark decision in a thoroughly litigated proceeding relating to representations for a widely advertised product firmly established a number of restrictions to be applied particularly to advertising for vitamin-mineral preparations. The Commission found, among other things, that such commonly experienced symptoms as tiredness and loss of strength are not effectively treated by such preparations in more than a small minority of persons experiencing such symptoms and that these symptoms are not generally reliable indications of iron deficiency or iron deficiency anemia. The order in that case would also require that advertising for the preparation involved affirmatively disclose that (1) in the great majority of persons who experience the symptoms referred to, these symptoms are not caused by a deficiency of one or more of the vitamins contained in the preparation or by iron deficiency anemia and (2) for such persons the preparation will be of no benefit.

Action needed to similarly correct the advertising of all the other such preparations on the market is now in progress. Deception in this field not only results in economic loss to purchasers who fail to achieve expected benefits, but also may have a significant impact upon the ealth of such individuals.

Advertising media.—In addition to matters in the health field as discussed above, the Division of Food and Drug Advertising has responsibility for various activities involving advertising media as such. These include the Commission's monitoring program and actions against practices engaged in by, or inherent in, the medium.

Monitoring.—The monitoring staff of this Division is engaged in a continuous perusal of radio and television broadcast continuities of networks and stations and representative samples of newspaper and magazine advertisements. During the past year a total of 731,335 advertisements were examined of which 510,681 were radio and television continuities and 220,654 were newspaper and magazine advertisements. A total of 18,890 advertisements were segregated as possibly misleading. Of these, 10,279 were referred to the Division of Food and Drug Advertising, 3,460 to the Division of General Practices, 149 to the Division of Compliance, 3,776 to the Bureau of Industry Guidance and 1,226 to the Bureau of Textiles and Furs.

An additional 3,246 advertisements concerning alcoholic beverages were referred to the Internal Revenue Service.

Deceptive television demonstrations.—The U.S. Supreme Court has upheld the finding of the Commission that a demonstration in a television commercial is in violation of Section 5 of the Federal Trade Commission Act if it is deceptive because of the undisclosed use of a mock-up or prop. A comprehensive review of television commercials is in progress and investigations are being initiated with respect to those appearing to be deceptive for this reason.

Ratings.—The Commission is concerned with ratings as they are employed to represent the size of a reading, viewing or listening audience delivered by a publication or a broadcaster. During fiscal 1966 a statement was issued for the guidance of broadcasters, explaining those factors to be considered in avoiding deception in claims of broadcast audience coverage. These guidelines, for example, caution against hypoing during a survey period and explain the consequences of such action. The guidelines have been widely disseminated. The industry having been thus educated, the staff has initiated investigations of possible violators. It is reasonably anticipated that the results of at least some of these inquiries will disclose a need for corrective action.

Mail order insurance.—Since February 1966, when this Bureau began a large-scale investigation of practices in the mail order insurance industry, approximately twenty-six separate companies have been examined and it appears that deceptive practices are widespread in this field. Since the date indicated, a number of assurances of voluntary compliance have been obtained and one consent order has been issued. Two complaints are now in process of trial and several additional complaints are now in process for submission to the Commission. Several investigations are still pending in the field.

Increases requested—1968

An additional $18,500 is requested for two attorneys (one GS–12 and one GS–11) and $2,500 for mandatory within-grade promotions, making a total of $21,000.

DIVISION OF GENERAL PRACTICES

This Division has principal responsibility for the evaluation, investigation and trial of all charges of unfair methods of competition and unfair and deceptive acts and practices in violation of Section 5 of the Act except those health-related and other specific matters assigned to the Division of Food and Drug Advertising. This includes a wide area of consumer deception matters, ranging from the irresponsible claims of door-to-door salesmen, phony guarantees for almost every conceivable product, misrepresentation of material content of such items as clothing and furniture, unfair and deceptive financing practices, and many, many others. It is to be noted that the victims of these practices are predominantly those who can least afford or defend themselves.

Some typical projects now under way are:

Work-at-home opportunities.—The poor, the invalid, the older citizen, are the particular victims of various deceptive practices as they seek to add to their low wages or pensions, and to engage in some sort of constructive effort. The variety of schemes is endless. In a number of matters, for example, investigation has disclosed that chinchilla breeding stock is being sold with the promise that progeny will be marketed at equally high prices resulting in substantial income. In fact, it appears that the represented profits, if any, are greatly exaggerated. In instances such as this, losses from savings may be disastrous considering the economic level of those who are deceived. Some other of the matters pending involve the sale of materials for the making of clothing or shoes, or other such items, at home, with the promise of ready saleability. Too often, the home worker invests in such materials and then the labor to complete the garments, only to find no demand. The money and time lost, the disappointment when the golden promises tarnish, are difficult to measure.

Automobile warranties.—This is one of the areas in which the flow of consumer complaints cannot be denied. Letters are being received daily, many of them from Members of Congress, relating essentially the same plaintive story. An automobile is not performing satisfactorily, the purchaser takes it to the dealer for repair under the terms of the guarantee. Later he finds that the defect has not been corrected so again goes to the dealer. There is such a volume of consumer complaints, and so many reporting that even repeated visits to the dealer do not result in satisfactory performance, that a broad investigation of this admittedly difficult and complicated problem has been initiated.

Correspondence courses.—While the overwhelming majority of institutions offering courses of instruction, either in residence or by correspondence, are operating ethically, there continue to be some who promise the unsophisticated that they can assure a satisfying and successful career. The victims here are generally boys and girls who lack either the money or the intelligence, or both, to qualify for recognized high school or college attendance. False assurances of employment with the Federal Government, as engineers, in the field of electronics, and other glamorous professions, are held out to persons who are not mentally and physically qualified for such positions even if the training itself were of value, which generally it is not. Basic deceptions such as the enrollment of individuals without necessary qualifications, the lure of advertisements in the "help wanted" columns when no employment is offered, the sale of "instructions" which do not live up to the promised content—these practices not only deceive the unsuspecting victim who seeks to improve his capabilities but come at a time when there is urgent need for increased educational levels. Legitimate schools also deserve protection from such unethical competitors.

Sewing machines.—Deception of various types is being practiced by a large number of retailers, although they will represent a minority of the industry. One of the favorite tactics is the familiar bait-and-switch. Here a machine is attractively advertised solely to get a customer into a store. Once there a salesman quickly points out the obvious defects of the advertised article and employs high pressure tactics to switch attention from the "bait" machine to one which is priced much higher. Another ploy is to mail letters to, or telephone, individuals selected at random, advising that they are winners of a sewing machine. When the individual visits the store to accept the machine she finds that it is useless without a cabinet, which is happily available. The unlucky "winner" is not aware that the price charged for the cabinet is at least the fair market price for cabinet and machine, so that she is paying full price for both.

Home improvements.—Owners of homes are victimized by a variety of questionable practices. A truck stops at the door, a workman informs the housewife that he just happens to be in the neighborhood completing another job, notices

the house has a few loose shingles, and that because he is there with his tools he can make repairs for practically nothing. Before he completes the repairs he discovers the defect to have been much more serious than he anticipated and the charge skyrockets accordingly. The "model home pitch" induces the home owner to contract for costly remodleing on the promise that the contractor wishes to use the home to demonstrate to others the quality of his work; that a rebate will be allowed for each such demonstration; that these rebates will eventually reimburse the owner for his entire cost. Of course there are no demonstrations and the home owner pays the entire, frequently exhorbitant, bill. These and many other deceptive practices result in losses of business by legitimate contractors, as well as defrauding the consumer.

Increases requested—1968

An additional $16,500 is requested for two attorneys (one GS–12 and one GS–9) and $5,500 for within-grade promotions, making a total of $22,000.

DIVISION OF COMPLIANCE

This Division has the continuing responsibility of obtaining and maintaining compliance with cease and desist orders issued to prevent false and deceptive trade practices under Section 5 and 12 of the Federal Trade Commission Act.

The Division is charged with the monumental task of overseeing the manner of compliance in the case of each and every order having to do with false and deceptive trade practices which has been issued since the creation of the Commission. The activation of orders issued 25 to 30 years ago is not uncommon.

Newly issued orders require each respondent to submit a written report supported by relevant documentary material demonstrating the manner and form of compliance with the order. Conferences with respondents and their attorneys are frequenly required, together with considerable follow-up correspondence. In many cases the Commission, on the recommendation of the Division, directs that reports be augmented by supplemental reports or investigations.

Complaint letters and other indicia of possible order violations, including advertisements observed in the Commission's continuing survey of published and broadcast advertising, are evaluated and a detailed request for field investigation is initiated when it appears that violations have occurred.

Frequently, respondents request prior Commission clearance as to whether proposed advertising and other promotional programs accord with requirements of the Commission's orders. After conferences and perhaps an exchange of clarifying correspondence, the matter is evaluated and then reported to the Commission with recommendation. Under the Commission rule pertaining to compliance matters, any respondent subject to an order may request and receive advice from the Commission as to whether a proposed course of action will constitute compliance.

Attorneys of the Compliance Division regularly confer and consult with members of other divisions of the Bureau regarding the meaning and effect of proposed orders prior to their submission of a proposed complaint and order to the Commission.

The Division of Compliance regularly works with the various divisions in the Bureau of Industry Guidance in connection with the drafting of Guides, Trade Regulation Rules and Trade Practice Conference Rules. Uniformity of treatment of businesses subject to formal orders to cease and desist and those not subject to such orders is essential. The experience of the Compliance Division with respect to prior Commission actions in construing orders in a particular industry is necessary to maintain this uniformity. It is anticipated that the considerable time expended in this function by the Division will be increased because of the Commission's emphasis upon the new Trade Regulation Rule procedure.

Civil penalty enforcement proceedings for fiscal 1966

When investigation develops evidence of provable violations of an order to cease and desist the staff attorney examines the usually voluminous record and, if indicated, drafts a complaint and supporting trial memorandum, which is certified by the Commission to the Attorney General of the United States for transmittal to the appropriate United States Attorney. In the vast majority of the cases referred by the Department of Justice to the various United States Attorneys, members of the Division's Staff are requested to prepare pleadings and

take depositions for use in the trial of the case. In many instances the staff attorney assumes the full burden of litigation.

During fiscal 1966, penalties totaling $138,300 were recovered. This is the highest amount ever recovered in the field of false and deceptive practices in the history of the Commission. In addition, four injunctions requiring future compliance with Commission orders were obtained.

Penalty statistics are as follows:

Pending July 1, 1965	11
Filed during year	7
Total for disposition	18
Disposed of during year	7
Pending June 30, 1966	11

Four more penalty cases were filed in fiscal 1966, than were filed in fiscal 1965.

Workload fiscal year 1966

During fiscal 1966, 475 orders to cease and desist were received (given consideration) in the Division. This figure represents 56 new orders issued during the year and 419 old orders which were activated because of complaints from outside and other sources indicating possible violations.

Comparative workload between fiscal year 1965 and 1966

A comparison of the statistics regarding the Division's case load during fiscal 1965 and 1966 is as follows:

	1965	1966
Total pending at beginning of fiscal year	447	418
Received during fiscal year	293	475
Total for disposition during year	740	893
Disposed of during year	322	556
Total pending end of fiscal year	418	337

As demonstrated by the foregoing during fiscal year 1966 the Division's case load was increased by 20.6%. Nonetheless, the total number of cases remaining for disposition at the end of fiscal 1966, as compared to fiscal 1965, was decreased by approximately 20%. The simple explanation of this progress is the fact that the number of cases disposed of in fiscal 1966 exceeded fiscal 1965, by 72.7%.

Matters fiscal 1966

"Matters" consist of: Complaints of violations of orders to cease and desist; Public Inquiries regarding orders to cease and desist; Requests for Informal Advice; and Requests for Advisory Opinions.

The processing of these "matters" invariably involves the examination of pertinent records in a case, a determination as to the applicability of an order to a present or proposed business or advertising practice, and the preparation of responsive correspondence or memoranda. During fiscal 1966 the Division disposed of 913 "matters." This is an average of approximately 91 "matters" per attorney.

Further, with regard to "matters," the comparative figures for fiscal 1965 and fiscal 1966 are as follows:

"Matters" disposed of during Fiscal 1966	913
"Matters" disposed of during Fiscal 1965	696
Increase in "matters" disposed of in Fiscal 1966	217

Increases requested—1968

No additional positions are requested for 1968, however $2,000 is requested for mandatory within-grade increases.

DIVISION OF SCIENTIFIC OPINIONS

The protection of the consumer's health through regulation of advertising of foods, drugs, medical devices, cosmetics, and numerous other classes of commod-

ities subject to the Federal Trade Commission Act for which medical or other scientific claims are made is dependent on an adequately-staffed Division of Scientific Opinions. The numerous and varied services which it provides touch upon almost every facet and stage of regulatory activity, including advisory opinion comment to industry or proposed advertising with respect to health claims.

The present professional staff of the Division of Scientific Opinions consists of six physicians and three scientists, one of whose time is largely occupied with administrative duties. The Division has a large backlog of requests for assistance in connection with the investigation and litigation of products involving health claims and additional regulatory responsibilities essential to the protection of the consumer's health. This situation arises not only from the sheer volume of requests, but also from the increasingly complex nature of the matters under consideration. These problems require the expenditure of much effort and time in contacting and conferring with knowledgeable experts in the particular scientific areas of the claims under investigation and in otherwise securing the needed scientific or medical evidence. With increasing frequency, clinical or other tests have become necessary to resolve the advertising representations and simultaneously develop the scientific evidence required to maintain the legal burden of proof. Only professional personnel can arrange and monitor such tests. After the medical and scientific posture of case has been developed, it is necessary for the professional personnel of the Division to work closely with the legal staff in connection with all phases of the case, including drafting of complaint, presentation of evidence at hearings, and preparation of findings and briefs following hearings.

The assignment of this Division being to supply the necessary scientific advice to the Division of Food and Drug Advertising and to other operating Bureaus of the Commission, a detailed discussion of the areas of its accomplishments is in fact provided in the reports of those other Bureaus and Divisions.

A principal newly-assigned responsibility, however, will be the operation of a cigarette smoking laboratory to conduct such tests as may be necessary to provide a basis for Commission evaluation of advertising claims, report pertinent conclusions to Congress and provide the Department of Health, Education, and Welfare with data essential to its study of health factors.

The Division maintains close and active liaison with the Food and Drug Administration of the Department of Health, Education, and Welfare and with the Pesticides Regulation Division of the Department of Agriculture in order to coordinate the deceptive practice work of the Commission with the activities of the other agencies in the enforcement of the Federal Food, Drug and Cosmetic Act and the Federal Insecticide, Fungicide and Rodenticide Act respectively. This coordination is very necessary in order to avoid duplication or possible conflict of effort arising when two agencies are dealing with the same or similar subject matter. This liaison also enables the Commission to utilize the scientific expertise of the other agencies to help in resolving questions of science or technology in relation to the Commission's deceptive practice cases. The chief of the Division is the designated liaison with eight other Divisions of the Department of Agriculture—this liaison being designed to help resolve questions of science or technology in connection with Commission cases and to correlate the Commission's deceptive practice work with various regulatory functions performed by the Department of Agriculture. One of the medical officers in the Division has been designated as liaison with the Expert Advisory Committee on Tobacco of the Public Health Service in order to make available that agency's expertise and information relating to the effects of tobacco upon health.

After July 1, 1967, this Division will maintain further liaison with the Food and Drug Administration and with the Department of Commerce in implementing the provisions of the Fair Packaging and Labeling Act and correlating the specific duties of each agency under this Act.

Increases requested—1968

An increase of 29,000 is requested to provide two additional GS–14 chemists, one of whom is included in the Fair Packaging and Labeling Act program. An additional $2,000 will be required for within-grade promotions, a total for the Division of $31,000.

Bureau increases—1968

An additional $2,500 is requested for travel in 1968 and $12,000 for stenographic reporting.

DIVISION OF SCIENTIFIC OPINIONS

Mr. EVINS. This Division consists of six positions and three scientists. You want two more scientists or doctors for investigating the health claims.

CIGARETTE TESTING

You talk about your cigarette smoking laboratory. Tell the committee about the laboratory.

Mr. DIXON. We issued a general trade rule dealing with the advertising of cigarettes, and then the subsequent congressional legislation came in a sense overriding and taking its place. We were then called upon to make a report by July 1 of this year, together with HEW who, I think, is supposed to make a report.

Shortly after this time, the Commission, in its surveillance of advertising, took note of the fact that most of the principal advertisers of cigarettes were emphasizing taste and flavor. Together with our liaison with the interagency council on smoking——

Mr. EVINS. I think the committee and the Congress felt the Commission did a great service in this field; however, you have the Public Health Service, you have the Department of Agriculture, you have the Bureau of Standards and all these agencies testing. Why do you need a cigarette testing laboratory at the Commission?

Mr. DIXON. A long existing guide or agreement we had with the cigarette manufacturers to stay out of the tar and nicotine derby—who had the least—they did this voluntarily. Congress thought that for the moment the only thing that was necessary was a certain warning. They passed a law and said so, but Congress made it indelibly clear that they want, by every encouragement, by research, to develop as safe a cigarette as possible. It became indelibly clear to the members of the Commission that this would be in the public interest, to see that as safe a cigarette as possible is on the market.

Mr. EVINS. You state here that the chief of this division is the designated liaison officer with eight other divisions of the Department of Agriculture.

Mr. DIXON. That is probably correct, sir.

Mr. EVINS. This is the middle of page 94. He is the chief liaison officer with eight other divisions of the Department of Agriculture.

Mr. SWEENY. That is true, but the Federal Trade Commission is the only agency that does any testing.

Mr. EVINS. You have the Bureau of Standards and the Public Health Service.

Mr. DIXON. Mr. Chairman, let me labor through this thing if you will.

Mr. EVINS. We want to commend you for your great work, but tell us about your laboratory. Where is it located and so forth?

Mr. DIXON. Cigarettes are not drugs, you know. What this involves is the creation of a laboratory to actually test the cigarettes on the market to determine the amount of tar and nicotine in each one of these cigarettes.

Mr. EVINS. Where is the laboratory located?

Mr. DIXON. It will be on the seventh floor of the Federal Trade Commission Building. I hope we will have it completed within the next month or month and a half.

I might say to you that when we started this project, all of the manufacturers of cigarettes, through their spokesmen, came and sat down with me and wanted to give us the greatest amount of cooperation they could in the establishment of this laboratory. They have done so. They have made available to us the most expert technicians in their industry. They went right out on Wisconsin Avenue and set up a laboratory of their own. Until that time, they never had a central laboratory. Each manufacturer had his own methods, but they took all of the expertise of the industry and created their own laboratory.

Mr. EVINS. They have their own laboratory and you are sitting up on the seventh floor of the Commission with another one? How many people will you have there? How many will you require?

Mr. DIXON. At first three, sir. It will probably have to be increased by two more later.

When we get this completed, I want everyone who is interested in the well-being of the tobacco industry to come and look because this is the most fascinating machine I have ever seen.

Mr. EVINS. We are interested in the Commission, the tobacco industry, and the consuming public.

Mr. DIXON. We want to be sure that when we report the current amount of nicotine in the cigarettes on the market—if this is all done by the same method in all laboratories, there will be no argument.

Mr. EVINS. Will this be done in part by people paid by the tobacco industry?

Mr. DIXON. Our personnel will be paid Government employees. There was a suggestion that we go on the outside and have somebody do it. I think if we are going to say there are 9.5 milligrams of——

Mr. EVINS. If it is done on the outside, they will say it is an objective report. If it is done on the inside, they will say it is a Commission-controlled laboratory. You make your own evidence.

Mr. DIXON. If it is done down the street by the tobacco industry and it jibes with ours, there will be no argument about it. It is going to be right.

Mr. EVINS. What if it doesn't jibe?

Mr. DIXON. Then we are going to find out what is wrong. We have the same machine and the same methodology and we should come out at the same place.

The biggest problem is, we are going to pick these cigarettes up at random at certain places and when we pick them we are going to work out a method of——

Mr. EVINS. Is this Mr. Irish's division?

Mr. DIXON. Yes. This is one time the tobacco industry is not mad at us, Mr. Chairman. I want you to know that. This is one time that they are helping us all they can to see that our laboratory is furnished with the proper equipment and run properly so we get the proper results.

Mr. EVINS. You don't have it in being yet, but this is one of your——

Mr. DIXON. It is just about a month away, I think. If Congress were to say at sometime in the future that every manufacturer must disclose the amount of tar and nicotine—you are going to have a governmental authority to check it. If Congress should come to the point like in drugs and say that no cigarette should be sold with nay more than a given amount of tar and nicotine in it—these things are for Congress to decide.

Mr. EVINS. Are there no other similar laboratories in the Government?

Mr. DIXON. There is no such laboratory anywhere in Government or there wasn't at the time we started this. In fact, there was only one small machine available. Most of this research was being done at some of the——

Mr. EVINS. The Commission has already made its case. This is for future cases?

Mr. DIXON. Well, it is to check on the advertising that is being made today and to make reports to the Congress.

BUREAU OF TEXTILES AND FURS

Mr. EVINS. Bureau of Textiles and Furs.

Special attention will be given to stores in low-income areas. You propose to intensify your inspection of low price and discount stores selling textiles in large volumes. These are primarily places where people with poverty income do much of their purchasing. You protect the consumers. It is all good language. The Division of Regulation. Your workload is shown on page 101.

You say "Deficiencies noted: 7,208,811," and it drops down.

These are big figures, impressive figures. Deficiencies noted: 7 million. What is the base of that?

Mr. STRINGER. Mr. Chairman, they cover technicalities and violations of misrepresentations as to what is in the product, and failure to disclose what is in them.

Mr. EVINS. You looked at the label and the garment. How did you determine there was a deficiency?

Mr. STRINGER. Many of them are apparent on their face. Our investigators, many of them, can feel the fabric and get an idea. For example, if you feel a piece which is labeled 100 percent wool, it has a certain feel. One that is 50 percent wool and 50 percent cotton has a different feel.

Mr. EVINS. How can they tell if it is 50–50?

Mr. STRINGER. They can't. We have to test it in the laboratory to make the determination, but they can get a pretty good idea themselves from the hand, and price too is a criterion we use.

Mr. EVINS. If the price is high, the first impression would be that it is 100 percent wool.

Mr. STRINGER. That is right, but on the other hand, if a man feels it and it has a harsh feel, indicating the presence of another fiber——

Mr. EVINS. How do you determine these deficiencies? What techniques are employed? Does he take a sample and send it to the laboratory?

Mr. STRINGER. Yes.

Mr. EVINS. When he finds a deficiency, does the Commission or staff write to the particular store?

Mr. STRINGER. We test it and determine if it is correctly labeled. If it is not, we go to the manufacturer concerned with the problem to see why it happened, and how it happened.

Mr. DIXON. They will often go all the way back to the manufacturer of the basic goods that went into the finished produced. This is the advantage of the laws you were referring to, Mr. Jonas.

Mr. EVINS. The last item, "Assurances of Discontinuance," in fur it is 425. You had deficiencies noted of 21,306 under the fur column and you got assurance to discontinue of 425. Where are all the others?

Mr. STRINGER. The investigator may have effected correction right on the premises. That would close the matter right there rather than getting into these assurance of discontinuance, which is more or less an informal assurance in the form of a letter from the manufacturer or the store involved.

Mr. EVINS. On the textiles you have 7,208,000 deficiencies noted. Assurances of discontinuance, 1,808.

Of the 7 million you got assurances of 1,808. That is a pretty low number, isn't it?

Mr. STRINGER. This doesn't give the complete picture. There are many more thousands with corrections which were effected on the spot.

Mr. DIXON. What he is trying to say, Mr. Chairman, a large part of the inspections our men make on the site to get these numbers, they are minor, insignificant and are readily corrected right there. He makes the report and we count it. It is done.

Mr. EVINS. He would have to reprint his labels if his labels are wrong.

Mr. DIXON. He could have to. There could be some of those.

If it is of a significant matter, it will come back to the home office. If it is insignificant, we will let him try to correct it there. We would just get drowned if we tried to make a big case out of all these things.

I think that our chart is deficient. There should be something in there to explain what we are trying to say to you right now.

Mr. GLENDENING. One thing that might explain this, the deficiencies noted are individual garments, or items, whereas the administrative treatment, the assurances of discontinuance and so forth, are on an establishment basis. You see, for example, we inspected in textiles 4,562 establishments and in so doing we found this number of individual items deficient in labeling.

Mr. DIXON. Excuse me for interrupting, Mr. Chairman, but I think those big numbers come kind of on a computation basis. If he has inspected one type of thing and he has a question, he will say, "Now, how many do you have of those things?" He may not be looking at one, but a man may have 10,000 of them or 200,000 of them.

We could get one promise to take care of 5 million items theoretically.

Mr. EVINS. It is a big field for inspection, examination, and investigation.

JUSTIFICATION MATERIAL

Pages 97 through 106, include those pages in the record.

(The pages follow:)

BUREAU OF TEXTILES AND FURS

The Bureau of Textiles and Furs is responsible for administering the Wool Products Labeling Act of 1939, the Textile Fiber Products Identification Act, the Fur Products Labeling Act and the Flammable Fabrics Act. In order to carry out these duties the Bureau of Textiles and Furs has been divided into the Office of the Director, the Division of Regulation and the Division of Enforcement.

The Office of the Director also includes the Stenographic Services Section which supplies stenographic help wherever it is needed in the Bureau.

The Division of Regulation makes field inspections of manufacturers, wholesalers and retailers of textile products and fur products, monitors textile and

fur advertising, prepares and makes recommendations relative to amendments to the regulations under the four (4) Acts administered, issues registered identification numbers, is custodian of the continuing guaranty files, maintains the Bureau's correspondence files and counsels and advises the textile and fur industries concerning their labeling, invoicing and advertising practices.

The Division of Enforcement handles all formal investigations made under the Wool Products Labeling Act, Textile Fiber Products Identification Act, Fur Products Labeling Act and the Flammable Fabrics Act and is responsible for the settlement or trial of each of such cases. Also the trial attorneys in the Division of Enforcement are responsible for any injunctions brought under these statutes. The Bureau laboratory which is a part of this Division analyzes the contents of questionable fibrous stock, yarns and fabrics, conducts dye tests of fur products and makes flammable fabrics tests of fabrics that might be dangerously flammable. In addition, the Compliance Section polices over 1,000 Commission orders under the four enumerated Acts.

The work of the Bureau of Textiles and Furs is to a large extent prophylactic in nature and only when the efforts of the Bureau to obtain compliance with the assigned statutes through education, cooperation and voluntary compliance are unsuccessful is enforcement sought through complaint and cease and desist order, or if warranted by injunction or criminal penalties.

After a quarter of a century of experience with the labeling laws, the Bureau has concluded that the most effective means of enforcing these statutes is an inspection program that would enable our investigators to call on mills and manufacturers at least once in five years; wholesalers once in eight years; retail trade (independent department stores, children's shops, ladies' wear shops and furriers) once in ten years; and to make spot checks of chain department stores, men's shops, upholstery and curtain shops at less frequent intervals.

Continuing inspection work is necessary as many mills and manufacturers change the type and fiber contents of their fabrics and garments from season to season according to the fashion demand. The fact that a coat manufacturer is labeling his coats properly this year is no guarantee that such will be the case next year. Likewise a ladies' wear shop which is scrupulously leaving the fiber content tags on all its goods this year may have a new manager next year who feels the merchandise looks better or sells better with all fiber content tags removed. Therefore a constant policing program is imperative if these laws are to be properly administered.

While the planned reduction of the inspection cycles will not bring complete observance of the statutes it would be frequent enough to turn up many violators we do not at present reach, and it would be a periodic reminder to those who might be lawabiding but forgetful or careless of the requirements in labeling, invoicing and advertising.

Special attention will be given to stores in low-income areas. We propose to intensify our inspections of low-price or discount type stores selling textile products in large volume. These are primarily the places in which the low income or "poverty" families do much of their purchasing. They are particularly susceptible to misbranding and various other practices aimed at those who can least afford to buy inferior or misbranded products at inflated prices.

Our experience has shown that many violations occur in such retail stores. The better class (more reputable) retailers do have violations of our several laws but numerically more are found in other classes of stores.

The retailers may sell substantial quantities of textiles (particularly inferior imported woolen fabrics and products) which are often misbranded.

Imported fabrics, suits and threads are a special problem area. The Commission has under consideration a proposed working plan with the Bureau of Customs involving the testing of inferior imported woolen fabrics and articles of wearing apparel. This will require the use of substantial manpower but it is believed it will materially assist in eliminating importation of such goods. In this way the consumers as well as reputable domestic manufacturers, who are also injured by cheap prices and misbranded goods, will be afforded a degree of protection greater than that we now have been able to give to them.

As the large part of the work of the Division of Enforcement grows out of the inspection work of the Division of Regulation, an increase in the inspections will result in a greater number of formal matters. Likewise an increase in the personnel of the Division of Enforcement and the Division of Regulation requires a larger stenographic force.

OFFICE OF THE DIRECTOR

The Office of the Director includes the Stenographic Services Section which supplies stenographic help wherever it is needed in the Bureau. No additional positions are requested, however, an increase of $2,000 will be required for within-grade promotions.

DIVISION OF REGULATION

The Division of Regulation is responsible for the inspection of textile and fur products in manufacturing establishments and distribution channels in order to protect manufacturers, distributors and consumers against mislabeling or false and misleading advertising of these products and to insure consumer safety against the hazard of flammable fabrics. In so doing not only is the safety and welfare of consumers increased directly but also indirectly in that competition is made fairer by the elimination of unfair trade practices.

The Division's textile and fur investigators in the field perform inspections and counsel businessmen regarding the requirements of the four Acts and the rules and regulations. Administrative handling of minor deficiencies in labeling, advertising or invoicing (as the case may be with the particular Act involved) is performed. Informal correction is made by the person being interviewed and reported to the headquarters office by the investigator.

In the headquarters office, the staff renders legal opinions and interpretations, maintains records of continuing guaranties filed under the four Acts, issues registered identification numbers to be used in lieu of the manufacturer's or other identification under the Wool, Fur and Textile Acts, and maintains inspection and correspondence records concerning the activities of the Bureau. Another important duty is the drafting of proposed rules and regulations for submission to the Commission for consideration and appropriate action. During this past year, the Division has formulated a substantial number of these proposed rules and regulations.

Consultation with industry members and their counsel is often done by the attorneys in the headquarters office. This may follow inspection trips by men in the field or prior correspondence with the industry member involved. From time to time representatives of large mills or fiber producers will have their production engineers and counsel check with us on proposed or changed tags, labels, tickets, etc., intended to be sent to the cutters who use these labels on the end products.

The Division has at least one investigator located in each of the eleven Field Offices and the Houston unit of the Commission. In addition, there are a number of Field Stations with one and one Station with two investigators. The investigators in the field are under the administrative supervision of the Bureau of Field Operations through the Attorneys in Charge of the respective Field Offices.

In addition to performing routine inspection and industry counseling in all phases of manufacturing, processing and distribution of textile and fur products, these investigators also perform most of the investigations in numbered matters leading to complaint under the direction of the Division of Enforcement, in conjunction with the Bureau of Field Operations. Many investigators are responsible for inspection and investigational coverage of several states.

Despite the diligent work of the Division's investigators the staff has been able each year to inspect only a small fraction of the hundreds of thousands of concerns engaged in some phase of textile and fur manufacturing, wholesaling or retailing. In order to effectively advise, counsel, and otherwise assist businessmen in complying with the various laws administered by the Bureau of Textiles and Furs, textile and fur investigators must necessarily cover a large percentage, if not in fact all, of the business firms engaged in the production and distribution of merchandise covered by these laws as is set out more specifically hereafter.

The Division has devoted substantial time in FY 1966 to examination of the use of fur in fur-trimmed garments. Clothing styles featuring fur trim are continuing to grow in popularity and it is expected that strong emphasis needs to be maintained in this area if the American consumer is to be properly protected.

In addition to the general duties and responsibilities set out above, the Division of Regulation has close contact with the Customs authorities as well as considerable activity with other governmental agencies. Substantial cor-

respondence and many personal conferences are carried on with organizations such as Better Business Bureaus, Chambers of Commerce and trade associations. All of these activities require the expenditure of a considerable amount of time and are most important in obtaining voluntary compliance by business and industry.

In 1966, with no increase in our staff, the total number of inspections increased slightly and the comprehensiveness increased substantially, as reflected in items examined. It is noted that the deficiencies have decreased percentagewise. We believe this is due in part to procedures instituted during the year and to some degree to inspections in large retail establishments and a number of large hosiery mills whose products were usually found to be properly labeled.

The latter inspections were an outgrowth of a program involving inspection of hosiery repackagers where misbranding was originally found on a relatively large scale.

Workload statistics, 1966

	Textile	Wool	Fur	Flammable fabrics
Number of inspections made	4,562	2,878	1,166	4,019
Products inspected (sampling method, except furs)	[1] 126,680,968	8,121,499	152,898	[1] 112,162,724
Deficiences noted	7,208,811	453,123	21,306	----------
Registered numbers issued	1,244	122	132	----------
Continuing guarantees filed	478	327	91	1,134
Advertisements examined	129,549	8,756	35,538	----------
Interpretations and opinions	16,877	7,382	6,311	3,488
Administrative treatment matters closed	4,004	1,013	902	----------
Assurance of discontinuance	1,808	381	425	----------

Incoming correspondence	20,854
Outgoing correspondence	18,760

[1] A number of inspections were made during fiscal year 1966 in large hosiery mills adding many millions of items to textile and flammable fabrics columns.

Programs, 1967–68

In planning we have continued to use the three classifications of business and industry used in the past. They are (1) manufacturers, (2) wholesalers, and (3) retailers.

Under "manufacturers" we consider fiber producers, processors of fibers or yarn, garnetters, spinners, weavers and knitters of cloth, and cutters who are normally considered the manufacturers of textile products. This also includes convertors and contractors.

In the same broad scope, under the wholesaler class would come those normally considered wholesalers, jobbers, distributors, and importers. Of course many retail concerns do some or most of their own importing.

The retailer is the last person in the channel of distribution and his customers, normally speaking, are the ultimate consumers of the products which he sells.

Manufacturers.—The principal source of our figures for manufacturers is the 1963 Census of Manufactures. Our figures indicate that there are slightly over 28,000 manufacturers covering the textile and fur fields. These manufacturers accounted in 1963 for approximately $28 billion in sales.

Included in these universe figures are approximately 1,600 fur manufacturers with a total sales volume of more than $334 million. During FY 1966 we visited about 1,400 of these 28,000 mills and manufacturers.

Wholesale trade.—The 1963 Census of Business shows over 300,000 establishments in the wholesale trade of which about 20,000 deal in textile and fur products with a sales volume of $23 billion.

In addition to the wholesalers we have an estimated 5,000 textile importers. These importers have a volume of hundreds of millions of dollars. The volume of imports of textile products has been increasing in recent years.

In addition to the figures for imported textiles noted above, figures from the Business and Defense Services Administration of the Department of Commerce indicate a raw fur production of almost 19 million skins in the United States whereas there were imported as raw and dressed skins over 60 million.

During fiscal year 1966 we inspected about 500 wholesalers. We hope to hold that figure during 1967 and 1968.

Retail trade.—The Census of Business showed a total of over 1,700,000 retail establishments. We believe, and our experience indicates, that there are over

200,000 stores selling textiles and furs in such substantial amounts as would warrant our inspection of their premises. Annually we inspect stores selling a total of many billions of dollars and we are only scratching the surface.

We are presently engaged in an educational and to some extent public relations program involving a group of the largest of the multistore retailers, in an effort to further intensify the compliance of these multi-store retailers who account for a very large percentage of total retail sales with the figure in the textile and fur fields involving at least $25 million. If our program is successful, we will need to devote less time to field investigation coverage of units of these multi-store retailers. However, we will spot check to see that our program has been disseminated to the store level.

We feel that the number of inspections made in fiscal year 1966 definitely does not measure up to the responsibility placed on the Federal Trade Commission by the Congress in the passage of these consumer protection laws. However, with more investigators, as set out below, we believe that we can more nearly fulfill our responsibility toward the producer, the distributor and most of all, to the consumer.

Increases requested

In order to continue and improve our inspection and counseling program during FY 1968, an increase of $36,000 is requested to provide additional personnel as follows:

Attorneys, GS–9	1
Investigators, GS–7	4
Clerical, GS–4	1
Total	6

Location of these people would be as follows: The attorney and the clerk-stenographer in the headquarters office; the 4 investigators would be added to our New York force. Within-grade promotions will also require an additional $6,000, a total increase for personnel of $42,000 for the Division of Regulation. An additional $2,000 for travel is also requested.

DIVISION OF ENFORCEMENT

The Division of Enforcement is responsible for the investigation and effective disposition of serious violations of the Wool, Textile, Fur and Flammable Fabrics Acts. The Division consists of a staff of trial attorneys who are responsible for the investigation and prosecution of violations considered to be serious enough to warrant issuance of a compalint. It also has a compliance section which polices the cease and desist orders issued under each of these Acts.

When a matter is referred to this Division, it is given an investigational number and assigned to a trial attorney. The trial attorney thenceforth has the responsibility for the initiation and guidance of an investigation to uncover the facts; at the conclusion of this investigation he analyzes such facts and determines whether to recommend closing the matter or the issuance of the complaint. If complaint is issued, the trial attorney assumes responsibility for all phases of litigation of the matter before the Commission.

In addition to the above the trial attorney may in connection with as assigned matter:

(a) Assist the Office of Consent Orders in settlement negotiations when a consent agreement is offered the respondent.

(b) Recommend, where necessary, injunction or condemnation proceedings and, upon approval, handle the matters in the United States District Courts.

(c) Recommend, where justified, criminal prosecution and, upon approval, prepare the necessary trial memoranda, forms of information and other essential papers. Lastly, he may assist the Department of Justice and the United States Attorneys in the prosecution of the matter.

Workload statistics, 1966

	Fiscal year	Estimate, 1967	Estimate, 1968
Cases on hand beginning of year	243	209	209
Cases initiated	160	180	210
Cases disposed of	194	180	200
Cases on hand close of year	209	209	219

Detailed analysis, fiscal year 1966

	Wool	Fur	Textile	Flammable fabrics	Total
Cases on hand beginning of year	62	63	64	54	243
Cases initiated	37	39	45	39	160
Cases disposed of	30	50	32	82	194
Cases on hand close of year	69	52	77	11	209

During the past year this Division continued its intensive efforts to enforce the Flammable Fabrics Act by obtaining "Affidavits of Discontinuance" of the use of highly flammable material from garment manufacturers who had previously manufactured garments from such material. This continuing effort has kept the industry aware of the problem as regards flammable materials and has resulted in safer fabrics being offered to the consuming public. The special emphasis portion of this program was considered completed as of the end of FY 1966.

Increasing attention was paid during FY 1966 to the importation of misbranded fabrics which, in addition to being a fraud on the consuming public, placed domestic producers of similar fabrics, already suffering from foreign manufacturing competition, in a further unfavorable bargaining position. In this regard specific attention was given to the importation of misbranded "braided" rugs. Many of these rugs represented as containing high percentages of wool were actually found to contain considerably less. The action of this Division resulted in an industrywide survey of importers and a conference with Japanese representatives. These meetings indicated the fiber content of the rugs could be controlled and efforts are now under way to effect such controls. Thus, thousands of misbranded items have been withheld from the American market.

The small legal staff of the Division of Enforcement processed 227 cases either by the issuance of an order, a recommendation for complaint or by a closing recommendation. Thus, each trial attorney concluded an average of 32 cases during the year.

The Division of Enforcement also includes the Commission's testing laboratory which, during FY 1966, made 456 fiber content analyses of fabrics and fibers, conducted 547 burning tests under the Flammable Fabrics Act (each of which consisted of 3–10 individual tests) and 131 tests of fur fibers to determine if dye, bleach or other artificial coloration had been added to the furs.

The case load of the attorneys of the Division of Enforcement continues to be far too heavy for the Division to give attention to each matter that, in the public interest, should be investigated. As a result, matters that should be investigated have at times been passed over because of lack of personnel. The future case load is expected to continue to increase as it has over the past few years, particularly in enforcement of the Textile Act, which although relatively new now provides the largest volume of formal cases.

Compliance Section

The Compliance Section of the Division of Enforcement, a staff of four attorneys, obtains compliance with cease and desist orders of the Commission as they are issued under the four statutes administered by the Bureau, directs and analyzes investigations of alleged violations of orders, and where circumstances demand, refers through the Commission such violations as warrant proceedings for civil or criminal penalties in the Federal District Courts.

Compliance	1966	Estimate, 1967	Estimate, 1968
On hand beginning of year	110	105	80
New cases received	99	100	160
Approved or otherwise disposed of	104	125	145
On hand close of year	105	80	95

Judgments totaling $36,000 were assessed during the year in three civil penalty suits. Four other civil penalty cases were pending in various United States District Courts at the close of the year and four more were pending with the Department of Justice, having been certified to the Attorney General. Additionally, two criminal proceedings were brought to conclusion with fines totaling $8,500. This phase of he Compliance Section's work is particularly exacting and time-consuming. It requires the preparation of all essential papers to be filed in court and for use in trial and cooperation with the United States Attorney throughout the proceedings.

In instances where serious violations of orders are found, full enforcement necessitates proceedings for penalties, not only for the effect on the violating parties but also to operate as a deterrent against others who may be similarly involved. In FY 1966, six civil penalty cases were certified to the Attorney General. The present staff has had to be most selective in developing such cases. Some matters which might have resulted in civil penalty suits have by necessity been handled administratively. Five completed investigations indicate that penalty suits are warranted, but preparation of the necessary papers is not presently possible.

There are 1,000-plus outstanding orders issued under the four Acts administered by the Bureau. In FY 1966, 48 such cases were reopened for compliance checks.

As more and more concerns are placed under order to cease and desist, there are an increasing number of inspection reports coming from the Bureau's investigators and other sources, which set forth violations of outstanding orders. As the number of inspections is increased, in a direct proportion the number of new cease and desist orders will increase, resulting in additional compliance activity.

Effective enforcement of the Acts administered by the Bureau requires a vigorous compliance program. Where the Commission devotes the effort and expense to obtain an order to cease and desist, compliance must be obtained and maintained.

Increases requested, 1968

In order to handle the increased workload, an additional $14,000 is requested to provide two GS-9 attorneys for fiscal year 1968. An additional $2,000 for within-grade promotions will be required, a total increase of $16,000.

BUREAU OF FIELD OPERATIONS

Mr. EVINS. Field operations. This is the investigative staff.

The Bureau of Field Operations conducts all field investigations?

Mr. DIXON. They are doing something for the Federal Trade Commission beyond that now, Mr. Chairman. They are the Federal Trade Commission wherever they are.

Mr. EVINS. These are the eyes and ears, your ambassadors, your contact men.

Mr. DIXON. If you will refer to page 111, "In 1966 our field attorneys furnished information guidance and answers to questions resulting from 10,625 inquiries from the public, of which 641 were telephone inquiries, 2,137 were letters, and other written communications, and 1,945 involved personal conferences."

We have our men out in the field now. Heretofore we have had so much to do that we have discouraged them from going to the various

civic clubs and whatnot. Now they are going. They are going and talking about our problems and why they are worthwhile, why they were written into law, why it is good business to do it voluntarily. This is good administration.

Mr. EVINS. You state on page 111 that they dispose of these matters voluntarily. Do they have authority to dispose of them in the field on their own now?

Mr. DIXON. Yes, sir; and report on what they are doing. We are getting merely the report.

Mr. EVINS. They are making a judicial decision and making findings themselves.

Mr. DIXON. They are just as smart as anybody in Washington. Nobody down here has any monopoly on brains.

Mr. EVINS. They look at the case and if they decide there is no jurisdiction they say, "This is a closed case," and they report it to the Commission and it is compiled in your statistics. It never reaches the Commission then. Is that the way it happens?

Mr. DIXON. They are reported to the Commission and accepted by the Commission. We have delegated them that authority.

Mr. EVINS. They are not really closed out there until they are reported.

Mr. DIXON. We have oversight on it, just like you have the oversight on us. Nobody on the staff does anything that isn't reported to us. We have given them certain authority to do it, but it comes up for us for review. We can change it.

Mr. EVINS. The workload is shown at the bottom of page 110. This is impressive.

Mr. BOLAND. In the field offices you have 267 bodies requested for 1968. That is 15 more than 1967. These 15 will be attorney positions?

Mr. DIXON. Yes, sir.

Mr. BOLAND. How many of the 252 did you have in 1967 who are attorneys?

Mr. DIXON. As of December 31, 1966, we had a total of 156.

Mr. BOLAND. You think this job has to be done by attorneys?

Mr. DIXON. I have no doubt about it, sir.

JUSTIFICATION MATERIAL

Mr. EVINS. We shall place in the record pages 110 through 113.

(The pages follow:)

BUREAU OF FIELD OPERATIONS

The Bureau of Field Operations conducts all field investigational work for the Commission through its field attorneys in 11 field offices and one sub-office located strategically in 12 cities throughout the United States. All matters to be investigated are selected by the Bureau of Restraint of Trade, the Bureau of Deceptive Practices, the Bureau of Textiles and Furs, the Bureau of Industry Guidance, and the Commission itself. In addition to selected matters involving alleged illegal practices of specific firms, these Bureaus plan projects covering investigations designed to discover the nature and extent to which illegal practices may exist in an entire industry or which may exist nationwide but not confined to a single industry.

The work of the Bureau of Field Operations includes holding of investigational hearings and taking depositions where needed. Attorneys on its staff also engage in handling the settlement of cases at the investigational stage through negotiations for voluntary compliance without the initiation of any formal proceeding,

and the conducting of negotiations for consent settlements where the facts, information, and circumstances justify such action. Field attorneys also participate in hearings conducted in adversary proceedings, and at times act as trial counsel in these proceedings under the general supervision of the enforcement Bureaus.

The Bureau of Field Operations is responsible for conducting investigations in compliance matters. The Bureau is required to obtain such facts, evidence, and information as will form a basis for determining a proper course of action in such matters. If violations are discovered, field attorneys are responsible for obtaining evidence suitable for certification to the Attorney General which will provide him with a basis for action for civil penalties in the United States District Courts. Many of the requests for these investigations cover industrywide practices, such as conspiracies in restraint of trade, price fixing, boycott, allocation of territory, or other similar practices. Investigations of this nature are time-consuming, require the use of highly skilled manpower, and generally cover practices of an entire industry.

Field Offices serve as a local point where business man in their respective areas may seek and obtain advice and information through which they may voluntarily comply with the statutes administered by the Commission.

Workload statistics

	1965	1966
Investigations pending beginning of year	651	568
Investigations received during year	1,013	1,237
Investigations completed during year	1,096	1,079
Investigations pending close of year	568	726

Work performed, 1966

The above investigations involve all laws administered by the Commission, and include a substantial number of investigations covering compliance with cease and desist orders. A large number were industrywide in nature and required field attorneys to obtain facts and evidence from all members of entire industries. The 726 investigations pending at the close of the year represents an increase of 28% over the preceding year.

Of the 1079 matters completed, 311 were restraint of trade, 761 involved false and misleading advertising and other deceptive acts and practices, and 7 dealt with misbranding and mislabeling of textile and fur products. The field attorneys on their own initiative disposed of 124 matters through the use of voluntary compliance procedures at the investigative level as soon as it became apparent that the proposed respondents were engaging in practices in violation of the statutes administered by the Commission. Additionally, 31 cases were settled through the initiation at the field level of consent settlement procedures. Both methods of handling these matters resulted in an early and voluntary compliance with the laws involved. It can be expected the endeavors in connection with the voluntary compliance procedures will increase during fiscal 1968 since such procedures save money and time to both the government and the business men by eliminating expensive and time consuming adversary proceedings.

It is difficult for the field offices to adhere strictly to schedules worked out for handling cases due to the increasing number of special investigations which have to be handled on an expedite basis and which make demands upon the more experienced personnel. During fiscal 1966, the Bureau of Field Operations was directed to make four special surveys and investigations which made heavy inroads upon field attorney manpower. These four special surveys included (1) the purchasing problems of the low income or poverty groups, which necessitated consulting and cooperating with the Office of Economic Opportunity and its Legal Aid Centers and other consumer protection groups throughout the United States; (2) deceptive practices in the solicitation and sale of mail order insurance on the lives of military personnel and particularly recent inductees into the armed forces; (3) the manner in which the business community is conforming its advertising practices to the requirements of the Guides Against Deceptive Pricing; and (4) a separate pricing survey to determine whether tire marketers are conforming their advertising with respect to price reductions and savings claims to the requirements of the new Tire Advertising Guides Relating to Prices adopted March 3, 1966.

In fiscal 1966, field attorneys furnished information, guidance and answers to questions resulting from 10,625 inquiries from the public, of which 6410 were telephone inquiries, 2137 were letters and other written communications and 1945 involved personal conferences. Speakers were furnished by the field offices on 133 occasions to explain the work of the Commission to trade associations and other business groups, consumer groups, college classes and other similar organizations and groups. As a part of this endeavor and to further public relations and Federal-State cooperation, attorneys stationed in the field offices made periodic visits to the offices of State Attorneys General and local law enforcement offices in cities and counties throughout the country. They also maintained a schedule of visits to Better Business Bureaus, Chambers of Commerce and other private and public organizations and officials interested in law enforcement and in enlightening and informing the public with respect to the Commission's duties and functions.

The work of the field offices during fiscal 1966 was accomplished with an average of 155 attorneys. At the end of fiscal 1966 the number of attorneys in the field had dropped to 149. Replacements have since brought the number of field attorneys to 157. It is interesting to note that during *calendar* year 1966, the Commission lost 32 field attorneys. Most of these attorneys left the employ of the Commission to take up employment with corporations and/or law firms at higher salaries than the Commission is permitted to pay. During the same calendar period 27 new attorneys were hired to fill vacancies in the field office staff. These have to be trained in the highly technical and complicated matters referred for investigation, with the resulting reduction in the effectiveness of the field offices while they are learning.

Workload, fiscal years 1967–68

The increase in the work of the Bureau of Field Operations and its field offices during the first six months of fiscal 1967 as compared with the comparable period of fiscal 1966 foreshadows an increased workload during fiscal 1968. The backlog in the first six months of fiscal 1967 has continued to grow notwithstanding that more cases were completed during this period than during the comparable first six months of fiscal 1966. The backlog at December 31, 1966 stood at 904 or an increase of 178 over the backlog at the beginning of fiscal 1967. This represents a further increase of 25% in the six-months period. During this period the field offices completed 545 investigations which was an increase of 25 over the 520 completed in the same period of fiscal 1966. Likewise, the field offices received 723 new matters for investigation during the first six months of fiscal 1967 or an increase of 22% over the 593 new matters received in the comparable six-months period in fiscal 1966.

During the first six months of fiscal 1967, two additional special investigations were undertaken. At this behest of the Secretary of Agriculture and the direction of the Commission, the field offices were called upon to investigate the increases in milk and bread prices respectively by dairies and bakeries. These investigations were made in New York, Chicago, Milwaukee, Kansas City, Denver, Dallas, Seattle and other cities.

Also as a result of housewife complaints and boycotts, and increases in groceries prices, the Commission directed the Bureau of Field Operations to make an expedite investigation of the promotional practices of 22 selected chain grocery organizations, particularly the gimmicks and games used by these store chains to attract customers and the cost and the effect thereof on food prices and competition. The most experienced attorneys in seven (7) field offices were thrown into this investigation.

The Bureau of Field Operations and its field offices are being called upon more and more to make investigations for the Bureau of Industry Guidance in connection with its rule making and guide functions. These investigations also require assignment of additional manpower.

An ever larger increase in the regular caseload referred to the field for investigation can be anticipated during fiscal 1968. The areas of activity projected by the enforcement bureaus during fiscal 1968 indicates an enlargement in their enforcement programs. Since there is a direct relation between the number and extent of the programs of the enforcement bureaus and the investigative work that is generated for the field offices, it is expected that increasing demands will be made upon the field offices during fiscal 1968.

In addition to the increased demands upon the field staff set forth above, additional responsibilities will devolve upon the staff in connection with enforcement matters in the recently enacted Fair Packing and Labeling Act.

Increases requested, fiscal year 1968

An increase of $128,000 is requested to provide 15 attorney positions (5 each in Grades 12, 11 and 9) to cope with the additional workload and mounting backlog of investigational work including the additional responsibilitites under the Fair Packing the Labeling Act; and $25,000 for within-grade promotions, a total of $153,000 for personal services.

An increase of $25,000 in funds for travel will also be required.

BUREAU OF INDUSTRY GUIDANCE

Mr. EVINS. We will refer to industry guidance. We talked about this at length this morning.

You don't think you need to have some consolidation of your three divisions there, Mr. Chairman?

Mr. DIXON. No, sir. For administration and supervision, these things need to stay like they are. For instance, if there is a question in the Bureau of Deceptive Practices, we furnish the expertise here, but for the followthrough, the dissemination in the proper form and then subsequent surveillance for compliance, we find this type of organization is better than trying to duplicate the expertise over again in each bureau.

Mr. EVINS. You state here, "The Commission more than ever before has assumed an industry guidance image." You are now looked upon as a guidance image for industry. Is this being rather well received by industry?

Mr. DIXON. I might tell you now that I have received some mighty nice compliments from the chamber of commerce and the NAM and various manufacturers and they like it. They subscribe to it. It doesn't mean that we are a patsy either, sir. It means that rather than to find themselves with a problem, if we can tell them what the problems are as we see them and that we are approaching it on an industry basis, we find we generally get their cooperation.

Mr. EVINS. Now, you get a lot of compliance. You get a lot of voluntary compliance. You set your rules; you set your guides and you get your compliance. If there are violations and noncompliance, how do you get compliance?

Mr. DIXON. If we have a guide or a rule and the particular division is charged with the responsibility, they check it. If it is checked and it is determined there is a flagrant disregard of the guide, then it goes straight to the bureau concerned. If, for example, it is a deceptive practice, to the Bureau of Deceptive Practices for the issuance of a complaint.

Before it is issued, it is reported to the Commission and we either decide it should be done that way or some other way or no other way. I might say, if it is a flagrant violation there is no other way, after you have furnished guides, than to look toward the issuance of a cease and desist order if a record can be made to justify a violation because, if you don't all the other people who have voluntarily accepted your advice are put upon, in a sense. They have had an unfair advantage taken against them.

Mr. EVINS. Mr. Chairman, the violations disposed of by assurances of discontinuance have increased by 41 percent over the preceding year. The Bureau disposed of 400 matters. It looks like a large percentage were violating the rules and guides after you issued them.

Mr. DIXON. Mr. Chairman, I think this is due to the fact primarily that we insisted that the Bureau institute checks and followthroughs. They come back and report them to us. Many are minor and not of a major character and, as reported to us, they have received compliance and we felt that was adequate.

I tried to describe the other way. If it was flagrant, I would expect the staff would suggest or recommend a complaint.

Mr. EVINS. You mention a lot of industries, the whole spectrum. I made a note here on the cosmetic industry. How much money is spent annually in advertising in this industry? Does the Commission have that figure for the record?

Mr. DIXON. I would hate to guess. It is probably about a $700 million industry now, if not larger.

Mr. EVINS. For advertising?

Mr. DIXON. I don't know what the advertising would run.

Mr. GLENDENING. It is more than $3 billion in sales at the manufacturing level.

JUSTIFICATION MATERIAL

Mr. EVINS. We shall place in the record pages 116 through 131. (The pages follow:)

BUREAU OF INDUSTRY GUIDANCE

The Bureau of Industry Guidance administers the Commission's program for obtaining widespread voluntary law observance. This is accomplished through procedures designed to furnish guidance to businessmen as to legal requirements and to afford them opportunity to discontinue unlawful practices voluntarily, without the expense and delay of litigation. More specifically, these procedures provide for (1) the issuance and administration of trade practice conference rules and guides interpreting statutory provisions as applicable to practices of particular industries or practices common to many industries, (2) the promulgation of trade regulation rules upon which the Commission may rely in litigated cases, and (3) the preparation of advisory opinions which are binding upon the Commission. These procedures are administered, respectively, by the Division of Trade Practice Conferences and Guides, the Division of Trade Regulation Rules and the Division of Advisory Opinions.

In recent years the industry guidance program has received significant emphasis. Not only have new and important procedures been added, but the over-all effectiveness of the program has been greatly increased. The industry-wide voluntary compliance concept is not a new one, the trade practice conference having had its origin almost fifty years ago. However, the guide technique came much later and the trade regulation rule and advisory opinion as recently as June 1962. To say that the latter were important additions to the guidance program is perhaps a misleading understatement. In fact, the advent of these new methods and the interest stimulated by them has given vitally to the entire guidance program. The Commission more than ever before has assumed an industry guidance image.

In fiscal 1966 the industry guidance program achieved a high level of over-all effectiveness. This was the result of a well rounded program for furnishing advice to businessmen, coupled with a hard hitting compliance program which showed a sharp increase in the number of law violations stopped. While compliance activity was intensified, important results were also produced in other areas of the work. New rules and guides, as well as advisory opinions, dealt with problems of the utmost significance to both the consuming public and the business community. The program planned for fiscal 1968 calls for increased effort in all three areas of activity. In two of these, trade regulation rules and trade practice conferences and guide work, additional personnel will be necessary to carry out the program planned.

OFFICE OF THE DIRECTOR

The Office of the Director has general supervision over the work of the Bureau's three Divisions. It also supervises the work of the Bureau's central record room and stenographic pool.

No additional positions are requested for this Office. An additional $1,000 is needed, however, for required within-grade promotions.

DIVISION OF TRADE PRACTICE CONFERENCES AND GUIDES

This Division is responsible for administering the Commission's trade practice conference and guides programs, the primary objectives of which are to obtain expeditious industrywide voluntary compliance with laws administered by the Commission. Its work falls in three main categories: (1) the establishment (and revision) of trade practice rules and guides; (2) furnishing advice and guidance concerning the requirements and applicability of rules and guides, and (3) obtaining through continuous administration of the rules and guides the greatest possible degree of voluntary compliance with the provisions thereof.

Accomplishments, fiscal 1966

Advertising and labeling guides for the $3 billion tire industry were adopted after public hearings held before the full Commission. The guides are comprehensive and deal with a variety of tire marketing practices considered to be unfair or deceptive. Because of the nature of the practices involved and the large segment of the public affected, the Commission regards these guides as affording consumer protection in an area in which it is vitally needed.

In the area of tire safety the guides require, among other things, that tire marketers and automobile manufacturers inform consumers concerening tire load-carrying capacity and related inflation pressures to assist them in selecting the proper and safe tire for the use intended. They also contain specific provisions on the subjects of plies and ply ratings, cord materials and racing claims.

The guides also deal specifically with various types of deceptive advertising claims of price reductions and savings, as well as deceptive guarantee representations. They further provide that guarantee adjustments should be made on the basis of a price which realistically reflects the actual selling price of the tire. Adjustment of guarantees on the basis of an artificial, inflated price had in the past resulted in the purchaser receiving less than the represented value of his guarantee.

The new tire guides are regarded as an important step in the long history of Commission actions directed at deceptive practices employed in the marketing of automobile tires.

Revised trade practice rules for the $3 billion (manufacturing level) cosmetic and toilet preparations industry were also promulgated. In revising these rules particular attention was given to the problem concerning the deceptive use of names suggesting foreing origin for various cosmetic and toilet preparations wholly or in part of domestic manufacture. Under the new rule these names must be accompanied by a clear disclosure that the product was made, compounded, mixed, blended, or diluted in the United States. Among other subjects dealt with in the revised rules are discriminatory and deceptive pricing, inducing breach of contract, and use of lottery schemes.

The trade practice rules for the optical products and residential aluminum siding industries also underwent some revision to bring them into conformity with current legal requirements.

Other rule making proceedings looking toward the promulgation of new rules or the revision of old rules were advanced and in various stages of completion at the close of the fiscal period. A public hearing was held on a proposed revision of the rules relating to watches and watch cases. Questions involved included the use of terms such as "gold electroplate," "waterproof," "shock resistant," "nonmagnetic" and similar terms. Another public hearing on problems in the watch industry concerned the failure to disclose the foreign country of origin of imported watches or watches containing imported parts. A public hearing was also held on the practices of firms publishing toy catalogs. A trade practice conference was conducted for the iron pipe fittings and unions industry, and informal conferences held with representatives of several industries looking toward the initiation of new proceedings or the revision of existing rules or guides.

The compliance program to insure compliance with existing rules and guides continued to show increasingly effective results. New compliance surveys were initiated under the trade practice rules for the household furniture industry and the luggage and related products industry and the Guides Against Debt Collection Deception. Similar surveys were initiated under the Guides Against Deceptive Advertising of Guarantees as applicable to dishwashers, washing machines, clothes driers, high intensity lamps, roofing materials and Hi-Fi components. The survey previously undertaken under the Guides for Shoe Content Labeling and Advertising was nearly completed at the end of the year.

The number of rule and guide violations disposed of on the basis of assurances that the practices in question had been discontinued increased by 41% over the preceding fiscal year. During the year the Bureau disposed of 400 matters in this manner as compared with 283 the preceding year. Many of these voluntary corrections resulted from the several compliance surveys previously initiated. For example, 202 matters involving violations of the shoe guides were disposed of on the basis of appropriate assurances of discontinuance. At the close of the fiscal year, 389 matters were pending and receiving attention under the rule and guide compliance program.

More than 1300 interpretations of rules and guides were given businessmen seeking advice as to the application of particular provisions to their business practices.

Programs, fiscal 1967 and 1968

Pet food industry.—This industry is composed of some 3000 pet food manufacturers with total annual sales approximately $550 million. It has enjoyed phenomenal growth in recent years, sales of pet food outstripping even baby food sales. From the foregoing it is apparent that there is considerable public interest in the practices of this industry.

Information available indicates that there may be widespread violation of Section 5 of the Federal Trade Commission Act by industry members. Questionable practices include, among others, representations in advertising and labeling as to the content of industry products and health benefits to be derived by various pets as a result of being fed the advertised product, claims as to the diet sufficiency of certain industry products, representing that products have been government inspected, representing that products are guaranteed without disclosing the limitations of the guarantee, and the use of misleading endorsements.

The program planned calls for the promulgation of trade practice rules directed at unlawful industry practices and an intensive compliance program when the rules become effective.

Toy manufacturing and wholesale distributing industry.—This industry comprises some 1230 firms with annual sales approximating $1,200,000,000. Information available at this time indicates the need for Commission attention to certain practices of this industry which may violate Section 5 of the Federal Trade Commission Act as well as Sections 2(a), (d), (e) and (f) of the Clayton Act. The course of action to be followed will be determined in the light of the further facts developed.

Ladies' handbag manufacturing industry.—This industry is comprised of some 540 manufacturers with annual sales approximating $300 million at the manufacturing level. Due to advances in industry technology and important advances in statutory and case law and changed business practices, the old rules for this industry which were published in 1936 have become largely obsolete and inadequate. An up-dating of these rules to reflect current legal requirements is planned.

It is contemplated that the revised rules will treat in large part with disclosures to be made with respect to industry products made of varying synthetic materials having the appearance of leather. In addition, the rules will afford clarification as to the requirements of Section 2 of the Clayton Act with particular emphasis on conduct proscribed in Sections 2(d), (e) and (f) thereof.

Watch industry.—This is a $250 million industry with approximately 250 industry members. The problems here are most complicated involving questions such as the minimum thickness of gold necessary to describe a watch or watch case as "gold electroplated" and criteria for using the terms "waterproof," "shockproof," and similar terms, as applied to such products. A public hearing has been held on these practices and it is contemplated that new or revised rules relating to these subjects will be promulgated.

Uniform industry.—This industry, comprised of some 250 manufacturers, has annual sales at the retail level of approximately $1 billion. Trade practice rules were promulgated for it in 1940 and while such rules do include a "Robinson-

Patman" rule, the rule is nothing more than a recitation of provisions of the Act itself. Trade practice proceedings to revise these rules have been initiated, the primary objective being to furnish specific guidance to industry members in making promotional assistanc available to their customers in accordance with the requirements of Sections 2(d) and (e) of the Clayton Act. The rules will also give guidance to the industry in avoiding use of practices which may violate Section 5 of the Federal Trade Commission Act. It is anticipated that an educational and compliance program will be initiated as soon as the revised rules become effective.

Paint industry.—There are some 600 firms with 20 or more employees in this industry, with annual sales of two and one-third billion dollars at manufacturing level. Available information clearly indicates the desirability of Commission action concerning certain practices of the industry, primarily representations relating to quality and characteristics of industry products. These include representations as to the coverage capability, washability, durability and nonblistering, nonchalking, and nonyellowing characteristics of these products. The program calls for the issuance of trade practice rules directed at the elimination of any unlawful practices.

Golf, baseball and athletic goods manufacturing industry.—There are some 1360 members of this industry with annual sales of over $650 million at the manufacturing level. Practices of the industry first came to the Commission's attention back in 1931 at which time trade practice rules, long since outmoded, were promulgated. Information available to this office indicates the need to update these rules to have them reflect current legal requirements as applicable to present industry practices. It has been necessary recently for the Commission to give attention to the practices of a number of members of this industry by way of adversary proceedings. It is believed, however, that this situation can be corrected through revision of the existing rules and timely compliance work thereunder.

Poultry hatching and breeding industry.—This is a $4 billion industry with approximately 3000 members. The Commission first promulgated trade practice rules for the industry in 1931 and has subsequently revised the rules on four separate occasions. The present rules have provided a basis for the National Poultry Improvement Plan and the National Turkey Improvement Plan for the U.S. Department of Agriculture and have afforded industry members guidance in avoiding illegal practices in their business for many years. It appears that some substantive changes may be made in the Poultry and Turkey Plans which will necessitate revisions in the existing trade practice rules. In addition, practices which have developed in the industry since the last rule revision proceeding indicate a need for expanded rules. In the light of the foregoing, it is contemplated that rule revision proceedings will be undertaken, to be followed by a vigorous compliance program.

Beauty and barber equipment and supplies industry.—This industry has annual sales in excess of $500 million and is comprised of some 475 manufacturers of industry products, some 2000 beauty schools and approximately 1000 wholesale dealers. Rules were first promulgated for the industry in 1941. Application for revision of the rules has been received from industry members and is being processed. The industry is apparently beset with problems under Sections 2 (a), (d), (e) and (f) of the Clayton Act. The present rules do not include a "Robinson-Patman" rule and consequently afford the industry no guidance whatsoever with respect to business conduct proscribed by such law.

The primary objective of the revision proceeding is to bring this industry's practices into compliance with the law by affording it as much guidance as possible with respect to the requirements of the Robinson-Patman Act and then seeing to it, through a strict compliance program, that industry members observe the rule provisions in the conduct of their business. The revised rules will also furnish guidance as to business conduct to be avoided in complying with Section 5 of the Federal Trade Commission Act, e.g., misrepresenting the nature and character of business, using deceptive plaques and certificates, deceptive pricing, defamation of competitors, etc.

Wearing apparel industry.—This is a $6 billion industry. Available information indicates possible widespread misuse of washability claims for industry products, such as "wash and wear," "permanent press," "permanent pleats," "guaranteed washable," "preshrunk," "sanforized," "shrinkproof," "nonshrinkable," and "full shrunk."

To alleviate this situation and obtain compliance with laws administered by the Commission, the drafting of guidelines for proper use of these terms is under

consideration. It is felt that with proper guidance this industry will voluntarily effect such correction in its business practices as may be necessary. This will be an undertaking of some magnitude and, to assure that all industry members will comply with the guide, a continuing compliance program is planned.

Household furniture industry.—In fiscal year 1966 an industrywide survey was initiated to determine the manner in which the approximately 4000 furniture manufacturers are complying with the Commission's household furniture trade practice rules. (This industry has an annual sales volume approximating $4 billion at the manufacturing level.) This survey includes staff examination of the advertising and labeling presently in use by industry members. Among the practices sought to be corrected in this survey are the following: (1) misrepresentations of the true wood composition of furniture through the use of improperly qualified generic wood names or other wood implying terms to describe the stained colors and finishes applied to furniture; (2) failure to disclose that furniture is of veneered construction when it has the appearance of being solid wood, or when unqualified generic wood names such as "walnut," "fruitwood," "pecan," etc., are used to describe the veneer; (3) failure to disclose that furniture is made of plastic veneers and overlays of plastic molded parts when such components have the appearance of wood; (4) misrepresenting the origin of furniture through use of unqualified terms to describe the furniture style, such as Danish, Spanish, Mediterranean, French, etc.; (5) misuse of the term "foam" to describe nonrubber polyurethane foam stuffing and padding and failure to disclose the shredded or flaked nature of the foamed padding; (6) misrepresenting the fiber content of upholstered furniture coverings, e.g., describing as nylon fabrics composed of a blend of nylon and other fibers; and (7) misrepresenting furniture guarantees.

Debt collection industry.—This industry can be described as a $2 billion industry with over 2500 firms engaged in the business of collecting debts. The Commission adopted Guides Against Debt Collection Deception and a compliance program has been initiated to obtain voluntary compliance with the guide provisions. Among deceptive methods used by industry members to collect debts and which have been determined to violate Section 5 of the Federal Trade Commission Act are, (1) disguising the purpose for which information is desired, (2) misleading debtors into furnishing information which would not be in their interest to supply, (3) misrepresenting that the industry member is affiliated with governmental organizations or is a credit bureau, (4) misrepresenting the services furnished creditors, and (5) business firms, attempting to collect debts owed them, misleading debtors into the false belief that such firms are independent collection agencies. This undertaking entails staff examination of all forms, letters and other materials used by industry members in collecting or attempting to collect money debts.

Guides against deceptive advertising of guarantees.—The law as expressed in these guides requires that when a guarantee is mentioned in the advertisement of a product all material terms and conditions of the guarantee must be clearly and conspicuously disclosed in the same advertisement. This requirement is necessary to avoid the possibility of a reader or hearer being misled by concluding, erroneously, that the guarantee is broader or affords more protection than is in fact the case. There appears to be an increasing propensity on the part of advertisers utilizing radio and television media to feature therein product guarantees without disclosing the material terms and conditions thereof. In effecting the needed correction of these practices, it is contemplated that the cooperation of networks and individual radio stations will be elicited to apprise their advertisers of legal requirements as expressed in the Commission's Guides Against Deceptive Advertising of Guarantees.

In addition, continuing compliance work under these guides is programmed to cover the advertising practices of manufacturers of the following products: fiberglas and plastic building panels, hi-intensity lamps, roofing materials, dishwashers, washing machines, clothes dryers, dehumidifiers, room air conditioners, electric hedge trimmers, knives, toothbrushes and shoe polishers.

Cosmetic and toilet preparations industry.—The some 400 manufacturing members of this industry account for approximately $3 billion in annual sales at the manufacturing level. While the industry has been under trade practice rules for many years, revision has just been effected in one of the more important rules, i.e., the rule relating to deception as to origin of industry products. Various sections of this rule become effective at different dates. The rule is directed toward preventing deception of consumers as to the origin of industry products. The deception is occasioned through the use of words, terms, or phrases sug-

gestive of foreign origin as descriptive of various cosmetic and toilet preparations wholly or in part of domestic manufacture. The revised rule requires disclosure in appropriate instances of domestic compounding, mixing, diluting, blending, etc., as the case may be, on the packaging of industry products and in all advertising thereof. The compliance work programmed under the new rule will entail an examination of all advertising and labeling used by industry members.

Tire industry.—The promulgation of Tire Advertising and Labeling Guides has already been referred to and the nature of the practices covered thereby described under fiscal 1966 accomplishments. Obtaining compliance with these guides will be an important project both in fiscal 1967 and fiscal 1968. In view of the vast public interest involved, a major effort will be exerted to see to it that the guides are fully observed by the some 200 manufacturers and distributors and 300,000 retail dealers, to the extent that their practices are within the Commission's jurisdiction.

Free film.—Numerous complaints have been received indicating that mail order sellers of film and film developing services are misrepresenting through use of the phrase "free film" that purchasers of their developing services are furnished new rolls of film at no cost. It appears that in many instances the cost of the film is included in the price paid for the developing services. A compliance survey is projected under the trade practice rule on Use of the Word "Free" with the objective of protecting consumers from this type of deception.

Jewelry industry.—This industry, comprised of 800 manufacturers and some 50,000 retailers, has annual sales amounting to $1 billion. The trade practice rules for this industry encompass practically every item of jewelry sold to the consuming public. Due to the large number of industry members and the considerable turnover of persons and firms in the industry, administration of these rules is a time consuming and continuing project.

Increase requested, 1968

The program planned for fiscal year 1968 will require an additional $15,000 to provide two attorneys (one GS–11 and one GS–9) and $2,000 for within-grade promotions, a total of $17,000.

DIVISIONS OF ADVISORY OPINIONS

This Division is responsible for the preparation and submission to the Commission of advisory opinions informing businessmen at their request as to the legality or illegality of proposed courses of action contemplated by them. It is a service furnished businessmen to assist them in avoiding use of practices which may be contrary to laws administered by the Commission. Requests for opinions involving relatively simple problems for which there are adequate legal precedents may be handled at staff level by the issuance of an informal staff opinion.

Accomplishments, fiscal 1966

Two hundred ten requests for opinions were received during the year, of which 46 were the subject of formal advisory opinions by the Commission. Fifty-four requests were disposed of by the issuance of staff level opinions. In all, 217 matters were disposed of by Commission and staff action.

The opinions requested and furnished during the year continued to reflect the most sensitive areas of trade regulation law enforcement as well as to raise complex and novel points of law. For instance, franchising is becoming an increasingly prevalent form of doing business and various forms of franchise agreements have been the subject of several lawsuits by the antitrust enforcement agencies. This has generated a number of requests for opinions concerning the legality of contemplated franchise agreements and has resulted in several Commission opinions where such did not conflict with pending litigation.

So-called tripartite promotional arrangements involving various forms of in-store promotions devised by independent middlemen and financed by large groups of suppliers continued to constitute the single largest category of opinions requested, and formed the subject of a news release summarizing the Commission's views with respect to such arrangements.

Questions involving disclosure of the origin of products imported in whole or in part from foreign countries were the subject of several opinions, as were a number of inquiries concerning the sale of merchandise by means of lotteries or games of chance. Additionally, the requests called upon the Commission to rule upon the legality of arrangements for advertising in toy catalogs, the payment of

brokerage under the Robinson-Patman Act, the formation and proposed operation of an agricultural cooperative, the formation of an export trade association and, as always in view of the continuing concern with the growing economic concentration in American industry, a number of pre-merger clearance requests.

One of the highlights during the year was the implementation of an earlier Commission decision to make public digests of its advisory opinions wherever possible without disclosure of the identity of the requesting parties. This step was taken in response to an overwhelming demand from businessmen, the trade press and members of the bar and after the Commission had concluded that the legal guidance contained in its opinion should be made available to the business community in general rather than just to the individuals who had requested them.

Since this step entailed publication of all possible advisory opinions to date, the staff has been engaged not only in the preparation of digests of current opinions as they are prepared, but also in the publication of digests of earlier opinions rendered since the inception of the program in 1962. The total number of digests which had been made public by the end of the year reached 68 with the remainder scheduled for release early in fiscal 1967, at which time publication of these digests will be on a current basis.

The response to their publication has exceeded expectations. They have been widely reproduced in all types of trade and business publications, both those with general circulation as well as those published by and for the benefit of particular industries. They have generated a substantial volume of inquiries and conferences with businessmen and lawyers who desired further information with respect to particular opinions or who had learned of the existence of the service for the the first time by their observance of published digests. Further, and of even more significance, many businessmen have advised that the publication of these digests has been instrumental in persuading them not to embark upon proposed courses of action which they might otherwise have pursued had not they been made aware of the fact that the Commission regarded the practices as illegal.

Program for fiscal 1968

The workload of this Division is dependent upon the number of requests received and it is reasonable to assume that an increase can be expected in fiscal 1968. This assumption is based primarily on the fact that there has been a consistent pattern of year-to-year increase in the number of requests received since the establishment of the Division on June 1, 1962, as is indicated by the following tabulation:

Fiscal:	
1963	162
1964	199
1965	206
1966	210

Furthermore, experience has demonstrated that the number received is influenced in large measure by the enforcement activities of other Commission bureaus and offices. A formal proceeding against one or more members of an industry frequently brings forth requests from competitors concerning the adoption of new plans, programs or policies which will effectively insulate them from similar enforcement action and bring their business practices into strict compliance with the law. The expected increase in the number of formal proceedings initiated will undoubtedly result in the receipt of more requests for advisory opinions. While there is no way of predicting with certainty the types of matters which will require attention, on the basis of past experience it can be expected that advertising and promotional plans, foreign origin questions and general advertising claims and representations will constitute a large proportion of the expected workload.

Without exception, the advisory opinion program has received favorable acceptance on the part of the businessmen for whose benefit it was established. A number of commendatory letters have been received expressing appreciation for the assistance which has been furnished in connection with requests for advice and guidance. One such letter expressed appreciation for "an administrative attitude that provides a benchmark at which the rest of the government could well aim."

It is therefore expected that much greater use of its benefits will be made as its availability becomes more widely known to businessmen, and especially small businessmen who are not knowledgeable in the field of antitrust and trade regulation requirements and can ill afford the legal services of private attorneys specializing in this area of the law.

Increase requested, fiscal 1968

It is anticipated that despite the expected increase in workload, the 1968 advisory opinion program can be carried out effectively with the existing staff and no additional positions for this work are requested, however, an additional $500 will be required for within-grade promotions.

DIVISION OF TRADE REGULATION RULES

The trade regulation rule method, the newest of the Commission's industrywide procedures, was designed to eliminate and prevent unlawful practices on a broad, industrywide basis without the expense of costly litigation. Trade regulation rules express the judgment of the Commission concerning the substantive requirements of the statutes it administers and, as such, are expected to be observed by all persons to whom they apply. If litigation is necessary thereafter as to any recalcitrant industry member, the Commission may rely upon a trade regulation rule to resolve any relevant issue therein, provided that the respondent shall have been given a fair hearing on the legality and propriety of applying the rule to the particular case.

Accomplishments, fiscal 1966

A trade regulation rule dealing with deceptive representations as to the size of television pictures was promulgated. Based on information developed in this rule making proceeding the Commission concluded that the public was deceived when the size of the pictures shown by television receiving sets was represented in terms of the over-all dimensions which are invariably larger than the dimensions of the actual picture. The rule provides that when size representations are made they must be in terms of the actual size of the viewable picture area measured on a single plane basis. The rule, which becomes effective January 1, 1967, will affect size representations made for the eleven million television sets sold annually having an aggregate value of almost $2 billion.

A public hearing was held on the question of disclosure of the foreign origin of radios, televisions, phonographs, tape recorders, and their components. The Bureau of Industry Guidance also participated with other Bureaus of the Commission in public hearings held in two important areas: Alleged discriminatory pricing practices in the marketing of gasoline, and alleged unlawful mergers and acquisition in the cement industry.

Surveys conducted to determine the manner of compliance with the following trade regulation rules were nearly completed at the end of the fiscal year: Advertising and labeling of sleeping bags as to size; deceptive use of "leakproof" and other terms as descriptive of dry cell batteries; deception as to nonprismatic and partially prismatic instruments being prismatic binoculars; deceptive advertising and labeling as to size of tablecloths; and deceptive advertising and labeling of previously used lubricating oil. The results of these surveys show widespread compliance with the requirements of the rules. It is estimated that approximately 90% of the manufacturers of these products were engaged in unlawful practices prior to the promulgation of the rules. As a result of the rule promulgation and the interpreting and counseling work which followed, these practices in all known instances were brought into conformity with the rule provisions. While the full impact of the rules cannot be evaluated with complete certainty, the number and value of the products to which the labeling and advertising provisions of the rules apply afford some indication in this regard. Approximately 1,200,000,000 dry cell batteries valued roughly at $200 million were sold to consumers by hardware and drug stores as well as other retail outlets; 2,100,000 sleeping bags worth approximately $22,700,000 were sold by retail establishments; approximately 4,000,000 tablecloths and related articles worth $40 million were sold to the public; 150,000,000 gallons of reclaimed used oil worth $20 million were distributed, and an estimated 5,200,000 binoculars and field glasses worth approximately $16 million were sold through sporting goods stores, department stores and similar establishments.

Program for 1967 and 1968

Men's and Boys' tailored clothing industry.—This industry comprises some 450 firms doing an annual business in excess of $1 billion. On the basis of available facts it appears that discriminatory practices, particularly the favoring of certain customers through the payment of special promotion allowances and the furnishing of services and facilities not furnished other customers on proportionally equal terms, are widespread among members of this industry.

A proposed trade regulation rule on this subject was approved for publication in the Federal Register, and a public hearing at which interested parties will be afforded opportunity to submit their views has been scheduled. This is the first trade regulation rule dealing with the subject of advertising and promotional allowances under the Clayton Act.

Light bulb industry.—This industry comprises some 27 domestic manufacturers and 12 private label distributors doing an annual volume of business of over $200 million.

Electric light bulbs are frequently advertised and labeled as "long life" and "extended service" with the wattage of the bulbs marked thereon. It is known that so-called "long life" bulbs, although having a longer useful life than standard bulbs, emit substantially less light than standard bulbs of the same wattage. This fact is not disclosed to the consuming public. Standard bulbs, on the other hand, are frequently marked "brighter light." It is known that standard bulbs, although emitting more light than so-called "long life" bulbs of the same wattage, have a substantially shorter useful life. This fact also is not made known to the consumer. It appears that consumer deception results when disclosure is not made of the life design and the light emission of electric light bulbs. The program calls for the promulgation of a trade regulation rule on this subject.

Glass fiber products.—These products include both glass fiber fabrics and finished glass fiber textile products such as curtains and draperies. According to reliable information, in washing these products particles of glass may break off and become imbedded in the skin or in other articles such as bed sheets being washed in the same container, and that these particles may cause severe skin irritation to the person doing the washing or to the subsequent user of the articles washed with the glass fiber products. This information further indicates that manufacturers and other marketers of the products fail to disclose to the consumer that their washing or handling may have this result. A trade regulation rule requiring this disclosure is contemplated.

Dry bakery products industry.—Litigation has revealed the existence of unlawful price discrimination and the granting of unlawful promotional allowances in the sale and promotion of biscuit products, a high volume food item generally sold by manufacturers directly to retail grocery outlets. The industry comprises some 356 manufacturing establishments, doing an annual volume of business in excess of $1 billion.

It is expected that a trade regulation rule dealing with these unlawful practices will be promulgated.

Home entertainment industry.—This project involves some 50 manufacturers doing an annual business of $300 million. The output of audio equipment such as radios of various types and stereo and high fidelity phonographs is rated in terms of watts and usually sold on that basis. Generally, the greater the wattage the better the system and the more expensive it is. Available information indicates that under some rating systems employed by manufacturers actual wattage may be overstated by as much as 80%. A trade regulation rule proceeding directed at this type of deception is contemplated.

Corset, brassiere, and allied products industry.—This industry comprises some 300 manufacturers producing products having an annual retail value of $800 million. Over the years the Commission has found it necessary to litigate a large number of cases involving violations of Sections 2(d) and (e) of the Clayton Act. In the litigated cases in which members of the industry were found to have violated the statute, promotional plans were not made available to all competing customers in writing. The promulgation of a rule dealing specifically with this problem is contemplated.

Household cooking utensils industry.—This industry consists of some 2,574 establishments doing an annual business in excess of $200 million.

In a number of litigated cases the Commission has found it necessary to order members of this industry to cease and desist from using representations that their cookware will promote health or that competing products are injurious to health. These representations result in the deception of the consuming public and unfairly divert business from competitors producing the disparaged cookware. The promulgation of a trade regulation rule prohibiting deceptive representations of this nature is contemplated.

Proprietary medicine, dentifrices, soaps, and detergents.—These products are manufactured by some 975 firms, with a value of approximately $3 billion. With the increased widespread use of radio, television, newspaper and magazine advertising of toothpaste and other dentifrices, soaps and proprietary medicines, there has been a tendency to use baseless comparatives which do not provide

consumers adequate information upon which they may make an intelligent selection of the product they contemplate buying. Such claims as "30% more effective in fighting tooth decay," "washes your clothes 20% whiter," and "get faster and more effective relief" frequently result in consumer deception. Under consideration is a trade regulation rule which would require that such comparative claims have an adequate basis in fact and that such basis be disclosed in advertising and labeling.

Encyclopedias.—A sales practice sometimes employed in the distribution of various products is to inform prospective buyers that they have been "specially selected" to receive products free of charge or at a reduced price for advertising purposes. This practice has been particularly prevalent in the sale of encyclopedias. In some instances prospects are told that they have been selected because of their influence or position in the community. Especially vulnerable to this device are the parents of children who spend vast sums of money in the purchase of encyclopedias to aid their children in their school work. Actually, the names are obtained from telephone directories or "hot lead" lists which are purchased from companies engaged in the sale of names and addresses of parents of school children.

A trade regulation rule directed at this type of consumer deception is planned.

Increases requested 1968

In order that the projected program for fiscal year 1968 may be carried out effectively, an increase of $9,000 is requested for one GS–12 attorney plus $1,500 for required within-grade promotions, a total of $10,500.

BUREAU OF ECONOMICS

Mr. EVINS. Economics Division, headed by Dr. Mueller.

Mr. DIXON. Here is a bureau that today modern America can't get along without. There was a time when lawyers, in my opinion, could operate on what we call hard core evidence.

Mr. EVINS. You rely more and more on the economists?

Mr. DIXON. You have to, sir. You have to. The questions that now confront the Congress and the enforcement agencies are not cut and dried.

Mr. EVINS. You have a listing of the various industries. You have new and continuing programs in 1968. You have industry studies. You have new projects to aid in the administration of the recently passed truth and packaging law.

Mr. DIXON. We think this is good planning. We ought to know when we allocate money and manpower it is going to be in a place that will have the broadest possible impact on the public interest and competition generally.

Mr. EVINS. Here is a new project: TV discounts. The Commission has directed the staff to study the problems of discriminatory rates in TV advertising. The rate structure used by the TV industry is complex and requires extensive analysis and study. The rates charged for TV advertising have considerable public interest. I guess all that is true.

Obviously we have to have an economic division.

JUSTIFICATION MATERIAL

Include in the record pages 134 through 137.

(The pages follow:)

BUREAU OF ECONOMICS

The basic missions or objectives of the Bureau of Economics are (1) to investigate, study and analyze economic phenomena, particularly the structure, conduct and performance of industrial corporations in order to identify areas

where anticompetitive conditions may exist or be developing and to report to the Commission the results of such investigatory action, studies and analyses, and (2) to provide economic assistance which will implement and promote the antimonopoly and deceptive practice programs of the Commission.

For purposes of administration the Bureau of Economics is divided into the Office of the Director and three Divisions, the Division of Industry Analysis, the Division of Economic Evidence, and the Division of Financial Statistics.

OFFICE OF THE DIRECTOR

The primary function of the Office of the Director is to exercise general supervision over the operations of the Bureau.

The Statistical Services Section and the Stenographic Services Section, which provide statistical and stenographic services for the entire Bureau, are also in the Director's Office.

A total increase of $10,000 is requested for the necessary stenographic and statistical services for the Bureau in fiscal 1968: $8,000 to provide two additional GS–4 statistical clerks and $2,000 for required within-grade promotions.

DIVISION OF ECONOMIC EVIDENCE

The Division of Economic Evidence is primarily responsible for providing economic assistance to the legal Bureaus and Divisions in connection with the investigation and trial of legal cases, and in developing and evaluating economic data for use in planning and implementing the Commission's enforcement program. In fiscal 1967, the Division will devote a substantial part of its resources to assisting the Merger Division, but it is anticipated that increasing economic assistance also will be extended to other legal divisions of the Commission, particularly in matters concerned with deceptive practices and unfair methods of competition.

Accomplishments, fiscal 1966

One of the important responsibilities of the Division of Economic Evidence, in cooperation with the Division of Mergers, is the screening of merger. Each merger reported in certain leading published sources of merger information is reviewed and screened for the selection of the more important mergers which are investigated fully. Cases are carefully selected because the limited resources of the Commission permit but a relatively small number of cases to be prosecuted at any one time. During the fiscal year 1966, 1,592 acquisitions were reviewed by the Merger Screening Committee. However, only a few of these were fully investigated, and still fewer were selected for complaint.

The staff of the Division worked on 63 investigations in fiscal 1966, some of which were carried over from the previous fiscal year. The Commission issued 13 new complaints, resulting in 25 formal cases in various stages of activity during the year. At the end of the fiscal year there were 10 additional proposed complaints pending before the Commission or in consent negotiations. Economists in the Division worked in close cooperation with attorneys in the development of the merger complaints. Economists also assisted in 13 Section 7 compliance cases, participated in numerous consent settlements, and assisted in eight Section 5 investigations and in one Section 8 matter dealing with interlocking directorates. The Section 5 matters included investigations of steel, synthetic fibers, automotive parts, paper, and chemicals.

The Division completed studies of the textiles and plastics industries which had been initiated in fiscal 1965. Studies of the apparel, automotive parts, and confectionary industries were initiated in fiscal 1966 and considerable progress has been made toward their completion. The staff reviewed certain proposals in connection with trade practices and trade regulation rules in the beauty and barber shop equipment and supplies industry and in the household appliance industry. During the year considerable progress was made on studies of reciprocity. The Division was requested to make an extensive study of price discrimination and other pricing practices engaged in by a leading firm in the automotive parts industry.

Continuing activities, fiscal 1967

Preliminary and formal investigations.—It is anticipated that the Merger Screening Committee will continue to make preliminary examinations of between 1,500 and 2,000 acquisitions during the next fiscal year. Formal investigations are expected to continue at the rate of from 50 to 65 per year. Many

of these investigations are the conglomerate type which tend to require more staff resources than the more conventional horizontal and vertical acquisitions.

Docketed cases.—The responsibilities of the Division of Economic Evidence will increase commensurately with the increasing workload assumed by the Division of Mergers since the economists participate in a significant manner in virtually every merger proceeding. The Division of Mergers expects that approximately 12 additional mergers will be docketed for trial or settled by consent agreement during fiscal 1967, plus a carry-over of 13 cases will represent a total projected workload of 25 proceedings in fiscal 1967.

Efforts are currently being made to develop goals and criteria for handling merger matters, including the development of guides for enforcement policy. Such guides already have been developed in several industries, including food retailing and cement (vertical mergers). Others may be developed for industries where mergers have grown to competition-threatening magnitudes.

In the latter connection, efforts are being made to anticipate or forecast the industries where there is likely to be significant merger activity. It should be noted, however, that merger trends often develop quickly and unexpectedly so that staff resources may have to be shifted from one area to another. Also, as much as 30 percent of the manpower resources will be available for emergency and other assignments which cannot be programmed in advance. The projects of the Division, listed on an industry basis, which are being carried on in fiscal 1967 follow.

The Division expects to devote a substantial share of its resources in fiscal 1967 to analyses of the probable effects of certain mergers currently under investigation. Industries or products covered include petroleum, chemicals, paper, textiles, machinery, apparel, grocery products, food retailing, department stores, dairy industry, and the drug and cosmetics industries.

Petroleum and chemicals.—The petroleum industry has undergone important structural changes in recent years due in substantial measure to mergers. Also, studies are underway concerning the penetration of petroleum companies into the industrial chemicals and plastics industries not only via merger, but also through joint ventures. A study has also been initiated of the patent licensing practices prevalent in the petrochemicals business with the purpose of determining whether certain practices may be unlawful under both Section 5 and Section 7.

Paper and allied products.—The problem posed by the combination of large paper companies and large plywood and building materials firms is receiving close scrutiny at present. This kind of merger is novel and requires a detailed analysis. Because of a number of consent orders secured in previous years, complaince by divestiture involves considerable resources. Each case requires careful economic study to insure that competition is in fact restored to the maximum extent possible.

Textiles and apparel.—A number of matters concerning textiles are currently being studied. Some of these involve numerous acquisitions by a few of the largest textile makers. Other matters cover problems raised by certain distribution method for synthetic fibers where those methods appear to restrict free competition. In the apparel field, two large cases covering a substantial segment of the apparel industry (as well as the retailing of apparel) are the subjects of broad gauge investigations.

Machinery.—There appears to be a merger trend developing among makers of machinery and other fabricated metal products. Time and effort is being allocated to assess the probable effects of that trend on the industry's structure, and on possible anti-competitive performance that can result.

Grocery manufacturing.—Numerous investigations of mergers and acquisitions in the grocery manufacturing business are current. Compliance with consent orders obtained in recent years is requiring field investigation to provide needed data for analysis.

Food retailing—Market extension acquisitions by leading food retailing chains are being investigated. The Commission recently spelled out its enforcement policy in this area. Continuing scrutiny will be required to determine whether these guides are complied with.

Department stores.—A number of cases covering department store acquisitions have been filed with consent agreements secured in most of them. Those cases have been of the horizontal and market extension types. The staff must exercise continuing surveillance over this important area of distribution.

Dairy industry.—Although securing compliance with outstanding litigated and consent orders has required and will continue to require a substantial num-

ber of the Division's man hours, the Federal Trade Commission enforcement program in this industry has slowed horizontal and vertical mergers. The problems arising currently in the dairy industry come from conglomerate acquisitions made by the very largest dairy companies. Broad scale investigations of this conglomerate activity are underway.

Drug and cosmetics industries.—Product extension acquisitions are occurring with increasing frequency among drug and cosmetics industries. Investigations are current for a number of those acquisitions. Because of complicated distribution channels used and the complex nature of many of the products involved, each of those matters must be investigated and analyzed very carefully.

Reciprocity.—Pursuant to a directive by the Commission, the economic staff and the attorneys in the Division of General Trade Restraints are now engaged in an investigation of possible anti-competitive reciprocity practices in several basic industries. The Division's responsibility in these cases, working jointly with the attorneys, includes an analysis of the practices engaged in by the firms, the development of a method of procedure to deal most effectively with reciprocity practices, and the formulation of a systematic approach to the general problems raised by reciprocity.

Other Expenses

Mr. Evins. We come now to "Other expenses." Place in the record pages 146 through 148.

(The pages follow:)

Other Expenses

Funds in the amount of $2,199,000 are required for the cost of operations over and above the direct cost of salaries of Commission personnel. The following summary statement reflects the major object classification for these expenses:

Item of expense	Allotment, fiscal year 1967	Requested, fiscal year 1968	Increases, fiscal year 1968
Personnel benefits	$911,000	$959,000	$48,000
Travel and transportation of persons	370,000	412,500	42,500
Transportation of things	8,000	8,000	
Rent, communications, and utilities	262,000	277,000	15,000
Printing and reproduction	90,000	105,000	15,000
Other services	151,000	179,000	28,000
Supplies and materials	170,000	194,000	24,000
Equipment	40,000	64,500	24,500
Total	2,002,000	2,199,000	197,000

A detailed analysis of each of the major expense object classifications reflected above is presented in the following chapters.

PERSONNEL BENEFITS

The sum of $959,000 is required for personnel benefits as shown in the following table. These benefits are statutory and the cost reflects the Commission's pro rata share for these items.

Personnel benefits	Allotment, fiscal year 1967	Requested, fiscal year 1968	Increases, fiscal year 1968
Employee life insurance contributions	$40,500	$41,000	$500
Civil service retirement costs	776,000	816,500	40,500
Social security taxes	9,000	9,000	
Health benefits contributions	82,000	88,000	6,000
Public health services (first aid)	3,300	4,300	1,000
Allowance for uniforms	200	200	
Total	911,000	959,000	48,000

TRAVEL AND TRANSPORTATION OF PERSONS

The amount of $412,500 is required for travel expenses in 1968. This amount will provide for the payment of transportation expenses, rental of automobiles, subsistence, incidental expenses and mileage costs for the use of privately owned automobiles for official travel. This represents an increase of $42,500 over the allocation for 1967.

TRANSPORTATION OF THINGS

Funds in the amount of $8,000 are requested for this item in 1968. It is contemplated that this amount will be needed to defray the costs of moving household goods of field employees who are transferred during the year as well as freight and express charges incurred during the year.

RENTS, COMMUNICATIONS AND UTILITIES

Rents and utility services

Funds in the amount of $82,000 are requested for fiscal year 1968. This represents no increase over 1967.

	Allocation, fiscal year 1967	Request, fiscal year 1968	Increase, fiscal year 1968
Data processing equipment	$28,000	$28,000	
Commission autos from GSA motor pool	2,500	2,500	
Haloid Copyflow and Xerox equipment	51,500	51,500	
Total	82,000	82,000	

Communication services

Funds in the amount of $195,000 are requested for communication services which represents an increase of $15,000 over the allocation for fiscal year 1967. This represents the cost of telephone, telegraph, and postal services which will be required in 1968.

PRINTING AND REPRODUCTION

Funds in the amount of $105,000 are requested for printing of the Commission's volumes of Decisions, statutes, court briefs, photoduplications and miscellaneous administrative printing. This represents an increase of $15,000 over 1967.

SPORTS MONOPOLY

Are there any questions?

Mr. JONAS. Since you have convinced us you don't have much of a workload, Mr. Chairman, have you considered getting into this amateur athletic thicket?

Mr. DIXON. No, sir, we never have and I never have in my own mind felt it was a proper place for us.

Mr. JONAS. It is getting pretty close to monopolistic practice when you have the AAU refusing to allow a record to be established unless they sponsor the meet.

Mr. DIXON. As a result of working with the Senate Anti-trust Committee, I know the whole question of team sports is a very serious question, especially in view of the state of the law, as I would understand it, as handed down by the Supreme Court.

You know the Supreme Court got us in this trouble by saying away back that baseball was not a business; it was a game, and therefore the Sherman Act didn't apply. Well, I don't know of anything that is as big a business today as professional team sports.

Now, you bring a question that isn't even professional. You go into the eleemosynary institutions who don't do it for money but just for the love of the old institution. But you are quite right, they have some unusually broad powers.

Mr. JONAS. Well, it is getting to be a case where there is more and more controversy between these two groups. I didn't even know whether you had any jurisdiction.

Mr. DIXON. We would have a very difficult time, I think, establishing jurisdiction. I think the courts would duck it and say it is the problem of congress.

Mr. EVINS. If you crack down on a few antimerger cases, send your men into the textile plants where they have competition with the imports, and with the new "truth in labeling," take a sample of a lot of these products, you will have your hands full. You have a big job just to do all these things.

Mr. DIXON. We certainly do, Mr. Chairman. We intend to do as best we can with the money you give us.

Mr. EVINS. Commissioner Elman, are there any comments you wish to make?

Mr. ELMAN. Our chairman has done such a very good job I don't think I can improve on it.

Mr. EVINS. We hope these exercises are helpful and worthwhile. I have always tried to urge the Commission to do more, but there is only so much you can do I, am sure.

Commissioner MacIntyre is a great antitrust lawyer. We are always glad to hear from him.

Mr. MACINTYRE. I would join Commissioner Elman on the record in what he has said about our Chairman.

Miss JONES. I want to thank the committee for hearing us. We have a lot of business dialog and I think the congressional dialog is useful.

Mr. EVINS. You are very nice. Thank you all.

WEDNESDAY, MARCH 8, 1967.

FEDERAL POWER COMMISSION

WITNESSES

LEE C. WHITE, CHAIRMAN
JOHN A. CARVER, JR., VICE CHAIRMAN
LAWRENCE J. O'CONNOR, JR., COMMISSIONER
CHARLES R. ROSS, COMMISSIONER
CARL E. BAGGE, COMMISSIONER
MURRAY COMAROW, EXECUTIVE DIRECTOR
RICHARD C. JOHNSON, ASSISTANT EXECUTIVE DIRECTOR
RICHARD A. SOLOMON, GENERAL COUNSEL
F. STEWART BROWN, CHIEF, BUREAU OF POWER
HARRY J. TRAINOR, ACTING CHIEF, BUREAU OF NATURAL GAS
ARTHUR L. LITKE, CHIEF ACCOUNTANT
HASKELL P. WALD, CHIEF ECONOMIST
WESLEY CAPAR, COMPTROLLER
JOHN F. O'LEARY, CHIEF, BUREAU OF NATURAL GAS AS OF MARCH 20, 1967

SALARIES AND EXPENSES

Program and financing

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Program by activities:			
	1. Natural gas industry	6,460	6,889	7,112
	2. Electric power industry	5,946	6,248	6,335
	3. Administration	1,014	1,083	1,083
	Total program costs, funded	13,420	14,220	14,530
	Change in selected resources [1]	−36		
10	Total obligations	13,384	14,220	14,530
	Financing:			
25	Unobligated balance lapsing	146		
	New obligational authority	13,530	14,220	14,530
	New obligational authority:			
40	Appropriation	13,530	14,000	14,530
44	Proposed supplemental for civilian pay act increases		220	
	Relation of obligations to expenditures:			
71	Total obligations (affecting expenditures)	13,384	14,220	14,530
72	Obligated balance, start of year	619	643	685
74	Obligated balance, end of year	−643	−685	−697
77	Adjustments in expired accounts	−29		
90	Expenditures excluding pay increase supplemental	13,331	13,967	14,509
91	Expenditures from civilian pay act supplemental		211	9

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

	1965	1966	1967	1968
Stores	37	32	32	32
Unpaid undelivered orders	103	72	72	72
Total selected resources	140	104	104	104

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	11,059	12,034	12,342
11.3	Positions other than permanent	15	16	16
11.5	Other personnel compensation	81	50	----------
	Total personnel compensation	11,155	12,100	12,358
12.0	Personnel benefits	804	883	900
21.0	Travel and transportation of persons	316	340	400
22.0	Transportation of things	20	17	17
23.0	Rent, communications, and utilities	255	244	234
24.0	Printing and reproduction	167	204	227
25.1	Other services	166	100	100
25.2	Services of other agencies	27	43	43
26.0	Supplies and materials	143	131	131
31.0	Equipment	362	158	120
42.0	Insurance claims and indemnities	5	----------	----------
	Total costs, funded	13,420	14,220	14,530
94.0	Change in selected resources	−36	----------	----------
99.0	Total obligations	13,384	14,220	14,530

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	1,152	1,172	1,190
Full-time equivalent of other positions	2	2	2
Average number of all employees	1,092	1,137	1,154
Average GS grade	9.4	9.6	9.6
Average GS salary	$10,131	$10,758	$10,863
Average salary of ungraded positions	$6,274	$6,394	$6,394

Mr. EVINS. The committee will come to order.

We have with us this morning our friends of the Federal Power Commission. Mr. Lee C. White is the Chairman, Mr. Carver is Vice Chairman, Mr. O'Connor is Commissioner, Mr. Ross is Commissioner, Mr. Bagge, Commissioner; Mr. Comarow, Executive Director; Mr. Johnson, Assistant Executive Director, and Mr. Solomon, General Counsel. Also Mr. Brown is the Chief of the Bureau of Power, Mr. Trainor, who is the Acting Chief of the Bureau of Natural Gas, Mr. Litke, Chief Accountant; Mr. Wald, Chief Economist; and Mr. Capar, the Comptroller.

Mr. Chairman, we are always glad to hear you. You may read your statement, highlight it, or proceed as you wish.

Mr. WHITE. Thank you, Mr. Chairman. We have a prepared highlight statement which I think would be fairly brief.

BIOGRAPHIES

Mr. EVINS. We will put the biographical release of the Chairman, Commissioners, and certain staff members into the record at this point.

(The biographical sketches follow:)

FEDERAL POWER COMMISSION BIOGRAPHICAL RELEASE

CHAIRMAN LEE C. WHITE, DEMOCRAT, OF NEBRASKA

Took Office: March 2, 1966. Term Expires: June 22, 1970.

Lee C. White was born in Omaha, Neb., on September 1, 1923. He attended public schools in that city and holds degrees in both law and electrical engineer-

ing from the University of Nebraska. He received his engineering degree in 1948 and his law degree in 1950. He served in the U.S. Army from 1943 to 1946.

Following his graduation from law school, Mr. White joined the Tennessee Valley Authority in Knoxville, Tenn., as an attorney in the Division of Law. In January of 1954 he left TVA to join the staff of then Senator John F. Kennedy as a legislative assistant. From November of 1954 to June of 1955 he assisted Joseph P. Kennedy, who was then serving as a member of the Hoover Commission in Washington, D.C.

He rejoined Senator Kennedy in June of 1955 where he remained until January of 1957 when he became counsel to the Senate Small Business Committee. In January of 1958 he was named Administrative Assistant to Senator John Sherman Cooper of Kentucky. He served with Senator Cooper until January of 1961 when he joined President Kennedy's staff as Assistant Special Counsel. He was appointed Special Counsel to President Johnson on March 1, 1965, and took the oath of office as a member of the Federal Power Commission on March 2, 1966.

Mr. White is married to the former Dorothy Cohn of Harlan, Iowa. The Whites have five children and reside at 3216 West Coquelin Terrace, Chevy Chase, Maryland.

COMMISSIONER JOHN A. CARVER, JR., DEMOCRAT, OF IDAHO

Took Office: September 13, 1966. Term Expires: June 22, 1968.

John A. Carver, Jr., was born in Preston, Idaho, on April 24, 1918. He has an A.B. degree from Brigham Young University (1939) and an LL.B. degree from Georgetown University (1947).

He served in the U.S. Air Force during World War II, entering as a private in May 1943, and later as a commissioned officer serving as a civilian personnel officer of the U.S. Strategic Bombing Survey in England and Japan.

Following his graduation from law school, he served as Assistant Attorney General of Idaho in 1947 and 1948 and from 1948 to 1957 was in private law practice in Boise, Idaho. He was administrative assistant to Senator Frank Church of Idaho from 1957 to 1961.

Mr. Carver was appointed Assistant Secretary of the Interior by President Kennedy on January 30, 1961, and on December 30, 1964 was appointed Under Secretary of the Interior by President Johnson.

President Johnson's nomination of Mr. Carver to the Federal Power Commission was confirmed by the Senate September 13 and he took the oath of office later the same day to fill the unexpired term of David S. Black, resigned.

On December 29, 1966, the Commission elected Commissioner Carver to serve as vice chairman for 1967.

A member of the bar of Idaho and the District of Columbia and of the American Bar and Federal Bar Associations, Commissioner Carver also is a member of the National Advisory Committee, Center for Advanced Study in Organization Science, at the University of Wisconsin, Milwaukee. He holds an honorary doctorate of laws from the College of Guam. He is married to the former Ruth O'Connor, of Seattle, Washington. His two sons are students at Wisconsin and Stanford and a daughter is at home, 4421 25th Street, North, Arlington, Virginia.

COMMISSIONER LAWRENCE J. O'CONNOR, JR., DEMOCRAT, OF TEXAS

Took Office: First term, August 14, 1961; second term, July 1, 1966. Term Expires: June 22, 1971.

Lawrence J. O'Connor, Jr., was born in Tulsa, Okla. He spent most of his early childhood in Butler, Pa., and then returned to Tulsa where he graduated from Central High School. He received his A.B. degree from Rice University in 1936 and a Master's degree in business administration from Harvard University in 1938.

From September 1, 1938, until March 31, 1945, he was employed in Houston by Haskins & Sells, Certified Public Accountants. He was employed by the Goldston Oil Corporation, of Houston, from April 1, 1945 to September 30, 1958, advancing to vice president and treasurer. From October 1958, to October 1959 Mr. O'Connor was self-employed as a consultant engaged in special studies and programs for future oil and gas exploration activities.

He served as a director and vice president, Houston District, of the Independent Petroleum Association of America from 1954 until 1958. He served as chairman of the Tax Study Committee of that Association, and also was on committees dealing with oil and gas supply and demand, natural gas, oil and gas productive capacity and economic and cost studies. He also has served as director and vice president of the Houston Chapter of the Tax Executives Institute. He is a licensed certified public accountant in Texas.

He was appointed Assistant Director of the Interior Department's Office of Oil and Gas on October 15, 1959. Less than a year later, on July 1, 1960, he was appointed Administrator of the Interior Department's Oil Import Administration. He continued in that post until August 13, 1961, when he resigned to take office on the Federal Power Commission.

Mr. O'Connor, who is a Democrat, was first nominated to the Federal Power Commission July 5, 1961, by President Kennedy, for the term expiring June 22, 1966. His nomination was confirmed by the Senate August 9, 1961, and he took the oath of office August 14, 1961. He served as the FPC's vice chairman during the calendar year 1962.

President Johnson announced June 13, 1966 that he was nominating Commissioner O'Connor for reappointment on the FPC, for the term expiring June 22, 1971. The nomination was confirmed by the Senate June 30, and he took the oath of office on July 1, 1966.

COMMISSIONER CHARLES R. ROSS, REPUBLICAN, OF VERMONT

Took Office: First term, September 29, 1961; second term, May 3, 1965. Term expires: June 22, 1969.

Charles R. Ross was born in Middlebury, Vt., on February 24, 1920. He was graduated from high school in that city in 1937, and then attended the University of Michigan, where he received his A.B. Degree in 1941. Following service in the Army Air Corps during World War II, Mr. Ross returned to the University of Michigan where he received both his M.B.A. and LL.B. degrees in 1948.

Mr. Ross enlisted in the Army Air Corps in February 1942 and at the time of his discharge in January of 1946 was a First Lieutenant. He served overseas from May 1943 until August 1945 as training and statistical officer for the 94th Combat Wing, 8th A.F. He is now a Major in the Air Force Reserve, on inactive status.

After receiving his law degree from the University of Michigan in 1948, Mr. Ross was an instructor in Business Law and Government and Business Regulation at Oregon State College at Corvallis, Oregon. He was employed by the Derby Construction Company in Louisville, Ky., from 1949 until 1954. In January of 1954 he entered private law practice in Burlington, Vt., and practiced there until 1959.

Mr. Ross was appointed to the Vermont Public Service Commission in 1959 for a six-year term, and was designated Chairman for two years. He was redesignated Chairman in March of 1961 for an additional two years. He resigned from the Vermont Commission to take office on the Federal Power Commission.

President Kennedy nominated Mr. Ross to the Federal Power Commission on September 16, 1961, for the term expiring June 22, 1964. The nomination was confirmed by the Senate on September 22, 1961, and he took office September 29, 1961. Commissioner Ross' first term as an FPC Commissioner was for the period ended June 22, 1964, but under the 'holdover" provisions of the Federal Power Act he continued to serve beyond that date, and President Johnson on March 20, 1965, announced that he was renominating him for reappointment for the term expiring June 22, 1969. This nomination was sent to the Senate March 24 and was confirmed April 28. He took the oath of office for the new term May 3, 1965.

Commissioner Ross served as the FPC's vice chairman during 1963. He is one of the three United States members of the International Joint Commission serving under an appointment made by President Kennedy in July of 1962.

A Republican, Mr. Ross served as a member of the Burlington Board of Aldermen, 1957–59, and was President of the New England Conference of Public Utility Commissioners in 1960. He is a member of the American and the Vermont Bar Associations, and was admitted to the Kentucky Bar in 1949 and to the Vermont Bar in 1954.

Mr. Ross is married to the former Charlotte Sells Hoyt of Ann Arbor, Mich. They have three children: Jacqueline, 17; Peter, 15; and Charles, Jr., 11.

COMMISSIONER CARL E. BAGGE, REPUBLICAN, OF ILLINOIS

Took Office May 27, 1965. Term Expires: June 22, 1967.

Carl E. Bagge was born in Chicago, Ill., on January 12, 1927. He attended public schools in that city, received his Bachelor of Arts degree (Summa Cum Laude) in 1949 from Augustana College, Rock Island, Ill., and his Juris Doctor degree from Northwestern School of Law in 1952. He did graduate work and lectured at Uppsala University in Sweden (1947). He also did graduate work at the Northwestern University School of Commerce (1952–54) and the Institute of Business Economics, University of Southern California (1956). He served in the U.S. Navy in 1945 and 1946. In 1947 he was commissioned as Ensign in the U.S. Naval Reserve.

Mr. Bagge was employed by the Atchison, Topeka and Santa Fe Railroad from 1952 until he took office on the FPC. He has successively served as an attorney in the Legal Department, Assistant General Attorney, Special Assistant to the President, and early in 1965 was named the company's General Attorney.

He is a member of the Chicago, Illinois and American Bar Associations; the Association of Interstate Commerce Commission Practitioners; Illinois State Board of Administration; Zion Lutheran Church of Deerfield; St. Pauls Lutheran of Washington, D.C., and Chairman of Nominating Committee for Boards and Commissions of Central Conference, Lutheran Church in America. He has written extensively for religious publications, including "Christian Century." He is a member of the Commission on the Church and Economic Life of the National Council of Churches and a member of the Institute of Education of the Council of Churches of the District of Columbia.

A Republican, Mr. Bagge's nomination as a member of the Federal Power Commission was announced by President Johnson on March 20, 1965. The nomination was sent to the Senate March 24, where it was confirmed May 19, 1965. He took office May 27, 1965, filling out the unexpired term of Commissioner Harold C. Woodward, who died August 4, 1964. Commissioner Bagge served as vice chairman from March 3 to December 31, 1966. Mr. Bagge is a member of the Executive Committee of the National Association of Railroad and Utilities Commissioners, an association of state and federal regulatory agencies.

Mr. Bagge is married to the former Margaret Evelyn Carlson, of Chicago. They have four children: Carol, 13; Charles Edward, 11; Barbara Ann, 9, and Beverly Jean, 5.

FEDERAL POWER COMMISSION ANNOUNCES THE APPOINTMENT OF MURRAY COMAROW AS EXECUTIVE DIRECTOR

The Federal Power Commission announced today the appointment of Murray Comarow, presently Assistant General Counsel of the Air Force, to the position of Executive Director of the Federal Power Commission. Mr. Comarow will succeed Harry J. Trainor who will assume the re-established position of Director of Administration for the Commission.

In commenting on the new assignments, Lee C. White, Chairman of the Commission, stated, "The Commission is fortunate to obtain the services of Murray Comarow in the very important position of Executive Director of the Commission. I have known and worked with Mr. Comarow over a long period of time, and I am certain he will do an outstanding job in assisting the Commission to meet its changing and challenging responsibilities in the years ahead. We are also fortunate that the valuable experience and skills of Harry Trainor will remain available to the Commission in the position of Director of Administration. Mr. Trainor's familiarity with the administrative problems of the Commission and his recognized administrative ability will undoubtedly contribute to an even more efficent operation by the Commission."

Mr. Comarow came to the Federal Government in 1939 and, except for two years before World War II, has been with the military establishment in various roles ever since. He has served in management, legislative, and legal capacities with the Department of the Air Force since its establishment in 1947.

Born in Brooklyn, New York, Mr. Comarow took his LL.B. degree from the National University School of Law. He enlisted in the United States Army during World War II and rose to the rank of Captain in the Air Force Reserve. He is a member of the Federal Bar Association and has been active in community and religious affairs in Maryland.

Mr. Comarow, who is 46, resides in Silver Spring, Maryland. He is married and has a son and a daughter. He will assume his new duties June 27th.

RICHARD C. JOHNSON JOINS FPC STAFF AS ASSISTANT EXECUTIVE DIRECTOR

Richard C. Johnson joined the FPC's staff September 19 as assistant to Executive Director Murray Comarow. Mr. Johnson, 30, is a native of Boston, and matriculated at Harvard College and Harvard Law School. He received his LL.B. in 1962, magna cum laude. Mr. Johnson did additional graduate work at the Universities of Bonn and Cologne in 1958 and 1959. Mr. Johnson was a Harvard National Scholar and a Fulbright Scholar. He is a member of Phi Beta Kappa, the Massachusetts Bar, and the American Bar Association.

Mr. Johnson's government career began in 1962 as an attorney, First Lieutenant, with the Department of the Air Force. In 1965 he joined the Office of the General Counsel of that Department in a civilian capacity. Mr. Johnson is single and lives at 3249 P Street, N.W.

FPC ANNOUNCES THE APPOINTMENT OF JOHN F. O'LEARY AS CHIEF, BUREAU OF NATURAL GAS

The Federal Power Commission announced today the appointment of John F. O'Leary, now Deputy Assistant Secretary for Mineral Resources at the Department of the Interior, to the position of Chief of the FPC's Bureau of Natural Gas.

Mr. O'Leary joined the Interior Department in 1950 and has served in various positions relating to mineral and fuel resources. He was named Special Assistant to the Assistant Secretary for Mineral Resources in June of 1962 and in December of that year was appointed to his present position of Deputy Assistant Secretary for Mineral Resources. He has represented the United States at numerous international conferences dealing with fuels and energy, and in recent years has specialized in petroleum matters.

Born in Reno, Nevada, Mr. O'Leary was graduated from George Washington University with a bachelor of arts degree in 1950. He served in the U.S. Army in 1945 and 1946.

Mr. O'Leary plans to assume his new duties with the Federal Power Commission on March 20. The former Chief of the Bureau of Natural Gas, Frank F. Watters, resigned effective December 31 to enter private industry. Since that time, Harry J. Trainor, the FPC's Director of Administration, has been serving as Acting Chief of the Bureau.

As Chief of the FPC's Bureau of Natural Gas, Mr. O'Leary will be responsible for directing staff work in carrying out the Commission's functions in regulating the natural gas industry, including rate and certificate work on pipeline company and independent producer cases.

Mr. O'Leary, who is 40, resides in Shady Oaks Manor, West River, Md.

Mr. WHITE. I might say, in addition to the other staff members who are here, we have Mr. John O'Leary, who will be joining the Commission on March 20, as the Chief of our Bureau of Natural Gas. He is coming from the Department of Interior where he was the Deputy Assistant Secretary for Mineral Resources. We are very pleased to have him. Even though he is not with the Commission at the present time, we felt it would be appropriate for him to be here, if you have no objection.

Mr. EVINS. We are glad to have you.

GENERAL STATEMENT

Mr. WHITE. I am delighted, Mr. Chairman, and Congressman Boland, to have the opportunity of appearing before this committee today in support of the Federal Power Commission's budget request for the 1968 fiscal year. When I appeared before you last year I had just taken office and necessarily my testimony reflected, in the main, the experience of my colleagues and of the Commission's staff. Admittedly, after a little more than a year on the Commission, there are still areas among its complex affairs with respect to which I must rate as

a student rather than as an expert. But I am, I would hope, in a better position now to discuss with you the more important issues facing the Commission which serve as the necessary underpinning to this annual accounting to the Congress.

At the outset I emphasize that the Federal Power Commission is most sensitive to the desire both of the administration and of the Congress that a determined effort be made to streamline governmental expenditures. With this in mind we have subjected every item in our budget request to close scrutiny and we are satisfied that we are down to essentials. The amount requested will be required if, in light of the much expanded activity expected in both the natural gas and electric power industries, we are to continue to carry out your mandate, the protection of the public interest.

FPC FUND REQUIREMENTS

The $14,530,000 that we need in 1968 will enable us to continue a regulatory effort that has greatly benefited the American consumer while, at the same time, contributed to the strength and vitality of the natural gas and electric power industries. The supplemental pay raise amounted to $220,000 for FPC, and we are asking for $310,000 more for fiscal year 1968 than our current year appropriation. These funds will permit the staffing of 15 additional positions which are needed to keep abreast of the rapidly increasing workload in our natural gas program, and three more positions for our expanding electric power work.

The budget material previously submitted will provide you with the detailed facts and figures that support our request. I shall be happy to go over it with you to whatever extent you desire. For your immediate convenience I have attached to my statement—and I am reading now a table setting forth in summary form the differences between our 1967 appropriations and our 1968 needs. At this time, if it is agreeable, I will try to put the cold figures into perspective by discussing the problems facing the Commission and its programs for meeting them.

NATURAL GAS INDUSTRY

First is the natural gas industry which is the area involving the largest share of our budget and requires the greater part of the proposed increase in staff. As you know we regulate all or portions of two of the three basic sectors of this huge industry. We regulate the producers of natural gas with respect to the prices and terms of their sales for resale in interstate commerce. We also regulate the interstate transportation of natural gas by the pipelines and their sales for resale to local distributors. Jurisdiction over the local distribution of gas rests with the State utility commissions.

The problems in the areas subject to Federal regulation have been and continue to be great. But we have achieved considerable success. Consumer gas costs, which had risen almost twice as fast as the general cost of living index between 1955 and 1961, have increased only one index point since 1961, a period during which the price of all consumer items experienced, on the average, an increase of almost nine points. I am sure that the work of the Commission has made a substantial contribution to these results. Moreover, the Commis-

sion has eliminated the huge pipeline rate backlog which existed at the beginning of the decade. As a result nearly $1 billion of pipeline funds which were being retained subject to refund in 1962 were reduced to $18 million by 1966. As a further consequence, pipeline customers realized refunds aggregating $570 million and annual rate reductions amounting to $126 million. At the same time the financial stability of the natural gas industry has been demonstrated by its continuing and sizable growth.

This success could not have been achieved without the help of the Congress, help which has permitted an intensive effort on the part of the Commission to streamline procedures to the mutual benefit of consumer and industry alike. We are proud of our record. But we recognize fully that future appropriations cannot be justified as a reward for past successes. Indeed, you may properly question why, if we have realized these achievements, we find it necessary to come before you with a request for an even larger staff in the immediate future. There is, as I believe I can demonstrate, a very good answer.

Of the 15 additional positions for our natural gas work, eight are needed for our area rate cases. The area rate cases, as you know, represent the Commission's adoption of the area approach for the establishment of just and reasonable producer rates. The alternative of setting rates on an individual company basis would be unbelievably costly both in manpower and time.

AREA RATE CASES

During 1968 we will be involved in five area rate cases that collectively account for more than 90 percent of all interstate producer sales. The Commission's decision in *Permian* the first of the area rate cases has generated a volume of workload that was not anticipated at this time last year. Indeed, in the year since the decision at least twice as many items have come before the Commission involving this aspect of our work than in the prior year.

The additional workload includes a voluminous number of technical documents involving rate reductions and gas quality, as well as the unique small producer certificates which we adopted, as part of the Permian decisional process, to ease the filing burden on small producers.

The precedent-setting nature of the *Permian* decision made court litigation a certainty. A recent opinion by the Tenth Circuit Court of Appeals affirmed the Commission on the fundamental concepts of the area rate approach. I expect the case will be briefed and argued in the Supreme Court during 1968.

Despite the degree of legal uncertainty that faced this new approach to producer rates, the Commission made a decision several years ago to proceed with a number of area cases simultaneously rather than delay the larger part of our area rate work until completion and court review of the first pilot case. Understandably, the decision to proceed on a broad front has put a very real strain on our staff. We are convinced that it has been worth it. In addition to a natural desire to quiet the uncertainty hanging over the industry, millions of dollars were being collected subject to possible later refund. Even more compelling, perhaps, were the millions of dollars collected under rates subject only to prospective reduction.

Fiscal 1968 will find us still at work on these cases and their certificate progeny. While these cases involve more than 90 percent of all interstate producer sales we must initiate action on the remaining areas and study the timing and methodology for the second round of area proceedings.

PIPELINE ACTIVITIES

Seven new positions are needed for pipeline activities. Despite the elimination of our pipeline rate backlog and procedural improvements in the processing of noncontested applications, new dimensions of the work in this area have placed a critical burden on our staff. While rate cases are on the increase once again, the main demand for staff time has been generated by competitive certificate proceedings: those proceedings in which more than one company or group of companies are applying to serve the same market.

I mentioned one of the reasons for this in my appearance last year—the fact that pipeline expansion in past years has channeled today's competition between pipelines to areas which already enjoy natural gas service. These cases are going to be a more or less permanent aspect of the regulatory scene and we must plan accordingly. So far in fiscal 1967 the Commission has been called upon to decide four such major proceedings, and several others are now in process. In 1968 the Commission undoubtedly will have to pass upon an even greater number of competitive applications.

These cases are extremely complex and time consuming. They involve numerous parties with various and often conflicting interests—some of whom may stand to gain from the mere fact of delay. We are pursuing efforts to expedite these proceedings within the limits of administrative due process. But while I am confident that much can and will be done, I would be less than frank if I were to predict any major breakthrough.

If I may interpolate here, Mr. Chairman, this is really one of the tougher assignments. It involves taking the different applications, some of them based on even slightly differing approaches, and weighing them in the balance and then choosing from among the various applications, the one that will best meet the needs of the area in question. There are a host of variable factors that must be weighed. Some of them are pretty difficult to weigh with precision.

Mr. EVINS. We thought earlier that the Commission wanted this area concept of ratemaking, that it would lighten your load. This was a concept that the Commission predicted would help reduce its workload. Now you are telling us that it has increased your workload.

Mr. WHITE. Well, Mr. Chairman, on the first point, which is the one you mentioned on the area rate approach and, which is a charge some producers make, this will, I think, over the long haul of time be not only beneficial to the consumers and to the producers but to the Commission and its processes.

What I am focusing on now are those applications for certificates from various pipeline companies to serve the same market. In the early period of the development of the industry in this country the struggle was over the new areas that had not yet been served. We are pretty nearly out of new areas to be served and now the competition is between pipelines to serve the increasing or the growing increment

of need. This is a legitimate, fair, sharp, type of competition that we think will benefit the distribution companies and their own customers who are the ultimate consumers of the gas. But it has given us a very fascinating and very difficult administrative job.

On the one hand is the desire to make sure that the Commission has before it all of the alternatives, the best proposals that will serve that particular market or community. On the other hand, there is the need to insure that at sometime there will be a cutoff so the parties will not continue to make changes in their proposals thereby enabling us to make a decision.

This is a problem that not only our own staff but the Federal Power Bar Association and I think the industry is focusing on. They want to move forward with some administrative changes that will protect the interests of all of the applicants but at the same time permit us to reach a decision.

The case that the Commission concluded last August for the Los Angeles market had been in the Commission something like 3 years. We weren't proud of it——

Mr. EVINS. If there are two competing pipeline companies who want to serve an area, this provides a healthy competition.

Mr. WHITE. Indeed it really does. They have been aware of the fact that if this proposal, their proposal, is not very good, there will be another pipeline in before them saying "We can do it better." This has had the desired effect. It has resulted in their making offers, proposals, and applications as persuasive and as powerful as they can because somebody else will be there with an alternative.

Mr. EVINS. We will get into that, Mr. Chairman.

Mr. WHITE. All right. Let me continue, if I may.

There is much more that I could say about our natural gas activities, but with your approval I should like to turn to the electric power side of our ledger. Here we are seeking an aggregate increase of three positions. We have been able to hold this increase down by transferring personnel from other Commission functions which, though important, have less pressing time priorities.

ELECTRIC POWER ACTIVITIES

The Commission's responsibilities over electric power are even more varied and far reaching than is the case with natural gas, and thus are more difficult to capsulize. In essence, we have four types of tasks under the Federal Power Act, and several more under other legislative mandates. Three of these stem from the Commission's original responsibility—regulation of all of the Nation's water resources which may be utilized for hydroelectric power purposes. For not only do we license all non-Federal hydroelectric projects, we also have responsibilities with respect to the approval of rates for many of the Federal projects and for providing assistance to other Federal agencies in determining the power potential of proposed and authorized Federal developments. The latter two functions are fairly constant and take up the time of a considerable portion of the Commission's staff. Hydroelectric licensing, on the other hand, is an ever-expanding area of Commission activity.

This might seem paradoxical; the Commission has been in this business for nearly 50 years and every so often we hear it said that the best hydroelectric sites have already been developed. As usual, things are not as simple as they seem at first glance.

There are at least four principal reasons for this increase in our workload. First, an increasing number of factors which the Nation expects us to consider in insuring that any project that we license will be best adapted to a comprehensive plan of river development. To the initial trio of power, navigation, and flood control there have been added the protection of fish and wildlife, promotion of recreation, esthetic considerations, water pollution, and other important factors. The courts have only recently reemphasized the Commission's obligation to explore all alternatives to any proposal which might prove harmful to any of these real interests. In short, the licensing process is getting more complex and formal hearings are to be expected in an ever-increasing number of cases.

Nor has there been any reduction of initial licensing cases. Our continuing program to bring under license all projects which affect the interstate transmission or generation of energy has been so successful that applications for licenses for constructed projects have created a sizable backlog. This program was given new legal impetus by a major Supreme Court decision several years ago, and new social importance by the increasing emphasis on the nonpower aspects already mentioned. Development of the pumped-storage type of hydroelectric development, moreover, has opened up a new field resulting in the filing of many applications which are not only important, but which are exceedingly complex, with an obvious impact on the Commission staff's workload.

Finally, but by no means last in manpower terms, is the problem of relicensing or recapture by the Government at the end of the initial license term. This problem is with us today. We have already submitted our first report to the Congress on a project whose license expires in 1968, and intend shortly to forward another report dealing with a second major project expiring in that year. There are a large number of major projects whose licenses expire during 1970. In fiscal 1968 we will have to devote a substantial amount of staff time to our appraisal of these projects. We expect shortly to submit to Congress a legislative proposal designed to facilitate consideration by Congress and the Commission of handling relicensing and recapture. But any such legislation will not alleviate what seems likely to be an increasing strain on our resources. It is now apparent that we will have to increase our staff efforts in this area in future years.

Over the last several years, Congress has provided the Commission with financial resources to revitalize our important work in the electric rates and services area. This work is of particular importance at a time when technological developments are bringing more and more of the wholesale transactions of electric utilities within the Commission's jurisdiction. We are satisfied, however, that the increasing efficiency of our staff is sufficient to match the new demands on it. We are seeking a small increase in that part of our staff charged with responsibility for the corporate regulation of electric utilities,

primarily because of the increasing importance of corporate realinement in the electric utility industry paralleling the technological impetus for system coordination.

I should like to turn to what may well be one of our most important functions. It is now generally recognized, even among groups which are often suspicious of Government intervention in industry affairs, that one of the wisest moves made by Congress, and this committee in particular, insofar as the electric power industry is concerned, was its underwriting of the staff resources necessary to conduct the 1964 National Power Survey. At the time the survey was initially considered, the question arose as to whether it would be a one-shot affair or whether, instead, the joint industry-Government resources that were being built up would be maintained as a source of continuing Commission expertise. The choice of the latter alternative certainly has been justified by events following the Northeast blackout of November 1965. Only because it had established this essential staff nucleus was the Commission able to continue its role in the many studies of system reliability which have been undertaken as an aftermath of that power failure.

We expect to present our final report on the Northeast blackout to the President and Congress, together with remedial recommendations, in the near future. The completion of this one task, however, will not signal an end of the need for continuing Commission activity to encourage optimum development of national and regional electric utility systems to meet the dual goals of cheaper and more reliable electric service.

Indeed, in both the electric power and the natural gas areas, the Commission must have the capability to do more than merely react to industry decisions. The public interest is not confined to economic considerations alone. Low consumer rates and a fair return on investment—although among our prime concerns—are not the sole determinants of the Commission's decisions. Factors that the Commission did not often contend with a few years ago are major issues today. The growing national concern for pure water, clean air, adequate recreational facilities, beautification, wildlife preservation, conservation of natural resources, service reliability, and safety requires us to rethink, and in some cases, to redraw, our regulatory guidelines.

The acts under which we work focus consistently on the public interest. But this touchstone of regulation is not as simple to explain—let alone to apply—as the phrase might suggest. Public interest lies somewhere among a multitude of competing special interests: consumers, distributors, pipelines, power companies, and natural gas producers.

The Commission aims to serve all of these, although at times some of them are or appear to be in conflict. Congress has enjoined us to bring all of the various interests as closely as possible into harmony, to judge among them with fairness, and to encourage sensible and economical systems of production, transportation, and distribution. The record, I think, suggests that we have had a fair amount of success.

No one knows better than we in the Commission the pitfalls to successful regulation. Regulatory decisions can and do have momen-

tous impact upon industry and the public. A wrong decision could have serious consequences. The many new factors we must consider in making these decisions underlie our critical need for reliable, meaningful, and up-to-date information. We now have authority to secure much of this information and are rapidly developing our ability to use it, turning more and more to automatic techniques. There is a great need, however, to develop information through cooperative ventures with the States, with the industries, and with other concerned agencies of the Federal Government. The stakes are too high for us not to have the benefit of the data we need to make the decisions best suited to the public interest.

The Commission looks forward to the continuing challenge and exciting partnership with Congress in carrying out the mandate of the Federal Power and Natural Gas Acts. We ask for any questions you may have and a close review, and also your understanding in going over the budget now before you and, of course, in the years ahead.

SUMMARY OF 1968 BUDGET

(The attachment to Mr. White's statement follows:)

Summary of 1968 budget

[Dollars in thousands]

Activity	1967		Changes		1968	
	Positions	Amount	Positions	Amount	Positions	Amount
Natural Gas Industry	578	$6,889	+15	+$223	593	$7,112
Electric Power Industry	502	6,248	+3	+87	505	6,335
Administration	92	1,083	----------	----------	92	1,083
Total	1,172	14,220	+18	+310	1,190	14,530
Appropriation	----------	14,000	----------	----------	----------	----------
Supplemental for pay raise	----------	220	----------	----------	----------	----------

Analysis of changes

[Dollars in thousands]

Cost of 18 new positions	+$157
Cost of continuing personnel into 1968	+101
Increase, personnel benefits	+17
Increase, travel	+60
Reduction of equipment purchase and rental	−48
Increase, printing and reproduction	+23
Total increase	+310

NATURAL GAS INDUSTRY

	Positions
Producer operations: Increase for greater rate filing workload on area pricing compliance and quality statements	+3
Legal procedures and operations: Increased producer casework and proceedings on area rates	+5
Upward trend in pipeline cases especially competitive and contested requiring formal hearings	+7
Total	+15

ELECTRIC POWER INDUSTRY

	Positions
Electric utility operations: Increase in corporate application work due to more and complex mergers and hearings on all class A mergers	+1
Hydroelectric operations: Increase to avoid backlogs in license application and for consideration of alternatives including social effects of proposals	+2
Increase for recapture work	+2
Decrease for Federal projects	−2
Research and analysis: Increase for in-depth studies on power interruptions and reliability of bulk power	+2
Decrease power system analysis	−1
Decrease water resources appraisals	−1
Total	+3

ADMINISTRATION

No change	----
Grand total	+18

NATURAL GAS INDUSTRY

	Dollar amount (thousands)
Cost of 15 new positions	+$128
Cost of continuing personnel into 1968	+82
Increase personnel benefits	+13
Reduction of equipment purchase and rental	−31
Increase travel	+15
Increase printing and reproduction	+16
Total	+223

ELECTRIC POWER INDUSTRY

Cost of 3 new positions	+29
Cost of continuing personnel into 1968	+19
Increase personnel benefits	+4
Increase travel	+45
Reduction of equipment purchase and rental	−17
Increase printing and reproduction	+7
Total	+87

ADMINISTRATION

No change	----
Grand total	310

Mr. EVINS. Very nice.

Your budget officer has prepared a good budget. It is rather concise. We have looked it over. You are to be commended.

Let's have a brief general discussion on some of the problem areas of the Commission. We believe that these exercises are helpful.

NATURAL GAS INDUSTRY

What is the general condition of the natural gas industry today in numbers of customers, dollar volume, prosperity, and growth? You have jurisdiction over the whole industry. What is the condition of the industry today?

Mr. WHITE. Let me speak generally to that, Mr. Chairman, and then it may well be that my colleagues or some members of our Bureau of Natural Gas staff can supply some of the details.

We do deal with the producers at the producing end of this whole transaction. There are somewhere on the order of 3,000 to 4,000 of them. Most of them seem to be doing exceedingly well. They vary

from the very small to some of the giant corporations in the petroleum industry.

We are engaged in an effort to streamline and to make far more easy on them, and on us, this whole concept of setting the rates that they charge to the pipelines to take this gas and move it in interstate commerce across the country to the areas where it is used by the consumer.

The pipelines themselves are undergoing a change, they are not the same growth companies that they were in the early fifties. Partly, it goes back to what we spoke of before. They are now engaged in saturating the markets that they already serve.

Mr. EVINS. About 3,000 producers in the Nation; is that right?

Mr. WHITE. Yes.

Mr. EVINS. This includes both large and small?

Mr. WHITE. Large and small.

PIPELINE COMPANIES

Mr. EVINS. How many pipeline transmission companies are there?

Mr. WHITE. There are 125 that are subject to our jurisdiction.

Mr. EVINS. About 125 pipeline companies and 3,000 producers. You say it is a very healthy industry at this time?

Mr. WHITE. Yes. The natural gas industry is the sixth largest in the Nation in terms of investment. The gas utility and pipeline industries together have over $30 billion of investment in plant and facilities.

Mr. EVINS. Does this include both the producers and the pipeline companies?

Mr. WHITE. No; these are the pipelines and gas distribution companies.

PRODUCER JURISDICTION

We have no jurisdiction over the producers' facilities and construction activities except to the extent that they are also in the pipeline or transmission business.

Mr. EVINS. I thought you just said in your statement that you had jurisdiction over about three areas and one you did not, the local area. The court has said you have jurisdiction over producers at the wellhead.

Mr. WHITE. Over the rates they charge, but they do not need to come to us to ask for permission to take their money and drill for wells or to engage in any of the other activities——

Mr. EVINS. The point is we are trying to get the picture of the Commission's jurisdiction and the Commission's responsibilities. You have 3,000 producers and 125 pipeline companies. The pipeline and gas distribution companies have an investment of $30 billion. Now, you must have the investment, in round figures, of the producers.

Mr. WHITE. Let me ask if we do have that. Do we have the investment that the producers have in their gas-producing facilities alone?

Mr. COMAROW. We do not have them at hand, Mr. Chairman.

Mr. EVINS. You don't know the estimated investment value of the gas producers?

Mr. WHITE. Well, let me explain some of the difficulty, Mr. Chairman.

For example, one of the major natural gas producers is Phillips Petroleum Co. in Oklahoma, with their headquarters in Oklahoma. It is also one of the major oil producers. We have absolutely no jurisdiction over the oil prices that they charge, whereas we do over the natural gas that they produce and which moves in interstate commerce. So that our area of jurisdiction over the producers is only to the point where we fix the rates that they charge to the pipelines. I am sure that there are estimates available in the Interior Department and I would like to submit it for the record.

Mr. EVINS. Will you supply that?

Mr. WHITE. We will, indeed, supply them for the record.

(The information follows:)

Following a careful check of available sources, we have found that the actual gross investment for natural gas in the producing segment of the petroleum industry is unavailable as such. However, a reasonable estimate can be derived based on data gathered by the Commission in the All-Areas Questionnaire in connection with the area rate proceedings and data on gas production published by The American Gas Association and The American Petroleum Institute. On this basis we calculate an estimated 9.1 billion dollars in gross production investment attributable to natural gas in the United States in 1962. Comparable estimates for 1964 and 1965 are 9.5 billion and 9.6 billion dollars respectively. These estimates are consistent with the practice of the producing industry whereby exploration and development expenditures attributable to dry holes are charged off as current expense.

AREA OF JURISDICTION

Mr. EVINS. Now again tell us the area of your jurisdiction. You state that you do not have jurisdiction over local rates. When do you cease having jurisdiction?

Mr. WHITE. As soon as the gas moves into the distribution company's control. We are at that point unable to have any other impact on the price. From that point on it is a function of the State or local agencies that regulate it. So that our part of the train—and, I think, maybe a good way to visualize it is: Gas in the ground, coming out through a well, through a pipeline, into a distribution system and then into a home where it is used for heating or cooking. We have the part where it comes out of the ground.

Mr. EVINS. At the wellhead.

Mr. WHITE. At the wellhead, that is right.

Mr. EVINS. Was this the *Phillips* case?

Mr. WHITE. Yes. That said that this Commission had the obligation and responsibility to regulate producer rates. From that point on to the point where it becomes the function and the obligation of the local distribution company to take that gas into its own lines, its own system, our jurisdiction ends.

PRODUCER RATE JURISDICTION

Mr. EVINS. Do you have jurisdiction over the rates which a producer charges to the pipeline company?

Mr. WHITE. Yes.

Mr. EVINS. Do you have jurisdiction over charges that the pipeline company charge for the transmission of the gas?

Mr. WHITE. Yes.

Mr. EVINS. But you do not have jurisdiction over what the local distributor charges to its customers?

Mr. WHITE. That is right.

Mr. EVINS. Over the rates?

Mr. WHITE. Over the rates. Although in actual impact it is clear that if we, through our decisions are able to reduce the rates that are charged to the distribution company, the local distribution company, then it becomes a legitimate interest on the part of the citizens of that area to encourage their own regulatory agencies to look at it and I think there has been a fairly good record of whatever rate reductions have resulted from our programs and efforts as being passed on to the ultimate consumer.

Mr. EVINS. We have been impressed, this committee has, from time to time, with these rate reductions that are in part returned. But let us say this, that *a* producer wants to sell gas, transmit gas through a particular pipeline. Does he do this on his own or does he come first to the Commission and ask for authority before he transmits a single foot?

Mr. WHITE. If it moves in interstate commerce then he will come to our Commission for a certificate authorizing him to construct the facilities that are necessary and to have the authority to move that gas.

PIPELINE CERTIFICATE EXPANSION

Mr. EVINS. Suppose he already has facilities constructed and suppose the Commission has already given him a license to transmit gas and he decides that he wants to transmit an additional quantity beyond that, do you set a limit on the amount they can transmit?

Mr. WHITE. Yes, although in recent years the Commission has, for the major companies that have a reliable record of growth, made it easier for them to increase their volumes without going through the full-scale hearing unless there is a question or objection to it by any other interested party.

PRODUCER RATE INCREASES

Mr. EVINS. Do these producers ask for increased rates generally, every time they want to transmit gas through a transmission company, and do the transmission companies ask for an increase every time they want to transmit the gas?

Mr. WHITE. That is an interesting question. I don't know whether they do it most of the time. I believe that there is a desire on the part of most producers, as I would do and you would do, I think, to get as much for their products as they can.

I think, however, they are sensitive to the competitive forces that come into play in terms of other energy alternatives.

RATE PROCEDURE

Mr. EVINS. It has always been my impression that your procedure seemed not to be a good one. Let us say that the gas rates go into effect when they are filed and only when the Commission adversely takes action can there be a recapture or reduction. Then, let's assume that *a* producer says, "We are going to raise our rates. Labor has gone up, other things have gone up, we are just going to increase the rates and we will file with the Commission for an increased rate."

These increased rates are in effect until after the Commission has had a long hearing. Then you decide this is excessive, and you tell the company that they have to reduce these rates. But they have had the benefit of the additional money maybe 2 or 3 years before a decision is reached.

Straighten us out on that, Mr. Chairman, if we are wrong.

Mr. WHITE. No; I think you have capsulized it accurately as to the way it operates. The only problem, just like Mr. Churchill is reported to have said about democracy, "It is the worst form of government ever devised by man except for all of the others." I agree this has some deficiencies in it, but nobody has come up with anything that we think is a more attractive way of handling this major responsibility.

Mr. EVINS. Well, I would think that the Commission, with its great expertise and its legislative powers, could devise some better rules and procedures rather than just follow the regular pattern. Make some changes, be innovating.

AREA RATE PROCEEDINGS

Mr. WHITE. This comes back to this area rate proceeding, the area rate concept, when it is fully developed and when the Supreme Court has finally endorsed it. I am confident that it will endorse the concept, if not every single detail. There will then be an area rate that will cover the great bulk of the gas produced in each of the principal basins in this country. When that is accomplished, and it is a tedious and a long job, but when it is accomplished I am satisfied, Mr. Chairman, it will——

"PERMIAN BASIN" CASE

Mr. EVINS. When was this *Permian Basin* case first decided?

Mr. WHITE. It was decided by the Tenth Circuit Court of Appeals last December.

Mr. EVINS. I thought this case was about 3 years old. We have been hearing about it for several years.

Mr. WHITE. It is indeed, and it hasn't even gotten to the Supreme Court. That shows you how long and tortuous the road is to an ultimate procedure.

Mr. EVINS. The circuit court has affirmed the Commission's concept?

Mr. WHITE. Yes.

Mr. EVINS. Then there is no need for the Commission to take an appeal. It is only the respondents that would take an appeal if they are dissatisfied.

Mr. WHITE. Well, the way the court handled this case, although it confirmed the basic concept upon which the Commission was proceeding, it did find some areas where it thought that we had not given adequate attention to some of the data and perhaps not offered enough, and it remanded the case to the Commission. It was that order from which the Commission has decided to appeal to the Supreme Court.

Mr. EVINS. I see.

Mr. WHITE. Our decision in large measure was based on the desire to move it into the Supreme Court as rapidly as possible so that finally we will have the Court's endorsement of that concept.

Mr. EVINS. Will this matter be adjudicated in 1968?

Mr. WHITE. We are very hopeful of that, Mr. Chairman.

Mr. EVINS. Let us be conjectural: If the Supreme Court affirms the Commission's concepts and methods, in this case, then you will be able to set gas rates at the wellhead on an area basis. You can take the Northwest, the Southwest, or another area and say "This is the area rate for all producers in this area." Is that correct?

Mr. WHITE. Basically, sir, that is indeed the concept and that is what we propose to achieve.

We are not, however, waiting until the Supreme Court has finally endorsed this. The Commission long ago decided they would proceed with the other area cases which are currently in various stages of progress, and we now have one major case before the Commission, in which the examiner rendered his decision in January, setting his recommended rates for the south Louisiana basin, one of the major producing areas of the country.

Mr. EVINS. How long would these rates remain in effect if such an area rate were set? Would it be until a producer could file for an increase?

MORATORIUM ON AREA RATE INCREASES

Mr. WHITE. There was a moratorium put into the Commission's Permian decision, which was the pilot case, the first one, which will expire, if I recall, in 1968. It is certainly contemplated that there will be what we describe in our little world as "a second round" where once these rates have been fixed and a period of time has elapsed, that the Commission will then undertake to look at them again.

Mr. EVINS. I, as an individual, can well see the need, perhaps the justification for revision of rates upward or otherwise. But the concept that I have never approved and have always disliked, is when a company automatically raises the rates and say "Mr. Commissioner, this is it. Unless you tell us it is not so, this is it." This is a negative operation. I think the Commission should be on the affirmative side.

Mr. WHITE. Part of it is simply the mechanics of it. If each case had to wait our determination of whether the rate proposed was valid, we would have a backlog.

Mr. EVINS. They already have a fixed rate, they are in business, they are making profits and declaring dividends. Why should they automatically increase the rate? They have an established rate, and the justification should be made for an increased rate. Is this the same concept that the telephone companies use, let us say, in connection with the Federal Communications Commission on their rate structure? Do they announce their rates and say "Now, this is it until you tell us no."

Mr. WHITE. I am not sure how the FCC handles that. We have on our staff a former expert, Mr. Richard Solomon, our general counsel, formerly one of the key legal officers for the Federal Communications Commission. Let me ask him.

Mr. EVINS. Tell us how the telephone companies increase their rates.

Mr. SOLOMON. Well, the statutory authority, I think, is the same under the Communications Act as under our act; that is, somebody has a right to file a rate increase and the Commission has the right to suspend it.

Mr. EVINS. Is this an application for an increase?

Mr. SOLOMON. No. I think that the Federal Communications Commission has no authority to prevent a rate going into effect, after their statutory suspension period. This is the same rule——

Mr. EVINS. If that is so, I will have to say that the situation is worse than I thought it was.

Mr. BAGGE. I might say that the same thing is true with respect to the Interstate Commerce Act, as to railroad rates, transportation rates. It is the regulatory pattern which has evolved.

Mr. O'CONNOR. They are all subject to suspension and refund if they are found to be unreasonable.

Mr. EVINS. There is no volume of them quite as extensive as there is in the natural gas field.

Mr. SOLOMON. The law is the same. What happened is that it is the same in the railroad industry and in the communications industry as in some of our industries, you have declining cost industries where they don't raise the rates regularly. But the law as to how it should be handled is the same. The pattern was set by the Interstate Commerce Act. It has been followed in the Communications and in the Power Act.

Mr. EVINS. Well, do you follow the concept that we should perpetuate error once it is discovered?

Mr. WHITE. Sometimes this Commission is not unanimous but I am sure we are unanimous in our response to that question.

Mr. EVINS. Mr. Pryor, a new member of our committee from Arkansas, gentlemen.

RESPONSIBILITY OF COMMISSION

Mr. PRYOR. Mr. Chairman, while we are discussing this particular subject, I would like to talk just a minute about not only the jurisdiction of the FPC but the authority.

Sometimes we in the legislative branch feel that after a regulatory body is created it eventually becomes so big and autonomous that the Congress has no control over it.

From my point of view I sometimes feel that, for example, the Federal Power Commission or the Interstate Commerce Commission now have more authority and control than the Congress has. What controls does the Congress have at this point over the Federal Power Commission other than on the purse strings?

Mr. WHITE. Mr. Congressman, we, of course, are undertaking to do some of the specific functions that the Constitution of the United States lodges exclusively in the Congress under the commerce clause.

The Congress concluded, I think rather wisely, at a fairly early stage—that there were some functions that were theirs and they used to do it. They used to issue licenses to applicants for the right to erect a hydroelectric facility on a navigable river. But it got kind of burdensome and they decided maybe the best way to do this is "to let somebody that we can control handle these day-to-day detailed decisions within a general framework that we are going to give them." So they set up a special commission in 1920, made up of the Secretary of War, the Secretary of Interior, and the Secretary of Agriculture. They said "Now, you fellows issue these licenses after a careful determination, and here are the standards we think you ought to take into account in determining who to license and when to license."

In 1930 when there was kind of a rebirth or reexamination of these

commerce clause functions of the Congress, it was concluded that the three principal officers were so busy with their other problems that maybe they ought to have an independent commission, and the five-man Commission was established. In 1938 the Natural Gas Act was passed and rather than give this responsibility to yet another agency, the Congress concluded that the FPC was not so overworked that it couldn't take this on, too. There was some relationship between the two functions, also.

I think that whole genesis explains my attitude, and I believe the Commission's, about our responsibility. We are in effect with the standards of the Congress, undertaking to do the thing that it is the Congress' right to do in the manner we think they would want us to do it. Obviously there will be some gray areas and some hazy decisional concepts which, if we make a wrong decision, Congress can legislate just like that, just say "Don't do it that way. Here is what we had in mind." Or "You are not doing this properly" or "Here is something that you ought to be doing that you are not doing." So that, in large measure, you have not only the purse strings, which are pretty important, but you have these opportunities to meet with us, and I think all of us are very responsive to the congressional will.

Mr. Evins. It is a very difficult concept. The Congress has the power under the Constitution in the commerce clause, as the chairman said. The details are so great and numerous they have set up these concepts and have said "Mr. Commissioner, we delegate the authority to you to perform these functions."

Mr. Pryor. Off the record.

(Discussion off the record.)

Mr. White. If I may continue with one other point, though, just another second. We really take seriously the President's injunction and the Congress injunction to us to run as tight an operation as we can. We have an executive director who goes over this budget, and he knocks heads together—something like I think maybe sometimes subcommittees of this committee do—in trying to make sure that everybody has got the top items. We know that if we came in here with a request of an increase of 30 percent we wouldn't get anywhere. So we make every conscientious effort to use the funds as wisely and as well as we can. Now, fortunately, our money comes to us on a lump-sum basis and this committee, this subcommittee, has never nailed us down to the point and said "If you have a guy who is working on license projects and all of a sudden there is a blackout and he is an expert in blackout, you can't use him over there without getting permission of the executive branch or the Congress." We try to be responsive and flexible.

Mr. Boland. Do you think the responsibility of regulatory agencies such as this, or some of the other regulatory agencies, really centers around the protection of the public more than anything else that the Commission does?

Mr. White. Truly, if it weren't for that I think we would be—I would say we would be wasting $14 million a year—we would be wasting an awful lot.

Mr. Evins. May I say we think it is an important Commission with a great mission. We are interested in this Commission and we want to arm the Commission. However, as I was trying to bring out earlier, although the natural gas industry is one of the biggest industries in this Nation and the electric power industry is the biggest in the Nation,

we do not want the Commission to be captured by the industries that you regulate.

This is the general concept which is sometimes noted in the press; that is, the regulators sometimes become regulated. We don't think you are doing that; but my hope is that you will be more vigorous in your examination of records, in your holding down of rate structures, and in not rubberstamping or approving everything that the electric utility industry or gas industry files with the Commission. I know you have a difficult task. I know, as you say, that you want to be judicial. But with such a large industry to regulate, you have a very important mission.

COMPETITIVE CASES

Mr. Ross. Mr. Chairman, I would like to reemphasize a point in answer to some remarks made by Chairman White. This relates to these competitive projects. I am saying this now because I don't want to have to say something 3 weeks from now and have you people say "Why didn't you tell me when you were up there in the room?"

Mr. Evins. Feel free to speak your mind.

Mr. Ross. As Chairman White has said, these competitive applications are getting us into a bind. They are getting us into a bigger bind because the courts have said in a recent case that the Commission has the duty to supply alternative proposals and not rely upon the companies' plans alone.

In these competitive cases I think the record, so far, in at least one or two cases, shows that the staff has had to take the position that they don't have the expertise, they don't have the personnel to present adequately an alternative pipeline route. This recent court decision is being used by various and sundry parties, the interveners for example who claim that staff should get out and affirmatively present a project, and our staff is taking the position that we don't have the funds, the personnel to do it adequately.

Mr. Evins. Well, that is always the alibi. We try to go along and help you in these matters but you always come back and throw it in the lap of Congress and say "Not enough personnel, not enough appropriation." I believe if we gave you this and more then you would come back next year and say "There still are problems."

RATE INCREASES

But let us get back to this proposition about gas rate increases. If the Commission issued a decision and said to the gas industry "There will be no more rate increases until you file an application, and we will decide upon that individual application," what would be the result in the industry? Why couldn't you do this?

Mr. White. I would say, Mr. Chairman, that under our existing statute we really couldn't do that. We are, of course, carrying out the Natural Gas Act and implementing it. But if the question is changed as to whether it would be wise to change the legislation, I think I would rather think about that for a while. We have such a good attitude about the way we have been able to achieve refunds and to get these things——

Mr. Evins. You have peace and harmony now?

Mr. WHITE. No. I would say, Mr. Chairman, without wanting to overdraw it, that it is very peaceful today in this room, but this doesn't mean that we are not watched, and properly and that we are not challenged by the industry at every point, and we should be.

Mr. EVINS. I say you have a very difficult job. I think, however, that after they have had their base established and after they have had their rates going, and it is shown to be profitable and dividends are declared, that the Commission could say "Now, in this industry at this time we are not going to approve your rate increases automatically." Then there would be no more rate increases until individual applications are filed and are evaluated based on the merits of each increase.

Mr. WHITE. If we were'nt moving toward the area rates, though at a snail's pace, but moving steadily, I would say that your suggestion, Mr. Chairman, would certainly merit consideration.

Mr. BOLAND. You don't think you could do it under the law, do you?

Mr. WHITE. Not under the law. It would have to be changed.

Mr. WYMAN. Mr. Chairman?

Mr. EVINS. Mr. Wyman.

Mr. WYMAN. I would like to suggest with response to your last statement, that the Constitution also provides rights to these companies. The companies are entitled to a reasonable rate of return on a recognized cost or rate base. Now, an application depends on the facts alleged in the application, but if they build a new plant, for example, they are entitled to have a little different rate based on what the new base factors are that come into that rate. It would be unconstitutional for any agency to deny them a reasonable rate of return. So if you shut them off and say "We won't even consider it," it might, under the circumstances, be unconstitutional.

Mr. Ross. Can I add a point? I will volunteer once more.

Mr. EVINS. Yes.

Mr. Ross. I think it would require legislation. The problem you seem to be concerned about is the problem we call a section 5(a) problem. If a company has a rate level in effect which we suspect is much too high, the only thing we can do is announce an investigation of that rate. If it turns out subsequently that the rate they are presently charging is too high and should be lower, we cannot, for the consumer, put that lower rate into effect until the whole judicial process has been completed.

On the other hand, the companies can file for a rate increase. It can be suspended but goes into effect at the end of 5 months. The companies have the advantage of collecting and getting a rate increase 5 months from the date of suspension. If the rates are too high, and we try to lower the rates on our own motion, they don't become effective until the case is concluded.

There are some students in this area who say the situation should be evened up. This is along the line you are talking about.

Mr. EVINS. A suspension process.

Mr. Ross. It would require a change in law. This is where the consumer is assured—if the rate is too high and we make an investigation and subsequently the rate turns out to be too high, the lower rates do not go into effect until the case is concluded. This encour-

ages a company, and it is only natural, to try to delay the proceeding as long as it can. The longer it is delayed the longer it is before the lower rates go into effect.

Mr. EVINS. Generally, is it not a concept of business that with increased volume normally prices go down. We know there are more customers. We know there is more volume and increased business. Yet the rates go up.

With the increased volume there should be a tendency toward lowering of rates.

Mr. WHITE. Certainly this has happened in the electrical world.

Mr. EVINS. Yes.

Mr. WHITE. In the natural gas area what had been a very steep increase, an increase in rates, has leveled off now and, even though there is a tiny bit of increase, it is so flattened out that by comparison with the standard of rise in all consumer items it is quite low.

Mr. EVINS. Do you have, currently in practice with the Commission, two or three rate increases pending at the same time? Do you have it down to where there is only one?

We had testimony where there were three rate increases coming up——

Mr. WHITE. This is called pancaking, layering them on top. I am delighted to tell you, unless somebody in back here will straighten me out, we don't have any in that category.

Mr. EVINS. Very good. This is progress.

Mr. WHITE. In large measure we get back to what we talked about before. This committee made available funds for personnel to take care of these rate increases.

SUBMISSION OF LEGISLATIVE PROPOSALS

Mr. EVINS. You referred to this in your statement. Why don't you transmit to the Congress these various legislative matters that you think are needed in the enforcement of your obligations in the public interest?

Mr. WHITE. We do, Mr. Chairman, in the form of our annual report which has a legislative section on it. We have tried to give some priority to items and work with the substantive committees both in the House and in the Senate.

Mr. EVINS. Mr. Chairman, regarding the electric utility field we get the general impression from reading your statement and the budget that heretofore navigation, flood control, and power were the concepts the Commission licensed, non-Federal operations. They are still continuing.

AESTHETIC CONSIDERATIONS

However, there are many other new concepts, such as fish and wildlife, beautification, and the aesthetic field. Has the court gone into this esthetic concept? Has this crept into our way of life?

Mr. WHITE. It has in a case pending before us. I don't think there is any impropriety in suggesting that the Court of Appeals for the Second Circuit, as Commissioner Ross referred to it earlier, has made it clear that this Commission has a heavy responsibility to take all these factors into account.

It is only fair to say that the Commission believes that it had done so in that particular case. I won't say another word about that case.

I sense in our Commission there is a great deal of pride in the fact that we have looked into these areas and not always as a result of public pressure. We have followed public pressure in some sense, of course, and we have a fine record of leadership in pointing out to the industry that it had better look to the new interest on the part of the public. We are a very rich and affluent society and I think it is only that kind of society that can worry about whether transmission lines over a scenic area are something which perhaps should be buried underground or moved in a different fashion or harmonized with the background.

I may be overly optimistic but I sense on the part of every segment of the industry a recognition that this is a new day and they have new responsibilities.

Mr. BOLAND. And they are cooperating in this area?

Mr. WHITE. They are, and partly because they know it is right.

UNDERGROUND POWERLINES

Mr. EVINS. We see ads in the news magazines of powerlines going underground. This is done for aesthetic purposes and beautification. Does the cost of this go into the rate structure?

Mr. WHITE. In the distribution lines, which are the lower voltages which bring the power right into the house, this is basically the responbility of the State regulatory commissions. We notice in the newspapers, for example, in the State of Maryland in Montgomery County there is a little struggle. The power company says that the developer should pay the few extra hundred dollars to put this line underground and leading into the house because it makes his development more attractive and he can sell the house for a higher price.

The developer says it is the function of the power company and it is the Public Service Commission of Maryland which has that problem before it at the moment.

We met recently as sort of an annual custom with the representative groups of the State regulatory commissions. Only last week we explored this with the Commission and suggested this would be a very proper and legitimate area for this national association to focus on in order to see whether there are some standards which could be uniform with the various State commissions.

Mr. EVINS. Factors the Commission did not often contend with a few years ago are major issues with the Commission today. This has to do with pure water, adequate recreation facilities, beautification, wildlife preservation, and conservation of natural resources. This is part of your statement.

RELICENSING OF PROJECTS

Mr. BOLAND. This becomes a real problem with respect to initial licensing cases, does it not, where there have been licenses and you are renewing them? When the license was issued many years ago, and some were issued many years ago, I presume very little attention was paid to what the Chairman just pointed out with respect to wildlife, recreation, and that sort of thing?

Mr. WHITE. Except to this extent—because the existing Federal Power Act says that when a license expires the Federal Government may take the project over upon the payment of proper funds there has

been a very willing attitude on the part of a lot of the licensees to bring their projects into line with these newer concepts. It may be unfair to put it only on the basis of a threat of takeover or recapture because I think basically they are trying to be alert and alive to these considerations. They are residents in the community. They are neighbors. If this is what the public wants they try to get into line as fast as they can.

Even in the older projects, in part through the prodding of the FPC, we see them changing some of their concepts about these reservoirs being private preserves for the company management. They are now open to the public and they are putting a little bit of money into making them more attractive and useful.

The millennium hasn't come yet. We are not in utopia, but we see a healthy movement in that direction which gives us encouragement.

Mr. EVINS. One further question regarding the relicensing of facilities which have been in operation for 30 or 40 years. You are now arriving at a period when these licenses are expiring. Again, what is the procedure?

You make an inspection, report to Congress, and make a decision as to whether these companies should be relicensed or recaptured in the public interest. Tell us the procedure for the record.

RECAPTURE OF PROJECTS

Mr. WHITE. If I may I will give you just a tiny bit of simple history as I understand it. I go back to the question that Congressman Pryor asked. In 1920 when this got started there was a decision by the Congress at that time to make these licenses 50 years because who knows what will happen 50 years from now? There may be a nationalized power system or something totally different.

Now the 50 years are beginning to expire and we have these cases before us.

The act simply authorizes the Congress to recapture or take over these projects by the Federal Government if there is any good reason to do so. There is no specified procedure in the existing law. We have concluded that it would be helpful to the Congress if you didn't get these things in the last minute. A couple years in advance there would be submitted to you our report, together with a recommendation after canvassing all the Federal agencies and getting their views and giving this to the Congress for its consideration.

We have felt, however, part of our responsibility to the Congress is to warn them that in 1968 it is kind of easy. There are only a couple projects. In 1969 there are not too many. In 1970 there could be as many as 30 or 40. Congress may be in the same boat then as it was in 1920 asking "What will I do with all these things?"

We are in the process of preparing a recommended procedure so Congress can focus on the question as to how they want it done. Clearly that is all we can do, to recommend the various alternatives and the answer we think is best. Then I think Congress will want to adopt a procedure.

Mr. EVINS. Are you going through the original licensing procedure again or are you going to request that blanket authority be given to the Commission?

Mr. WHITE. I would think we probably would not be a good agency to give final authority to determine that something should be taken over—for one very good reason. We have no money to pay for it. It would have to be a Congressional decision.

We are preparing our recommended procedure and we shall submit it for congressional review.

Mr. JONAS. You have made one recommendation, have you not?

Mr. WHITE. Yes, sir, we have sent one in.

Mr. JONAS. In that case you recommended no takeover.

Mr. WHITE. That is correct.

Mr. JONAS. Which case was that?

Mr. WHITE. The Empire District in Missouri.

Mr. JONAS. Others are coming up in 1968? Will that be the next one, in 1968?

Mr. WHITE. Bucks Creek in California is the next major project. Its license expires in late 1968.

Mr. EVINS. One of the great commitments you have is advising the Corps of Engineers, Bureau of Reclamation, and the Federal Power Development with regard to feasibility and technical information. Do you provide this service for the other agencies?

Mr. WHITE. Yes, sir.

NUCLEAR AND OTHER POWER

Mr. EVINS. Do you want to comment on the status of the economic feasibility of nuclear power and other ways of developing power?

Mr. WHITE. This is certainly one of the important elements of the industrial development in the electric power field. There has been a tremendous change in the last few years in the attitude about nuclear power. This stems in large measure from the success of the units which are already in operation, although admittedly these are fairly small units. This is a relative term—they are mighty big but small compared to those which are already on order; 200-kilowatt units now are in operation and they have been for 4 or 5 years.

We are now projecting, or the industry is projecting, 1-million-kilowatt units and over 1-million-kilowatt units, so that technology I think is there. Yet we want to be a little bit cautious to make sure that these extrapolations from what has worked to much bigger ones are proven to be sound and efficient.

Mr. JONAS. This Yankee plan has been in operation longer than any other, has it not?

Mr. WHITE. That or perhaps the Shippingport near Pittsburgh.

Mr. JONAS. Give us a little bird's-eye view of what is happening in these plants that are already in operation—costwise.

Mr. WHITE. Their experience has been excellent. This is the reason we have seen repeaters, for example, Commonwealth Edison which supplies the Chicago area, it has a plant in operation known as Dresden No. 1. Dresden No. 2 is already ordered, and now they have ordered much larger units.

Mr. JONAS. The coal industry is not too enthusiastic over this, I would assume.

Mr. WHITE. There is natural competition. They do see some problems and they are trying to make sure that the public does not overlook some of the difficulties.

DUKE POWER NUCLEAR DEVELOPMENT

Mr. JONAS. Duke Power is moving into this quite rapidly, is it not? How far away are they from getting into operation?

Mr. BROWN. We will supply that for the record. I think it is a few years.

(The information follows:)

Duke Power Company is planning the construction of two nuclear units at their Oconee station in South Carolina, each with a capacity of 839,000 kilowatts. The first unit is scheduled for operation in 1971 and the second for 1972.

Mr. WHITE. They have one of the large units on order.

Mr. O'CONNOR. It will be in operation in about 4 years.

Mr. BOLAND. As a result of the Yankee Co. operation which has been phenomenal, there has been a great deal of interest on the part of the electric industry in New England to establish more, and they have applied for licenses for permission to do this.

COST OF NUCLEAR POWER PRODUCTION

I think the cost of producing, I don't know the figures, electric power is a lot less than was anticipated when the plant was built. Is this not so?

Mr. O'CONNOR. It was figured at about 10 mills. My memory is that it is down to around 8 mills.

Mr. WYMAN. How does this compare with the cost of conventionally powered plants?

Mr. WHITE. It is favorable, particularly if your comparison is a relatively high-cost area, as New England is because of the cost of delivering the conventional fuel.

Mr. WYMAN. In terms of looking into the future does this mean that those particular areas, such as we have in New England with respect to water power, will have to be in a subsidy position to compare favorably with atomic electric power in this area?

Mr. WHITE. I cannot quite give you a definitive answer, but in large measure it depends upon all of the surrounding circumstances. Normally, hydropower can be extremely valuable and if it is used for peaking purposes it is even more valuable, for obvious reasons.

In terms of the New England area it just makes so much sense, and I think Congressman Jonas implied this by his question, where it is costly to bring other fuels into the area, it is a highly industrialized area of the country, to turn to nuclear power.

AIR POLLUTION

In addition, aside from any cost advantages, again relating back to our statement, we see tremendous interest in air pollution. Nuclear power may have some problems in terms of the disposal of the nuclear waste, but in terms of air pollution it certainly is regarded, and legitimately so, as a very appropriate way of solving air pollution problems in our large metropolitan areas.

DICKEY-LINCOLN PROJECT

Mr. WYMAN. Again coming back to this peaking question in the New England area, in your hearings last year you indicated on the

Dickey-Lincoln project a benefit-cost ratio on one assumption of 1.8 to 1 and on another assumption in respect to comparisons of 1.6 to 1.

What did you mean by benefit-cost ratio?

Mr. WHITE. The benefits-cost ratio is the standard measuring device to determine whether any particular project is feasible and, if so, how feasible. The ratio of projected benefits, taking all of them into account, weighing them on the one side of the scale against all of the costs on the other side of the scale, and then seeing how that balance is struck. There it apparently came out somewhere around 1.6 to 1.8 to 1, with the benefits outweighing the cost.

In determining that, and I think I see the point you are aiming at, one of the techniques used in determining the power component of value for such a project, the benefit that comes from power is to compare it, the power that will be produced, against alternative ways of producing that same power in terms of the fact you have a block of power which presumably would come from the project. How valuable is that? One of the ways of determining it is to find how else you could generate or produce that same amount of electricity.

Mr. WYMAN. The application of this formula, which you say is more or less standard, has to assume that the power produced would find a market and that the market would buy it and that you would have continuing demand?

Mr. WHITE. That is right.

Mr. WYMAN. Would it be possible to have Mr. White supply for the record an indication of how these factors referred to at page 1238 of last year's hearings with respect to Dickey-Lincoln were made up and over what period of time the projection was intended to cover—10, 20 years?

Mr. EVINS. You may expand your remarks in this area.

(Information requested follows:)

ECONOMIC EVALUATION OF DICKEY-LINCOLN SCHOOL PROJECT

The Commission staff has evaluated the power output of the Dickey-Lincoln School project on the basis of the cost of equivalent power from the lowest cost alternative source. Thus, the value of the 100 megawatts proposed to be marketed in Maine at 50 percent load factor was based on the estimated cost of power from a conventional steam-electric plant privately financed. For this purpose, it was assumed that a 150-megawatt oil-fired unit costing $115 per kilowatt would be added to an existing plant in the Portland area. The value of the remaining project power, to be marketed in the Boston area at about ten percent load factor, was based on the estimated cost of power from a privately developed pumped storage project. A 600-megawatt plant costing $95 per kilowatt constructed within a radius of 100 miles of the Boston area was assumed. The following table shows the derivation of the at-market value of project power, exclusive of downstream benefits:

Value of power marketed in Maine:	
100,000 kilowatts × $23.50	$2,350,000
353,000,000 [1] kilowatt-hours × 3.1 mills	1,094,300
Subtotal	3,444,300
Value of remaining power marketed in Boston area:	
689,000 [2] kilowatts × 90.5 percent × $19.50	12,159,100
638,000,000 [3] kilowatt-hours × 92.9 percent × 4.5 mills	2,667,100
Subtotal	14,826,200
Total at-market value	18,270,500

[1] 438,000,000 kwh for 50% load factor operation less 85,000,000 kwh from U.S. entitlement of Canadian downstream benefits.
[2] Total project capacity of 794,000 kw less at-site capacity of 105,000 kw (100,000 kw plus 5,000 kw losses) marketed in Maine.
[3] Total project annual output of 1,010,000,000 kwh less 372,000,000 kwh (353,000,000 kwh plus 19,000,000 kwh losses) marketed in Maine.

The total benefits attributable to the project may be derived by adding to the above power benefits, the downstream power benefits and the nonpower benefits as obtained from the Department of the Interior and the Corps of Engineers:

At-market value of project power	$18,270,500
Downstream power benefits	1,050,000
Flood control benefits	40,000
Area redevelopment benefits	467,000
Total	19,827,500

The capital and annual costs of the Dickey-Lincoln School project and the associated transmission facilities, as estimated by the Corps of Engineers and the Department of the Interior, respectively, are as follows:

Project construction cost	$212,113,000
Transmission construction cost	78,820,000
Interest during construction	20,895,000
Total investment	311,828,000
Annual fixed charges (3⅛% interest and 100-yr. period of analysis)	10,215,000
Annual operating costs	1,957,400
Total annual costs	12,172,000

On the basis of the foregoing, the benefit-cost ratio of the project would be 1.63 to 1.0

RATE AND REPAYMENT ANALYSIS OF DICKEY-LINCOLN SCHOOL PROJECT

Rates for the sale of project power would be based on recovering the costs, including amortization of the investment allocated to power over a 50-year period. The available allocation assigns the following capital and annual costs to power:

Project construction cost	$199,538,000
Transmission construction cost	78,820,000
Interest during construction	19,857,000
Investment allocated to power	298,215,000
Annual fixed charges (3⅛% interest and 50-yr. amortization)	11,866,000
Annual operating costs	1,955,400
Annual costs allocated to power	13,821,400

Should all energy available at the market, including at-site production and the downstream entitlement, be marketed at 2½ mills per kilowatt-hour the annual revenue would be $2,776,000 (1110.5 million kwh×2½ mills). The capacity available at the market (723.5 mw) would then cost $15.25 per kilowatt-year. Allowing $0.50 per kilowatt for administrative costs, the resulting rate would be about $15.75 per kilowatt-year. This is substantially below the current cost of capacity from alternative power plants with private financing.

Mr. WHITE. Your point goes back to what Chairman Evins said a few moments ago, Mr. Wyman. This is one of our Commission's responsibilities. The Dickey-Lincoln School project is not one which comes to us for licensing and yet we are asked to advise and we respond to questions from, first of all, the executive branch and subsequently the Congress as to what can we say in answer to the type of question that Congressman Wyman is asking.

Mr. WYMAN. Have you had any figures on the Pontook Dam being considered in northern New Hampshire?

Mr. BROWN. This is out for preliminary permit and is being studied by the applicant.

Mr. WYMAN. You have not worked up anything in relation to this at this time?

Mr. BROWN. I have nothing to submit on it, no.

REDUCTION IN POWER RATES

Mr. O'CONNOR. With respect to this coal and competitive fuel thing, efficient coal fired plants, favorably located with respect to fuel supply which are in operation produce electricity in the neighborhood of 4 mills per kilowatt hour. These plants you are projecting as atomic, none of them in operation, are not yet doing that, although everyone believes they will.

Mr. JONAS. After all is said and done, in this modern world we live in 8 mills is not an exorbitant cost, is it?

Mr. O'CONNOR. By today's standards it would be, Congressman Jonas. It should be in the neighborhood of 4 to 5 mills in new plants of 1-million-kilowatt size.

Mr. JONAS. I was under the impression that, contrary to most everything else, we have had a descending cost of power in this country for the last 25 years. We get all excited when the cost of bread goes up 200 to 300 percent while the cost of electricity goes down. This is a relative thing.

I think it is a great tribute to the industry and advances in technology, that power producing companies have been in a descending curve so far as rates are concerned in the way of cost to the consumer.

Mr. WHITE. No question about it. Some yardsticks have been developed to bring this about or some regulation or otherwise the public might have been gouged.

Mr. EVINS. We were discussing earlier the escalation of rates in the gas field. There need to be some yardsticks, some standards, and regulations.

I agree with Mr. Jonas that there has been a descending rate structure in power.

Mr. JONAS. The more you use the more the unit cost goes down.

Mr. EVINS. There is more volume. This is a growing business.

I would be concerned about a 200-percent increase in the cost of bread.

Mr. JONAS. I just mentioned bread. I could have mentioned coal, for example.

I still use a stoker furnace. I remember when my coal cost, and it was not too many years ago, $6 a ton. Now it is $20.

Mr. EVINS. Apparently the Federal Power Commission and the Federal Trade Commission have not been doing the job in protecting

the consumer. We had to appoint a consumer minded person to look after the consumers' interests. Ladies have been demonstrating and marching on chainstores, not only in one field but in several fields.

I want the Commission to justify its expenditures of money. You are regulating the biggest industry in the world; the electric utility industry. The gas industry certainly is one of the biggest and is growing. It is no small task.

GAS RESERVES

Mr. WYMAN. How about these reserves? You indicated some 60-percent increase in gas transmission in the way of capacity. Is there enough gas in the ground to meet all our needs or will it have to be regulated more in terms of allowables?

Mr. WHITE. We already have a pretty heavy impact on the regulation of it insofar as it goes interstate because nobody can move it interstate without authority from our Commission.

To get to your basic question, Congressman, there are some serious disputes being waged as to how much natural gas is available.

I think we all start off with the assumption it is a depletable resource. If you use it, it is pretty hard to go back through the process and generate new supplies of natural gas.

One of the functions we must focus on in our fixing of rates is to fix them at a level so that people will make the investments necessary to find the gas and to exploit it and pull it out of the ground and make it available for pipelines and for consumers.

My own view is that there is plenty of gas in terms of our short-range needs.

Mr. WYMAN. What would the short range be? What term of years do you refer to?

Mr. WHITE. The year 2000.

There was a recent study by an interagency committee headed by Dr. Hornig, the President's science advisor, which was released in September 1966 and undertook to look in a general way at the whole concept of fuels, he indicated that even though some would be in shorter supply than others they saw no serious problem before the year 2000.

PIPELINE SAFETY LEGISLATION

Mr. WYMAN. Does your Commission have any regulatory function in regard to public safety in the transmission of the gas?

Mr. WHITE. We have proposed legislation over the years and this month the President and the Department of Transportation have proposed that there be a far more explicit safety jurisdiction given to the Department of Transportation to fix minimum safety standards across the country, not only for those companies and pipelines that are subject to our jurisdiction but to distribution companies as well.

However, we do have some responsibility——

Mr. WYMAN. At the present time do you have a safety function with respect to natural gas transmission?

Mr. WHITE. Yes, sir. It occurs in a couple different ways.

One is that we have had some of our staff personnel serving on the industry code committee. There is a code committee which is a branch of the United States of America Standards Institute. This is a gen-

eral safety function undertaken through the technical societies. We have devoted some little staff time to people working in that code committee.

Additionally, in our certificating of new pipelines we have on occasion been unwilling to certificate pipelines where we were not satisfied that the materials being used had been adequately tested.

Mr. WYMAN. Any provision as to what the diameter of pipe should be or how far under the ground it should be? I refer to the Brooklyn incident and other incidents where more and more parts of communities are being heated by gas. If the carrying vehicle springs a leak it can blow up the community.

Mr. WHITE. Some States have done a little more than others. Our general response to that, and this came out in testimony before the Senate Commerce Committee last year, is that there is not enough being done and even those States which do have some safety regulations we believe many are not adequate.

Mr. WYMAN. What has been proposed by way of an answer to this? Is there interstate commerce regulation in the form of standards?

Mr. WHITE. For the last 10 years we have requested authority for our Commission to regulate the safety of the interstate pipelines that are subject to our jurisdiction.

The President's proposal, which came to the Congress earlier this month, said that that was important but also important was the distribution companies, over which we have no jurisdiction. He has proposed that the Department of Transportation be given authority to establish minimum safety standards for all pipelines, whether in interstate commerce or local. These would be minimum standards and the States could do as much more as they felt their own peculiar circumstances called for.

This is the proposal that will probably be the subject of hearings before the House Committee on Interstate and Foreign Commerce and the Senate Committee on Commerce.

Mr. WYMAN. If they are intrastate what is the situation?

Mr. WHITE. The fact that the gas itself is in interstate commerce brings it in.

Mr. WYMAN. Has it been settled legally?

Mr. WHITE. I think that is the case.

Let me turn to our general counsel.

Mr. SOLOMON. No doubt about it, interstate commerce within Federal authority.

Mr. WYMAN. You can control the actual valve that lets the gas into the house in New England which is heated by gas that comes from the end of the pipeline carrying gas from the West?

Mr. WHITE. If the Department of Transportation had the authority and wished to go that far the answer would be "Yes."

NATIONAL POWER SURVEY

Mr. EVINS. We want to ask about the national power survey. This has been underway since 1964. Will it be a continuing review? What are the results? Elaborate somewhat on the national power survey for the record.

Mr. WHITE. I would be delighted to do so, Mr. Chairman.

The survey which was issued by the Commission in 1964, is one of those activities which again could not have been undertaken without the approval and support of this subcommittee because it took money. There is no question about it. It took more people than the Commission otherwise would have had.

It did at least three important things which occur to me, and I am glad to get a chance to discuss them. Perhaps most important of all is that it brought together the segments of the industry which had been at each other's throats for many years.

This is not to say that all the jealousies and rivalries are submerged and no longer exist, but they were at least down-played. These people sat earnestly and seriously together, and these are guys from the co-op movement, from the publicly owned and municipal systems, Federal and privately owned, and they sat with the Commission and made an honest effort to figure out what was the focus of this industry. Where were things going and what were the new problems they must face, common problems they had to face?

This would have been enough in its own right, but the Commission really produced, I think, a wonderful document. It seems to have been strengthened by the fact that when the blackout came we had now established a relationship so that almost immediately my predecessor could appoint a committee—industry experts—to focus on the problems of that blackout, what created it, what were some of the solutions, what were some of the ways to avoid this.

We have since appointed a successor group to our industry advisory committee, and again with representation from every segment, and are in the process of updating the survey. We hope to have it available by 1969.

In addition, this time we set up six regional advisory committees which were kind of small carbon copies of the nationwide group of industry. We have had them focusing——

Mr. EVINS. The reliability of service is rather high percentagewise. We still want 100 percent. We want no more blackouts.

Have you found the answer and the methods for preventing it in the future?

Mr. WHITE. I think every one of us, Mr. Chairman, is leery of this. I don't know how we can avoid a blackout next week, but——

Mr. EVINS. The Office of Emergency Planning said it found the answer.

Mr. WHITE. We ought to get together with those fellows.

Mr. EVINS. This has all been very interesting and helpful. We hope for constructive discussions on the jurisdiction and the operations of the Commission.

I like your introductory statement. Among many other things, you insure an adequate supply of low-cost energy to the Nation.

We discussed the recreational developments. You talk about new regulatory techniques. The Commission should be sharp with regard to updating.

The Commission now is down to normal working inventory. You can concentrate now on your major responsibility of regulating in the public interest. You state this in your justifications.

Programs are underway to improve the activities of the two industries in the interest of the consuming public. The revitalized

national power survey, which you discussed, the hydroelectrical recreation program, the annual earnings studies of the natural gas pipelines and, in a larger sense, the area rate program and wholesale electric rate work. My question earlier was what does this show? They are in sound condition, are they not?

Mr. WHITE. Yes, sir.

Mr. EVINS. Processing of applications has been accelerated by the use of automatic data processing technique.

POWER POOLS

Huge interconnected power pools are changing the character of the industry. My question is, How is this changing the regulatory problems?

Mr. WHITE. Basically this industry, which grew up with sort of a concept of vertical integration, or in short, they had a geographical area which was theirs to serve, they would generate the electricity, transmit it, distribute it, do everything in their geographical corner of the country.

Technology has gotten now to the point, Mr. Chairman, where there are tremendous benefits if the company or the utility, it might be a co-op or a municipal system, is able to link itself to the adjoining utilities which supply electricity and generate it. By doing this they are able, first of all, to achieve greater reliability because it means if their own system falters, or a piece of it falls apart, they have a neighbor to call on.

In order to do that they have to make sure that they have the adequate transmission line capacity, that their neighbors have the adequate generating capacity to give to them on a spare basis, and this has given a new concept and coordination of systems. These are the new concepts we are working with. This has changed the character of our duty.

UNIFORM SYSTEM OF ACCOUNTS

Mr. EVINS. Uniform system of accounts is being reevaluated and revised to stay abreast of changing accounting methods.

You really do not have a uniform accounting system. Each utility has its own system.

You try to have standards to arrive at a basis for judgment. Is that correct?

Mr. WHITE. We do have a uniform system of accounts which all companies are required to follow. We have also undertaken to encourage and work with the State commissions so that if they find our concepts acceptable, and we find theirs acceptable, it will be a lot easier for the individual company——

Mr. EVINS. How often does the representative of the Federal Power Commission go into the offices of the major electric utilities of the Nation and look at their books?

Banks are audited under the FDIC. The Federal Savings and Loan are checked by the Home Loan Bank Board. Other inspections are made periodically.

How often are the books of the giant utilities given a good examination?

Mr. WHITE. I would like to be able to say it is done annually. I cannot say that again because of this case of priorities in the use of our people in areas we think are most important.

We can ask our chief accountant. He might have a figure at the tip of his fingers.

Mr. EVINS. Mr. Litke, do you go into the offices or do you just review the reports of the companies?

Mr. LITKE. Our current surveillance program for the companies under our jurisdiction has been in effect for about 3 years. Under current staffing, the program permits an on-site examination of each utility's records about once every 5 or 7 years. Between examinations, however, annual reports are reviewed by the staff to determine that unusual situations do not require immediate reexamination.

This program was created in 1964 in view of our recognition of the need for a closer look at the activities of our jurisdictional companies. After the original cost studies ending in the 1940's, the staff of necessity had to concentrate on the large backlog of gas rates proceedings so that auditing of companies, especially electric companies, was not possible.

We have about 50 auditors to cover about 300 companies. In addition we have in the neighborhood of 300 to 400 licensees who have to be reviewed. This is our workload. We just do not have the staff to do it all on a reasonably current basis.

We have started hopefully on a revised program and hope to be able to cover each utility once in 5 to 7 years. Under current conditions our goals may be overoptimistic.

Mr. EVINS. How many major companies do you say there are?

Mr. LITKE. We classify the companies as class A and class B, depending on the gross revenue. Companies having annual electric or gas operating revenues in excess of $1 million are in these categories, there are about 200 electric and about 80 gas companies classified as A or B.

Mr. EVINS. Do you require annual or semiannual filings of accounting statements?

Mr. LITKE. We require an annual filing from each company.

Mr. EVINS. What do you do with these after they come into the Commission?

Mr. LITKE. We review them.

Mr. EVINS. After you review them what do you recommend?

Mr. LITKE. If we find errors we write to the companies and request explanations, and if warranted corrections.

Mr. EVINS. If they refuse to do what the Commission says what do you do next?

Mr. LITKE. We refer the matter to our legal counsel who proceeds on a legal basis.

Mr. EVINS. Do you have any record of corrections that you can point to with pride?

Mr. LITKE. Yes, sir.

Mr. EVINS. Spell some out for the record. It would be good reading. Fill this in for the record, please.

(Information supplied follows:)

Electric and natural gas companies—Adjustments to plant accounts, Jan. 1, 1963 through Dec. 31, 1966

[Dollar amounts in thousands]

	Electric	Natural gas pipeline companies	Total
Number of reports issued	21	27	48
Adjustments by types:			
Profits to affiliated companies	$76	$7,937	$8,013
Reclassification of accounts		12,870	12,870
Expenses and minor items capitalized erroneously	609	1,740	2,349
Interest, taxes, etc., capitalized incorrectly	3,582	5,796	9,378
Loans and deposits capitalized		4,693	4,693
Plant costs improperly classified as to class of plant	19,091	4,487	23,578
Unrecorded retirements	2,512	378	2,890
Inventory capitalized	1,184	4,907	6,091
Excess of original cost of acquired property	620	889	1,509
Accounting errors	387	344	731
Various and numerous adjustments of minor amounts under $100,000	13	387	400
Publicity and public relations expenses improperly capitalized	203		203
Total	[1] 28,277	44,428	[1] 72,705

[1] $4,600,000 of organization expenses are also being eliminated from the accounts.

NOTE.—In addition to the above adjustments about 185 procedural changes were recommended and agreed to by the companies.

As of Dec. 31, 1966, the depreciation annual accrual rates and the depreciation reserve have been reviewed and separate studies have been prepared on 80 class A and B electric companies. The reserves on these 80 companies were considered deficient by $216,000,000 on $23,000,000,000 of depreciable plant out of a possible $50,000,000,000.

Reserve and current accrual rates were considered adequate on 52 of the 80 companies.

Mr. O'CONNOR. All the utilities in our jurisdiction have to maintain their records according to our Uniform System of Accounts. They haven't their own system.

Mr. EVINS. You are striving toward this end.

Mr. O'CONNOR. Largely this is done, even by those not under our jurisdiction.

Mr. EVINS. You say activities exert a considerable influence on decisions of various State commissions and reduce the tendency for unwarranted financing demands during periods of inflation.

Seven percent is the expected annual growth rate of the electric power industry during the next decade.

SUMMARY OF OPERATIONS

We shall place pages 1 through 10 in the record.

(Pages follow:)

INTRODUCTION

The programs of the Federal Power Commission in general are designed to insure the most comprehensive use of the nation's water power resources; to encourage expansion of the electric power and natural gas industries in the public interest; and to fix just and reasonable rates for interstate sales at wholesale of both gas and electricity. Thus, the Commission plays a most important role in insuring an adequate supply of low-cost energy to the nation.

The tasks of the Commission have increased substantially over the past few years. This was due, both to court decisions sustaining our jurisdiction over the wellhead price of natural gas and over the sales of electricity at wholesale in interstate commerce and, to the efforts of the Commission itself in carrying out its responsibilities under the law as fully as intended under the Natural Gas and Federal Power Acts. Also contributing to the increased work has been the steady growth in size and complexity of the natural gas and electric power industries.

The character of the work has also been changing in response to the demands of the public. This demand now requires that hydroelectric projects provide for recreational opportunities as well as for power needs and adequate supplies of water for human consumption. Competition among pipeline companies for the right to serve the same geographic areas is increasing. In deciding between competitors the Commission must hold complex comparative hearings involving difficult economic and technological judgments. The formation of larger electric power pools and increasing reliance upon electric power service require intensive study and new regulatory techniques. These and other recent developments make the process of arriving at the delicate balance of fair treatment to the industry, to energy consumers, and to the users of water power resources increasingly difficult and demanding on staff resources.

The experience of recent power failures and their consequences imply that no effort should be spared in devising measures to minimize the size and frequency of such interruptions. The Federal Power Commission will continue to explore every conceivable method that might lessen service interruptions from any foreseeable cause. The electric power industry is cooperating through advisory groups on reliability of bulk power and the development of operational procedures for rapid restoration of service.

The Commission is now down to a normal working inventory of cases, even though it is growing in some areas, and we are catching up on our producer workload. We can concentrate now on our major responsibility of regulating for the public interest—which not only is our concern for the consumer but also encompasses within it concern for the industry as well, in addition to the broader consideration of national growth and the wisest and most efficient use of our natural resources.

Programs are under way to improve the activities of the two industries in the interest of the consuming public. The revitalized National Power Survey, the hydroelectric recreation program, the review of adequacy of gas reserves, the annual earnings studies of the natural gas pipelines, and, in a larger sense, our area rate program and wholesale electric rate work are some of the more outstanding programs.

The Commission has continued to improve its procedures and techniques for tighter operational efficiency and economy. The processing of applications and other filings has been accelerated. The use of automatic data processing is expediting the collection and analysis of the expanding volume of information required for informed regulation. Our comprehensive studies of the changing economics and technology of the industries we regulate and staff participation in hearings have substantially improved through the increased experience and competence of our professional employees. Increased productivity in quantitative workload areas and increased capability in qualitative areas have made available the personnel needed to stay current with our more complex workloads with only modest increases in personnel. These improvements have been taken into account in establishing financial needs.

This budget shows the changing complexity of the two industries and the Commission's regulatory tasks. In the past, our efforts were directed mainly to reducing backlogs and reactivating certain regulatory programs which we felt had been overlooked too long. During this period, new problems came before the Commission of a widely different and more sophisticated character. In the natural gas area, competition has raised more complex regulatory problems. In the electric power area, huge interconnected power pools are changing the character of the industry and its regulatory problems. These changes do not readily lend themselves to quantitative measurement or problem solving. This budget reflects the qualitative criteria which must be employed to measure accurately the Commission's program needs.

We are placing increased emphasis on the Commission programs to encourage voluntary interconnection and coordination of electric power systems, to strengthen system stability and quality of service to the public, to stimulate both industries to take advantage of new technology, and to bring about reductions in costs and rates. Many segments of the electric industry are participating in our effort to update the National Power Survey and to encourage better system planning and operation. The Uniform System of Accounts is being reevaluated and revised to stay abreast of changing accounting methodology. All other activities of the Commission that will pay dividends in terms of effective regulation will be emphasized.

The anti-inflationary effects of the Commission's actions cannot be overlooked in the review of the budget since nearly all have a significant impact not only on

the price areas but also on the investment requirements for industry expansion. The Commission has positive control over prices subject to its jurisdiction, through proceedings and investigations which lead to many voluntary as well as ordered rate reductions. This activity also exerts considerable influence on the regulatory decisions of state utility commissions. Capital expansions in pipelines, hydroelectric plants, and other facilities have to meet the test of public interest, need, and effective use of natural resources before approval, thus reducing the tendency for unwarranted financing demands during periods of inflation and funding scarcity.

The natural gas and electric power industries will continue to expand in relation to population growth and as the per capita consumption of their products rises. The electric power industry is expected to continue its 7 percent annual growth rate during the next decade. The 67 percent increase projected in natural gas sales between 1966 and 1975 is comparable to the 66 percent growth between 1956 and 1965. The rate of the industries' growth also reflects to a considerable degree the increased workload of the Commission and gives us an insight into the workload facing us in the next few years.

EXPLANATION OF APPROPRIATION LANGUAGE CHANGES

Language changes reflect the 1968 appropriation estimate of $14,530,000, and the revised citation for hire of consultants due to recodification of Title 5, U.S. Code.

Summary of estimates and increases by activity, fiscal year 1968 salaries and expenses

	1967 estimate		Change		1968 estimate	
	Positions	Funds	Positions	Funds	Positions	Funds
Natural gas industry	578	$6,889,000	+15	+$223,000	593	$7,112,000
Electric power industry	502	6,248,000	+3	+87,000	505	6,335,000
Administration	92	1,083,000			92	1,083,000
Total	1,172	14,220,000	+18	+310,000	1,190	14,530,000

NARRATIVE SUMMARY OF BUDGET REQUEST

The Federal Power Commission will require $14,530,000 for fiscal 1968, an increase of $310,000 over the $14,220,000 required for 1967. A supplemental estimate of $220,000 is included in 1967 to cover cost-of-pay increases. Fifteen additional positions are needed in natural gas work, primarily for producer operational and legal workloads. An increase of three positions is needed in electric work to meet growing corporate regulation work in the electric utility operations and recapture work in the hydroelectric operations. The total request represents a net increase of 18 positions with shifts between programs where possible to effect the most economic use of personnel.

An estimated $6,635,881 will be collected in 1968 as a result of Federal Power Commission operations, $3,337,423 of which will accrue to the United States Treasury as miscellaneous receipts, $2,970,137 to other Federal funds, $241,781 to Indian tribes, and $86,540 to various states. This estimate includes $1,100,000 in fees for pipeline certificates.

The increase of 15 positions in natural gas work reflects in part the growth in the size and complexity of the industry and the corresponding increase in our regulatory task. Three of these positions are needed for producer rate filing work and twelve for legal procedures and operations, two of which are for producer rate casework, three for area rate casework, and seven for comparative pipeline certificate casework.

An increase of three positions is required for electric power work, of which one position is required for the increased legal work in connection with processing corporate applications for mergers and two positions are for the effort anticipated for recapture of projects whose licenses are expiring.

The requested increase of $310,000 over 1967 consists of the following:

Personnel compensation	+$258,000
Personnel benefits	+17,000
Travel	+60,000
Rents, communications, and utilities	−10,000
Printing and reproduction	+23,000
Equipment	−38,000
Total, appropriation increase	+310,000

Mr. EVINS. Page 8 shows a summary. You want $7,112,000, and an increase of 15 in personnel for the natural gas industry. For the electric power industry you want $6,335,000.

You stated earlier you had flexibility, where you could transfer your staff to any function or any service you wished.

Mr. WHITE. Yes, sir. It is very helpful to us when situations develop.

Mr. EVINS. Could you not absorb the Pay Act in 1967 without sending up a supplemental?

Mr. WHITE. We did absorb some of it, Mr. Chairman. I think the total came to something on the order of $370,000. Here we are asking for $220,000. We had a little exercise where we managed to find $50,000 of it and then somebody pressed us a little bit and found $100,000 more.

I think frankly, sir, when we talk about our responsibilities and what we had to accomplish, I thought we did rather well.

SOURCE AND APPLICATION OF FUNDS COLLECTED

Mr. EVINS. About $6,635,000 is to be collected as a result of your operations, of which $3.3 million will be going to the U.S. Treasury; $2,970 million will go to other Federal funds; and then there will be certain amounts to various States and Indian tribes.

Mr. WHITE. Yes, sir.

Mr. EVINS. Insert in the record pages 11 through 13.

(The pages follow:)

Source and application of funds collected from all sources

	1966 actual	1967 estimate	1968 estimate
1. Source of funds:			
Annual fees from licensees:			
Collections for administering part I of the Federal Power Act	$2,110,514	[1] $2,798,269	$2,029,826
Collection for use of Federal lands	190,332	275,482	230,774
Collection for maintenance of navigation	307,455	307,455	307,500
Fines, penalties and other forfeitures	23,500	15,000	15,000
Collection for use of Indian lands	241,758	241,781	241,781
Oregon and California land grant	1,003	1,000	1,000
Subtotal, annual fees from licensees	2,874,562	3,638,987	2,825,881
Headwater benefit payments	2,848,650	3,000,000	2,700,000
Subtotal, collections under section 10(e) of the Federal Power Act	5,723,212	6,638,987	5,525,881
Sale of publications and miscellaneous services	12,469	10,000	10,000
Repayment for cost of remedial works at Niagara River	[2] 90,980		
Pipeline certificate fees	81,134	600,000	1,100,000
Subtotal, other collections	184,583	610,000	1,110,000
Total collections	5,907,795	7,248,987	6,635,881
2. Application of funds:			
Credited to "Miscellaneous receipts," U.S. Treasury:			
Collections for administering part I of the Federal Power Act	2,110,514	[1] 2,798,269	2,029,826
Portion of collection from projects on Federal lands	23,792	34,434	28,847
Portion of collection for maintenance of navigation	153,728	153,728	153,750
Sale of publications and miscellaneous services	12,469	10,000	10,000
Fines, penalties and other forfeitures	23,500	15,000	15,000
Repayment for cost of remedial works at Niagara River	[2] 90,980		
Pipeline certificate fees	81,134	600,000	1,100,000
Subtotal, "Miscellaneous receipts"	2,496,117	3,611,431	3,337,423
Payment to various States (37½ percent of collections from projects on Federal lands)	71,374	103,306	86,540
Payment to Reclamation Funds from collections from projects on Federal lands including headwater benefits	2,086,466	2,237,469	1,915,137
Special fund for Department of the Army, to maintain navigation, includes headwater benefits	1,011,077	1,054,000	1,054,000
Oregon and California land grant fund	1,003	1,000	1,000
Collection for use of Indian lands	241,758	241,781	241,781
Total payments	5,907,795	7,248,987	6,635,881

[1] Includes $691,886 a nonrecurring retroactive annual charge for New York Power Authority held in suspense due to payment under protest as to validity and amount of charges.

[2] Pursuant to Commission order issued June 1, 1965, all subsequent costs will be paid directly to the Hydro-Electric Power Commission of Ontario and the Corps of Engineers by the New York Power Authority.

COLLECTIONS

The Commission expects to collect $6,635,881 in 1968. This is $613,106 less than the 1967 estimate of $7,248,987, a decrease mainly due to the inclusion of retroactive annual charges for the New York State Power Authority in 1967 that are in a suspense account awaiting the results of litigation.

The bulk of the upward trend in collections is attributable to the establishment of fees for pipeline certificate applications that are expected to bring $600,000 into the Treasury in 1967 and $1,100,000 in 1968.

In prior years, headwater benefit payments were collected into the miscellaneous receipts account. The Comptroller General has recently ruled that these funds should properly accrue to the construction agencies, Army and Reclamation, in direct ratio to benefits derived. This transfer was made retroactively and is reflected in the source and application of funds table for the three years of the budget.

HEADWATER BENEFIT PAYMENTS

Mr. EVINS. How about the Headwater benefit payments? Spell these out. This is a new law. From whom is this collected and to whom are payments made?

(The summary follows:)

Headwater benefits derived from licenses issued by authority of the Federal Power Act

Project No.	Licensee	Amount
178	Pacific Gas & Electric Co	$12,500
271	Arkansas Power & Light Co	69,360
309	Pennsylvania Electric Co	2,150
382	Southern California Edison Co	32,150
943	Public Utility District No. 1 of Chelan County	632,300
1869	Montana Power Co	187,500
2009	Virginia Electric & Power Co	559,990
2042	Public Utility District No. 1 of Pend Oreille County	51,000
2058	Washington Water Power Co	252,600
2114	Public Utility District No. 2 of Grant County	450,200
2145	Public Utility District No. 1 of Chelan County	453,900
2145	Public Utility District No. 1 of Chelan County	145,000
	Total	2,848,650

Mr. WHITE. The headwater benefits are those increases in the value of a project owned or operated by a licensee which come from other adjoining projects. Clearly on one hydroelectric project on a river if it has a more even flow of water or more controllable flow of water its own output is enhanced by that amount. It is regarded as feasible and appropriate for whoever realizes benefits from somebody else's investment to pay for it. This is one of the functions which has been given to the Federal Power Commission, to make the determination as to what these headwater benefits should be.

It is indeed a most complicated and complex analysis which must be gone through to arrive at a figure, and we have also——

Mr. EVINS. To whom are these benefit payments made as required under the statute?

Mr. WHITE. It goes to whoever is the producer of the reason that there is a benefit. In short, if it is a Federal project which enhances the value of a privately owned project then it is the Federal Government to whom that particular benefit is paid.

Within the Federal Government payments received for headwater benefits provided by projects of the Bureau of Reclamation are deposited in the reclamation fund and all other payments are deposited in a special fund for the Department of the Army.

Mr. EVINS. I thought most of the benefits went to the reclamation fund.

Mr. WHITE. Yes, of the payments received to date, $7.9 million have been deposited in the reclamation fund and $3.1 million in the special fund for the Department of the Army.

PIPELINE CERTIFICATE FEES

Mr. EVINS. I note your sources of funds, pipeline certificate fees go up from $81,000 to $600,000 and they are estimated to be $1,100,000 in 1968. This is a substantial increase.

Mr. WHITE. It is. This reflects the fact that the program just now is getting underway.

I don't know that we will be at full tilt in 1968. Full tilt would have it even higher than $1.1 million. This is our goal, however, to get this as rapidly as possible to the point where the applicants for

these certificates are paying these substantial costs of processing these applications.

We are hopeful that this will be done. I think the concept has been accepted by the industry and it is just a case of implementing it and getting it going.

Mr. EVINS. You indicate fines, penalties, and forfeitures, $23,000, $15,000, $15,000. Where do these go, into the Treasury?

Mr. CAPAR. Yes, sir.

Mr. WHITE. I must confess I am not certain that I have actually seen any of these particular fine situations develop. Perhaps we can ask Mr. Capar.

Mr. CAPAR. These are very small penalties, sir. If a licensee is late in getting his amount of money in on time there is a penalty assessed by the act. There are very, very few of these. As a matter of fact, the collections we had for 1966 came mostly from one company. We will supply a table for the record.

(The information follows:)

Proceeds derived from penalties assessed for delinquency in payment of annual charges (collected in the fiscal year ended June 30, 1966)

Project No.	Licensee	Amount
1880	Calvert Corp.	$2.40
1949	James Sumpter	2.32
1986	California-Pacific Utilities Co	5.03
1989	Wisconsin Public Service Corp.	2.88
2053	Fall River Exploration & Mining Co	4.60
2102	Warrior River Electric Cooperative Association	449.52
2264	Chatanika Power Co.	99.69
2009	Virginia Electric & Power Co.	22,933.92
	Total	23,500.36

Mr. EVINS. The giant power companies do not even consider this, do they?

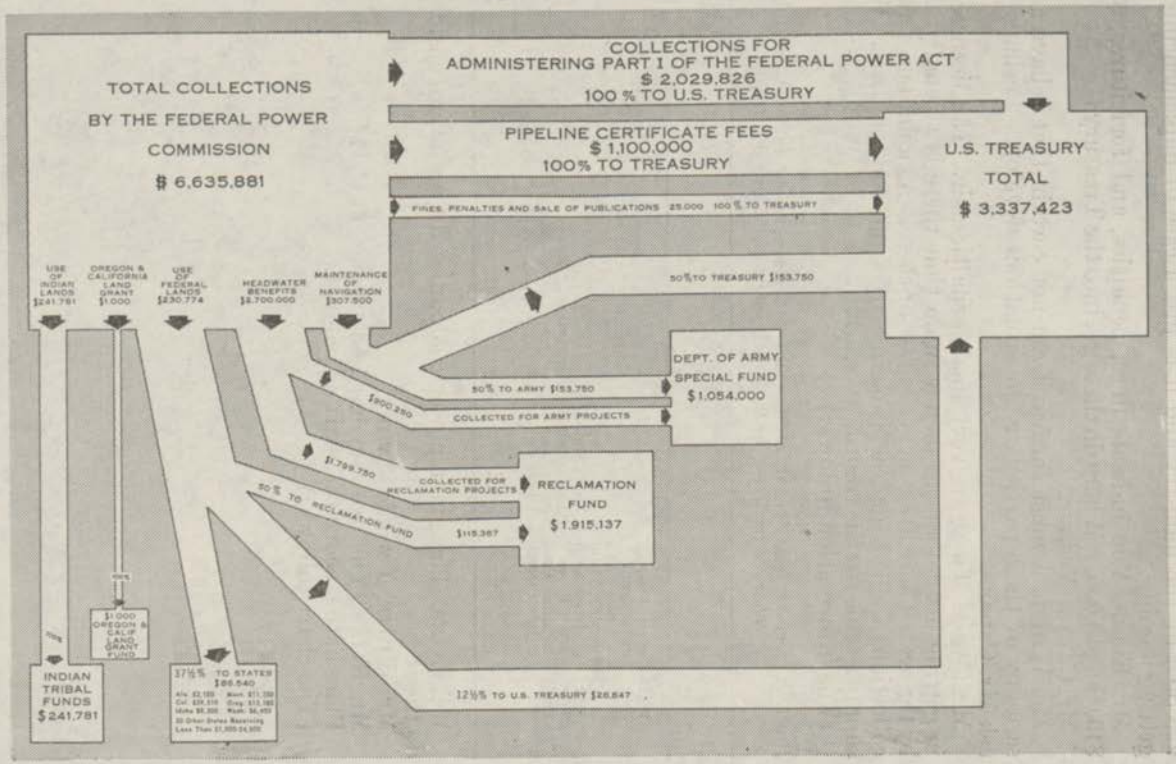
Mr. WHITE. I would say not.

Mr. EVINS. You are very hard on them. That is fine.

Place in the record the chart on page 14.

(The chart follows:)

SOURCE AND APPLICATION OF FUNDS COLLECTED BY THE FEDERAL POWER COMMISSION
F.Y. 1968 Estimate



Mr. EVINS. This chart is interesting, it indicates where you distribute the fees, fines, and assessments collected.

Mr. WHITE. As I recall, Mr. Chairman, you asked for that last time and that is the reason it is here.

Mr. EVINS. These are pinpointed by statute. Some of this goes to Indian tribes, some to the reclamation fund, and about one-half is recovered into the Treasury.

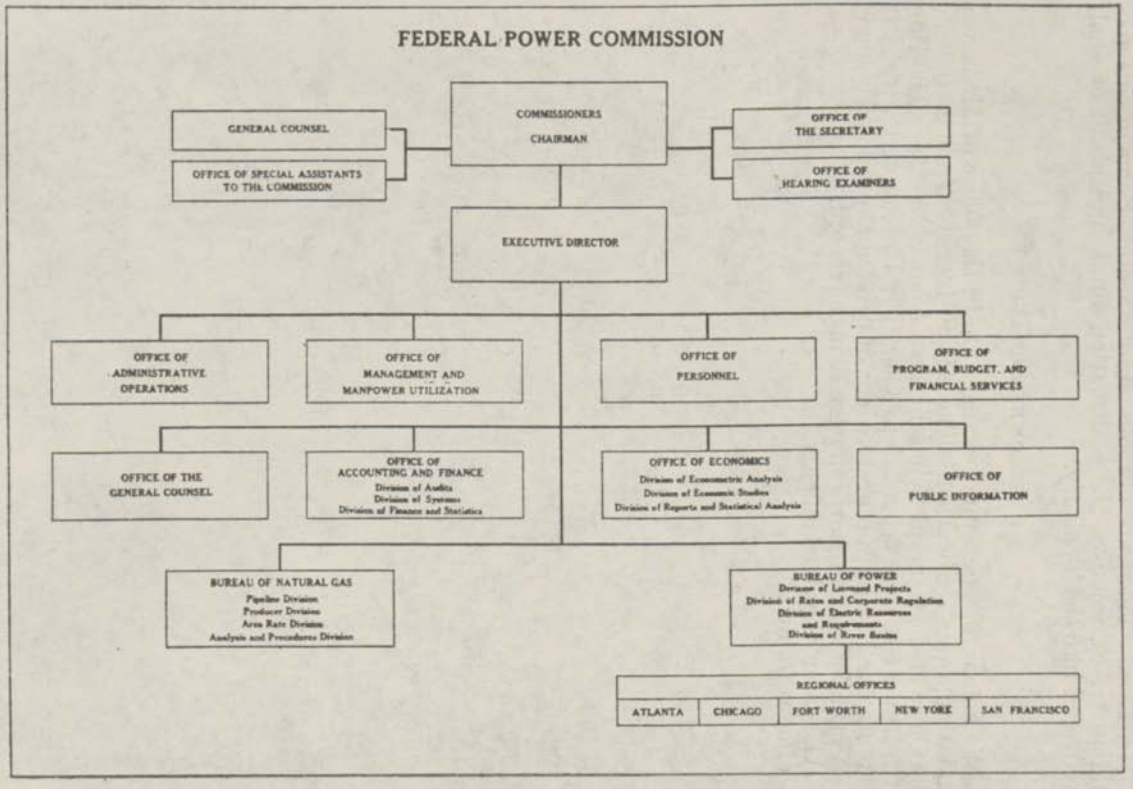
PERSONNEL CHANGES

We notice that personnel changes are in the Office of Management and Manpower Utilization. There is an increase from 23 to 28. In the Office of the General Counsel it goes from 123 to 125. The Bureau of Natural Gas goes from 325 to 335. The Bureau of Power is from 293 to 294. There are four divisions of personnel proposed changes.

We shall place the charts on page 15 in the record.

Also insert the chart on page 18.

(Pages follow:)


FEDERAL POWER COMMISSION
COMMISSIONERS
CHAIRMAN
GENERAL COUNSEL
OFFICE OF SPECIAL ASSISTANTS TO THE COMMISSION
OFFICE OF THE SECRETARY
OFFICE OF HEARING EXAMINERS
EXECUTIVE DIRECTOR
OFFICE OF ADMINISTRATIVE OPERATIONS
OFFICE OF MANAGEMENT AND MANPOWER UTILIZATION
OFFICE OF PERSONNEL
OFFICE OF PROGRAM, BUDGET, AND FINANCIAL SERVICES
OFFICE OF THE GENERAL COUNSEL
OFFICE OF ACCOUNTING AND FINANCE
Division of Audits
Division of Systems
Division of Finance and Statistics
OFFICE OF ECONOMICS
Division of Econometric Analysis
Division of Economic Studies
Division of Reports and Statistical Analysis
OFFICE OF PUBLIC INFORMATION
BUREAU OF NATURAL GAS
Pipeline Division
Producer Division
Area Rate Division
Analysis and Procedures Division
BUREAU OF POWER
Division of Licensed Projects
Division of Rates and Corporate Regulation
Division of Electric Resources and Requirements
Division of River Basins
REGIONAL OFFICES
ATLANTA
CHICAGO
FORT WORTH
NEW YORK
SAN FRANCISCO

Summary of activities—1968 budget to Congress

Activity and program	1966 actual		1967 estimate		1968 estimate		Change from 1967	
	Positions	Cost	Positions	Cost	Positions	Cost	Positions	Cost
I. Natural gas industry:								
A. Producer operations	108	$1,225,514	114	$1,368,000	117	$1,417,000	+3	+$49,000
B. Pipeline operations	150	1,699,250	150	1,795,000	150	1,795,000		
C. Legal procedures and operations	293	3,286,846	293	3,473,000	305	3,647,000	+12	+174,000
D. Research and analysis	22	248,076	21	253,000	21	253,000		
Total cost	573	6,459,686	578	6,889,000	593	7,112,000	+15	+223,000
Salary		5,447,073		5,975,000		6,185,000		+210,000
Travel		37,752		38,000		53,000		+15,000
Other		974,861		876,000		874,000		−2,000
II. Electric power industry:								
A. Electric utility operations	112	1,341,356	108	1,327,000	109	1,360,000	+1	+33,000
B. Hydroelectric operations	182	2,319,908	190	2,478,000	192	2,532,000	+2	+54,000
C. Legal procedures and operations	59	699,019	61	739,000	61	739,000		
D. Research and analysis	136	1,586,398	143	1,704,000	143	1,704,000		
Total cost	489	5,946,681	502	6,248,000	505	6,335,000	+3	+87,000
Salaries		4,848,599		5,197,000		5,245,000		+48,000
Travel		261,457		284,000		329,000		+45,000
Other		836,625		767,000		761,000		−6,000
III. Administration								
A. Commission	32	537,420	34	595,000	34	595,000		
B. Personnel management	18	149,616	18	154,000	18	154,000		
C. Financial management	23	200,214	23	205,000	23	205,000		
D. Administrative support (partial)	17	126,528	17	129,000	17	129,000		
Total cost	90	1,013,778	92	1,083,000	92	1,083,000		
Salaries		859,628		928,000		928,000		
Travel		17,233		18,000		18,000		
Other		136,917		137,000		137,000		
Grand total cost	1,152	13,420,145	1,172	14,220,000	1,190	14,530,000	+18	+310,000
Salaries		11,155,300		12,100,000		12,358,000		+258,000
Travel		316,442		340,000		400,000		+60,000
Other		1,948,403		1,780,000		1,772,000		−8,000
Change in selected resources		−36,104						
Total obligations		13,384,041		14,220,000		14,530,000		+310,000
Unobligated balance		145,959						
Appropriation or estimate		13,530,000		14,220,000		14,530,000		+310,000
Supplemental required				220,000				

Mr. EVINS. We discussed at length the natural gas industry, the volume of business. The chart shows the growth, plant investment, gas requirements, and rate filings. With the growing population, increasing number of users, and volume of sales, should not the price of gas to the consumer go down?

Mr. WHITE. It has stayed comparatively constant but that is not the question you asked.

Mr. Chairman, I would say it is a tough one because this is a depletable resource which competes with other fuels, coal and fuel oil.

I think the Commission's responsibility is to watch it carefully. We are exercising that responsibility. I am not prepared to say if it just stays even we have not done our job effectively.

I think, frankly, when you consider the way other prices have gone up the record is not bad. If I sound a little too satisfied I am not. We are at this all the time, Mr. Chairman.

Mr. EVINS. We mentioned the growing national concern with air pollution, resource depletion, and aesthetics. Are more variable factors coming into analysis by the Commission?

Mr. WHITE. Yes, sir.

Mr. EVINS. Then you state that the need to regulate our analyses to an ever-broadening concept of "best interest" is approaching the point where our traditional operating practices will no longer enable us to do our job.

PUBLIC INTEREST

Are you looking at the best interest or keeping in your minds the public interest?

Mr. WHITE. I would say, Mr. Chairman, the public interest today means more than it meant 15 years ago in terms of our responsibility and the way we look at these problems. It is broader and it encompasses more.

Mr. EVINS. The best interest relates to the company, the consumer, the beautification, and the aesthetic value. The best interest seems to be broader than the public interest.

Mr. WHITE. No, I think I would rather stick with the words "public interest."

Mr. EVINS. What is the "best interest"? You used that expression.

Mr. WHITE. Now that you raise the question I would as soon change the word "best" to "public."

Mr. WYMAN. Public interest also requires the preservation of the profit motive, does it not?

Mr. WHITE. Indeed. That is part of what Chairman Evins said when he spoke of the companies and the strength of them. That is one of the elements. There is no question about that.

Mr. EVINS. You talk on page 23 about the *Permian Basin* case.

There is a 2-year moratorium on rate increases provided for in the decision, and the Commission must devise procedures and establish standards in order to begin the important task of reviewing future rate increase proposals.

Have you not already done this?

Mr. WHITE. No, we have not. This gets to that point of the second round. We have concentrated on getting these prices set in each major gas producing area for the first time. This is new and we are doing it.

We also have to take into account, and the point was raised earlier, that by the time this is done it is time to start over again. The question is how to start it all over again, whether it should be on a national basis, whether it should be sort of a deviation from what has been said is the initial area rate.

We have not yet focused on that. That is one of the assignments we have lying ahead of us.

PRODUCER CERTIFICATE

Mr. EVINS. The table on page 25 shows the workload of producer certificates.

Estimated on hand at the end of 1968 will be 1,403. You go up and down but wind up at about the same level.

Mr. WHITE. Yes, sir.

Mr. EVINS. The Commission has modified its procedures to hasten disposition of uncontested applications, permitting about 90 percent of all producer certificate cases to be disposed of under our streamlined procedures.

Mr. WHITE. Yes. That might seem like we are being a little relaxed about it but it is rather interesting the way this industry has developed.

The distributors, and they have people who sit on the State regulatory commissions who are concerned about how their own consumers are treated, watch these things like hawks. They should.

Whenever one of these problems comes in we see that we get whatever benefit there is in the adversary proceeding by virtue of the distributors coming in very promptly and very effectively to argue their case in favor of lower rates.

Mr. EVINS. The maximum number of certificate applications being processed at any given time should not exceed 650 if the interests of the applicants are to be served fairly.

Why is this?

Mr. WHITE. This basically is kind of an operating number that our people have found to be most satisfactory in the past. It doesn't mean that if circumstances change we would not find a 1,000 certificate application to be a suitable number we can handle.

Mr. EVINS. As producers and pipelines become more accustomed to regulation they are likely to develop more sophisticated contractual provisions.

They are not outsmarting the Commission staff, are they?

Mr. WHITE. I hope not.

Mr. EVINS. Producer rate filings are shown. Don't let them get too smart for you, Mr. Chairman.

Mr. WHITE. All right.

PRODUCER INVESTIGATIONS

Mr. EVINS. Look at the table on page 27 and the table on page 28. Producer investigations—you estimate that you will have three on hand. What is the nature of producer investigations?

Mr. WHITE. These are basically a review of the problems that the producers in areas find. This is what you might call an extension of this area rate concept to treating these major producing areas in the country as a unit and beginning to investigate their peculiar problems and difficulties.

Mr. EVINS. Now that the *Permian* opinion has been issued, the Commission must decide how to gather the information required.

How about the public concern for dangerous, exploding, or escaping gaslines? We touched on this earlier. Do you issue regulations? Does the Commission direct that the lines be so many feet underground or they put them on top of the land? Is there a regulation here?

Mr. WHITE. We do not have authority over the interstate pipelines insofar as the safety of the existing lines are concerned.

Mr. EVINS. Don't you think this is an area for the recommendation of legislation to the Congress?

Mr. WHITE. We have so proposed, that this Commission have jurisdiction. We have done this in the past 10 years.

The President has come out with a slightly broader recommendation which will be before the Congress.

My own instincts are that the President is on the right track. This Commission would have considerable difficulty having safety jurisdiction over local distribution companies, but the Department of Transportation does not suffer that disadvantage.

REFUNDS AND RATE REDUCTIONS

Mr. EVINS. In the past few years the Commission has ordered approximately $1 billion in refunds and rate reductions to be made by the interstate pipelines to distributing utilities. How much passed on to the consumer?

Mr. WHITE. I haven't a precise figure on that. However, I can tell you that increasingly the State agencies, the newspapers, and all who follow our activities make a little bit of fuss about it. If the gas will cost less to the distributor they assume it should cost less to the consumer.

Mr. EVINS. That would be our concept, too. The Commission should know how much is passed on to the consumer, I would think.

Mr. WHITE. We have here a precise listing of the refunds we have ordered.

Mr. EVINS. What period of time?

Mr. WHITE. Rate reductions from fiscal year 1961 through 1966.

Mr. EVINS. Does the chart show to whom it was distributed and how much went to the consumers?

Mr. WHITE. No. We can supply that for the record.

Mr. O'CONNOR. About 60 to 70 percent.

Mr. WHITE. Well over a half. It should be higher but it is pretty good.

(The requested information follows:)

The Commission has undertaken two surveys in recent years to chart the course of refunds through to the ultimate consumers. The first study was undertaken by the Commission in November 1962 and covered the period July 1, 1961, through October 31, 1962. The second survey undertaken in cooperation with the National Association of Railroad Utility Commissioners covers the period November 1, 1962, to June 30, 1964.

	Received from pipeline companies	Refunds made	Percent refunded
1st refund survey July 1, 1961–Oct. 31, 1962	$123, 624, 595	$73, 584, 847	59. 5
2d refund survey Nov. 1, 1962–June 30, 1964	403, 125, 750	315, 609, 659	78. 3
Subtotal	526, 750, 345	389, 194, 506	73. 9
Current refund data to June 30, 1965	108, 121, 336	[1] 79, 901, 000	
Total refunds	634, 871, 681	469, 095, 506	

[1] Applying average of refund percent of the 2 surveys.

Pipeline refunds and rate reductions ordered and/or accepted during the period July 1, 1960–June 30, 1966

[In millions of dollars]

Fiscal year	Pipeline	
	Refunds	Rate reductions
Rate cases:		
1961	58. 7	52. 9
1962	93. 3	20. 8
1963	330. 7	44. 5
1964	126. 0	30. 6
1965	108. 1	42. 0
1966	5. 0	10. 5
Subtotal	721. 8	201. 3
Earnings studies:		
1962		20. 5
1963		7. 5
1964		8. 6
Subtotal		36. 6
F.I.T. program:		
1964		13. 0
1965		6. 6
Subtotal		19. 6
Total	721. 8	257. 5

NOTE.—Total refunds and rate reductions ordered, $979,300,000.

Mr. EVINS. Here is the law that the chairman spoke of earlier—pipeline-rate-level-change filings are uncontrollable by the Commission in terms of volume or type but must be processed within the 30 days prescribed by statute, or they automatically become effective.

Is this a good procedure?

Mr. WHITE. We discussed that at some length. I would say it should be reexamined. We will do so.

Mr. EVINS. Look at the chart on page 35. I don't read this in depth as perhaps some of you do.

I see 101 at the beginning and 101 at the end being processed. You wind up with the same total of pipeline investigations.

Mr. WHITE. Yes, sir.

Mr. EVINS. Prior to fiscal 1964 the justness and reasonableness of pipeline company rates were determined only through rate increase filing. As a result, the pipeline companies earning in excess of their allowed rates of return simply refrained from filing new rate change proposals. Since then the investigations program has included the annual review of the earnings of each jurisdictional pipeline company.

You have an annual review.

Mr. WHITE. Yes, sir.

ON-SITE AUDITS

Mr. EVINS. The third area of effort is the on-site audits of the accounting transactions of the jurisdictional gas companies. What are the results? You say 107 financial reports of natural gas companies were analyzed in 1966 and 110 are expected to be reviewed in 1967 and 1968. Then you say the third area is on-site audits. What are the results from these on-site audits?

Mr. LITKE. We have during the past 3 years, 1964, 1965, and 1966, had a reduction of a rate base of about $26 million in the natural gas companies, through various accounting errors which were discovered.

Mr. EVINS. Did this result from the 107 financial reports that were filed or did it result from the on-site audits?

Mr. LITKE. The on-site audits.

Mr. EVINS. Of how many companies?

Mr. LITKE. Sixteen.

Mr. EVINS. And you have 300 of them?

Mr. LITKE. This is the gas segment we are talking about. In the gas area we have about 80.

Mr. EVINS. For 16 out of 80, you have had on-site inspections or audits?

Mr. LITKE. In the past 3 years.

Mr. EVINS. Are you a little behind in your work there, Mr. Litke?

Mr. LITKE. We certainly are. We have some suggestions before the Commission now which, hopefully, will speed this up some more.

Mr. EVINS. Very good.

You have legislation you are going to recommend. You also have several important legislative proposals awaiting congressional decision, including the broadening of the Commission's authority to secure operational information from the natural gas industry such as controlling stock interests, security issues, imports and exports of natural gas.

SUBPEONA POWER

What are the authorities in this field at present? Does the Commission have subpena power as to this information?

Mr. WHITE. The major difficulty in the informational area is not from the jurisdictional companies but from the nonjurisdictional companies. It would be very useful for our purposes if we were to be able to get information from the local-distribution companies. As it is, we rely upon information of trade associations. I think our work would be far more effective if we had this information.

NATIONAL GAS SURVEY

I might, at this point, Mr. Chairman, mention that we have discussed with the Budget Bureau the possibility of a national gas survey, somewhat analogous to that of the power survey.

The Budget Bureau did not recommend to the President nor did he recommend in the budget submitted to you any funds for that but I have been authorized to say that this should not be construed by us as a turndown, on behalf of the Budget Bureau, of this concept. They

are reviewing it, studying it. In the event it fits into some of the overall energy studies that the President is attempting to undertake, they would be disposed toward submitting this in the form of a revised appropriation request.

Mr. WYMAN. Do you mean to say there are distribution companies in this country that won't answer your questions about those aspects of their operations or holdings that would not necessarily, in the hands of a competitor, contribute to unfair competition? Do you mean that you contact them and they tell you they won't answer or they ignore your request?

Mr. WHITE. We really haven't the authority to go to them and ask for it because we have no jurisdiction over them. We have accessibility to the statistics of trade associations but not necessarily the information that our own staff believe would be helpful and useful in discharging our own responsibilities.

For example, one of the major concerns in this whole business, one of the main concerns is how much supply is there and what is the demand going to be? Now, these are pretty basic concepts. I am sorry to say we are able to make some guesses, we are able to take industry guesses and alter them, but we are not in a position to get our own basic data and compile our own figures.

Mr. WYMAN. What you mean, then, is that because this responsibility has not been placed upon you by legislation you have not asked for this information?

Mr. WHITE. That is correct. We have asked for the legislative authority.

Mr. WYMAN. You think you should ask for this information; therefore, you have asked for the legislative authority?

Mr. WHITE. Yes, sir.

Mr. WYMAN. Yes.

Mr. EVINS. These hearings show that the Appropriations Committee has been rather generous in their funds but what they need is legislative authority. They need to go to the legislative committee.

Mr. WHITE. We have knocked on those doors. We will continue to do so.

FPC ACTION AGAINST AIR POLLUTION

Mr. EVINS. The Commission has a statement in here saying that it is becoming more involved in issues such as air pollution. What action can you take in the matter of air pollution regulation? It is a nice subject in which there is a great deal of public interest and concern, but what, for the record is your authority?

Mr. WHITE. This, incidentally, fits, in my view, beautifully into what we mentioned before about the desirability of a national gas survey where we can go, in depth, into this subject with the industry themselves participating. But it so happens both of the industries that we regulate have a key role to play: natural gas in the sense that there are clear scientific data to support the fact that in certain areas the burning of natural gas would reduce the amount of pollutants or the type of dangerous pollutants that go into the atmosphere as distinguished from other fuels that are presently being burned. It is not without its difficulties. The scientific data that comes in is not yet so good as it ought to be.

Mr. EVINS. There is concern as to the need for action but you are not empowered or armed to act in this area, are you?

Mr. WHITE. We are, in a sense.

Mr. EVINS. By guidance?

Mr. WHITE. If an applicant comes in and says that one of the reasons "You should certificate our pipeline from one of the fields to this area where coal or oil is presently being burned, if you certificate this pipeline we will burn natural gas and thereby reduce the air pollution problem," we take that into account as a legitimate factor for us to focus on.

NATURAL GAS INDUSTRY

Mr. EVINS. Place in the record justification pages 19 through 48.

(The pages follow:)

I. NATURAL GAS INDUSTRY

Comparative summary of activity

	1966, actual		1967, estimate		1968, estimate	
	Positions	Funds	Positions	Funds	Positions	Funds
A. Producer operations	108	$1,225,514	114	$1,368,000	117	$1,417,000
B. Pipeline operations	150	1,699,250	150	1,795,000	150	1,795,000
C. Legal procedures and operations	293	3,286,846	293	3,473,000	305	3,647,000
D. Natural gas research and analysis	22	248,076	21	253,000	21	253,000
Total	573	6,459,686	578	6,889,000	593	7,112,000

The Commission in 1968 will require 593 positions, 2.6 percent more than this year, and $7.1 million for its natural gas work.

The natural gas industry is a dynamic segment of the U.S. economy and is expected to continue increasing in the next ten years as the demand for natural gas grows. Comparison of the two decades, past and future, shows conclusively the strength and vitality of the natural gas industry.

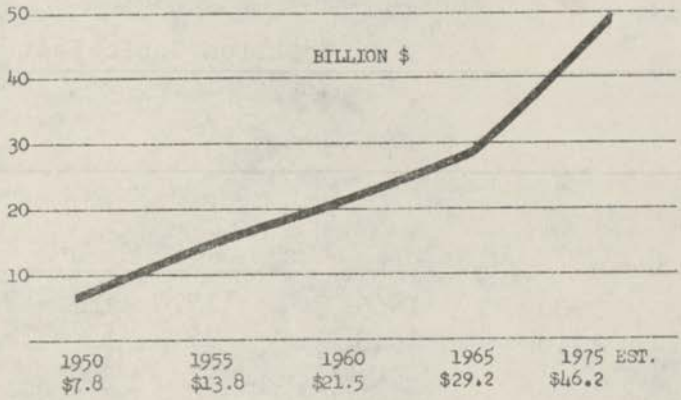
Gas industry growth comparisons

	1956-65		1966-75 estimate	
	Amount	Percentage	Amount	Percentage
Increase in sales (in billions of therms)	47.6	66	85.8	67
Increase in customers (in millions)	7.8	26	8.9	23
Plant investment (in billions of dollars)	[1] 15.4	112	14.9	48

[1] 1955-65.

Source: 1966 Gas Facts—1965 Data.

TOTAL GAS UTILITY AND PIPELINE PLANT

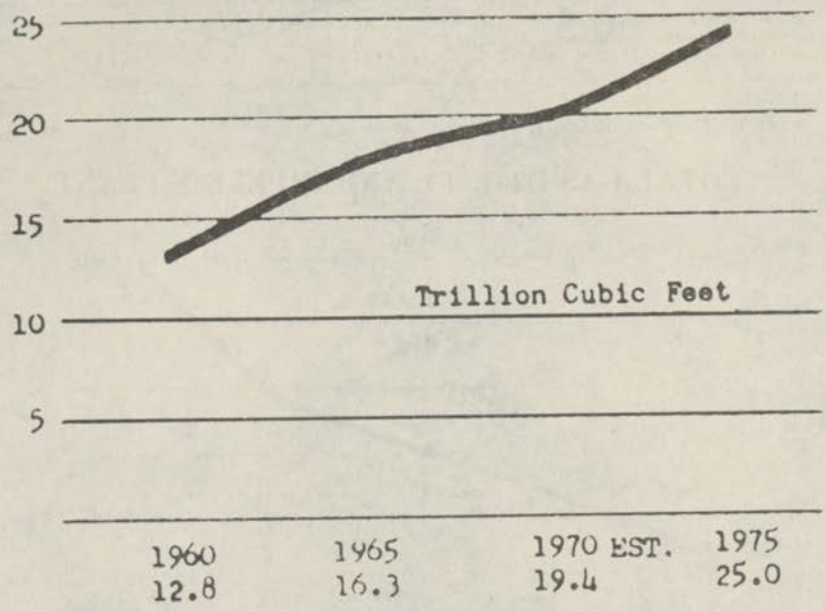


1966 GAS FACTS - 1965 DATA

The natural gas industry is now the sixth largest industry in the United States in terms of plant investment. It expects to develop new supplies, acquire additional markets, expand its facilities, and employ improved techniques and technology. This projected growth will result in a steadily increasing number of certificate applications and rate filings for new or expanding markets, the attachment of new gas supplies, and the expansion of transportation facilities. Competitive issues involved in many of these applications will be resolved by comparing the merits of one or more companies' proposals against other companies' proposals, or the Commission may at its discretion suggest other solutions.

In these next five years, the industry's ability to provide natural gas in sufficient quantities and at rate levels competitive with other energy sources will face severe tests. The dependence of major segments of the nation—residential, commercial and industrial—on this depletable natural resource places a great responsibility upon the industry, the Federal Government and the Federal Power Commission. Until recently, the Commission's natural gas regulatory role has been limited to relatively narrow economic considerations as they applied to specific applicants or groups of consumers. This is no longer the case. Our population growth and climbing consumption rates, advances in technology in other energy fields, and increasing concern with social and economic effects of natural gas utilization have required the Commission to adopt broader regulatory concepts.

NATURAL GAS REQUIREMENTS



OIL & GAS JOURNAL

It is becoming increasingly clear that fundamental changes in the operation of our programs will be necessary in responding to the needs of the industry and the consumer for equitable, judicious, and timely decisions. The problem is not so much the quantitative increase, however significant, but more the qualitative aspects of the workload. The growing national concern with air pollution, resources depletion, and aesthetics are loading more variable factors into our analytical, adjudicatory, and decision-making processes. Competition, mergers, and consolidations are all becoming more complex. The need to relate our analyses to an ever broadening concept of "best interest" is approaching the point where our traditional operating practices will no longer enable us to do the job.

Since many of our decisions require a broad factual base, we are developing a system to provide vital information rapidly, efficiently, and accurately. This requires maximum use of data processing techniques. An in-depth examination of the organization and procedures through which our programs are carried out is in process. Some of our staff will be used to take advantage of new economic and automation techniques to carry out our programs more effectively.

Our 1968 programs will be carried out with fourteen positions less than submitted as the President's budget for 1967, a reduction from 607 to 593 positions.

A. PRODUCER OPERATIONS

The Commission has jurisdiction over about 70 percent of all natural gas produced in the United States. In meeting public needs, gas producers determine the number of applications and filings made to the Commission. Investigation and analysis of the data submitted are complicated by differing and sometimes conflicting views on the merits of the application or filing.

The *Permian Basin* case* established a permanent system of producer regulation by fixing uniform ceiling prices for gas on an area basis. The area approach is anything but self-executing and much work must be done to implement it. Producer purchaser statements on quality differentials of gas being sold must be analyzed and processed individually. Refunds must be computed in hundreds of instances where sales have been made at rates in excess of the just and reasonable rate determination in hearings, and several hundred rate compliance filings must also be analyzed and processed on an individual basis. Within the two-year moratorium on rate increases provided for in the decision, the Commission must devise procedures and establish standards in order to begin the important task of reviewing future rate increase proposals.

The opinion provided for a special, simplified status for small producers. Although this affords considerable relief to the producer, it requires the staff to conduct exhaustive reviews involving among other things (1) the checking of reports of proposed refunds where gas has been sold at rates subject to refund to permit cancelling existing certificates and rate schedules; (2) processing applications for small producer certificates; (3) processing annual statements of sales made under such certificates; and (4) surveillance of status as small producers involving the maintaining of records relative to such certificates and reports.

Action must be taken on responses to the show cause order issued simultaneously with the opinion, making the order applicable to other rate and certificate proceedings not directly involved. The Commission must also act on individual petitions for relief claiming that application of the uniform rates will result in hardship. It will be time-consuming to process settlements that will result from this opinion. The others that follow will have both of these problems and additional ones unique to them.

Establishment of a permanent system of producer regulation has been a tedious process. The *Permian* opinion signals a new era in the Commission's regulation of the producer segment of the industry. If we are fully to reap the benefits of our formative work in this area approach, it is essential that we have sufficient manpower to follow through.

The scheduled issuance of the *South Louisiana* opinion in 1967 and the *Texas Gulf Coast* and *Hugoton-Anadarko* opinions in 1968 will continue the area pricing concept. It is expected that these opinions will further escalate the number of applications and filings requiring timely action on the part of the Commission.

1. Producer certificates

	Actual, 1966	Estimated	
		1967	1968
On hand July 1	1,584	1,603	1,503
Plus total received	+2,727	+2,800	+3,000
Total workload	4,311	4,403	4,503
Less total completed	−2,708	−2,900	−3,100
Pending June 30	1,603	1,503	1,403
Positions	41	42	42

Applications for producer certificates of public convenience and necessity will continue to increase as the need for new natural gas sources grows. Pipeline companies are continually expanding their facilities to deliver gas to both new and existing market areas. The producers must, in turn, provide additional gas supplies so that the pipeline companies can meet their market requirements.

Producer development of huge quantities of natural gas reserves is a prerequisite to the multimillion dollar plant investments by the pipeline companies. FPC delay in certification of producer sales can impose severe economic penalties on the producers. The Commission thus modified its procedures to hasten disposition of uncontested applications, permitting about 90 percent of all producer certificate cases to be disposed of under our streamlined procedures.

*34 FPC 159, Op. 468, 8/5/65, AR61–1 *et al.* Rehearing denied 34 FPC 1068, Op. 468–A, 10/4/65.

The paramount issue in independent producer applications is the initial price to be charged the pipeline company. These prices are established through either formal hearings or settlements if they exceed ceiling or guideline prices. Extensive analysis and study are required to aid the Commission in deciding whether to authorize a settlement or require certificate differences to be resolved in formal hearing.

The maximum number of certificate applications being processed at any given time should not exceed 650 if the interests of the applicants are to be served fairly. The number of applications expected to be in process at the end of 1968 will be about 1,400. Receipts will continue to rise. During the period 1968–72, more than 21,000 applications will probably be processed. This workload cannot be controlled by the Commission. Many of them will be "small producer" applications which, while designed to reduce the financial and administrative burden on the small producers, are requiring greater expenditures of effort by the Commission staff. In addition, as producers and pipelines become more accustomed to regulation, they are gradually developing more sophisticated contractual provisions which tax the energies of the staff in their review and analysis of the applications. Despite this, no changes are to be made in the 42 positions established for this program. Workload increases will be compensated for by improvements in procedures and personnel utilization.

2. Producer Rate Filings

	Actual, 1966	Estimated	
		1967	1968
On hand July 1	1,102	2,193	1,893
Plus total received	+7,623	+7,500	+11,700
Total workload	8,725	9,693	13,593
Less total completed	−6,532	−7,800	−10,000
Pending June 30	2,193	1,893	3,593
Positions	58	60	63

Issuance of Commission opinions and orders relating to the three additional major area rate proceedings presently undecided will result in the affected companies submitting quality statements and compliance filings consistent with the opinions and related orders. Producer rate filings are dependent almost entirely upon the requirements of the industry but in 1968 are estimated at 11,700 for both the new area pricing compliance filings and quality statements. While manpower requirements for this phase of our work are generally expected to decrease in future years, three additional positions will be needed to cope with the anticipated 1968 workload surge.

Our experience with compliance filings generated by the first of the area rate opinions (Permian) has required us to raise our manpower requirements. These filings have proven more time-consuming to process than regular rate filings because of the lack of uniformity in the individual filings. New precedents are being set and policy questions raised which require frequent Commission decisions.

3. Producer investigations

	Actual, 1966	Estimated	
		1967	1968
On hand July 1	1	2	3
Plus total received	+7	+8	+6
Total, workload	8	10	9
Less total completed	−6	−7	−6
Pending June 30	2	3	3
Positions	9	9	9

While industry grows and its internal economic pressures mount, the Commission must study industry actions that affect the regulatory process. Internal studies provide the Commission with information necessary in making policy decisions or establishing guidelines for future actions. During FY–1966, studies were conducted regarding the impact of the Permian Basin Area Rate Opinion; jurisdiction of "restricted use" gas, royalty interests and in-place sales; need for small producer legislation; and processing costs in plant sales. Studies of a similar nature will be necessary in 1968. In addition, the hundreds of refund reports generated or to be generated by area rate opinions must be investigated. The importance of this refund effort can be illustrated by the Permian opinion which involved refunds of about $30 million. The staff of nine required for this program will remain unchanged during 1968.

4. Uniform reporting

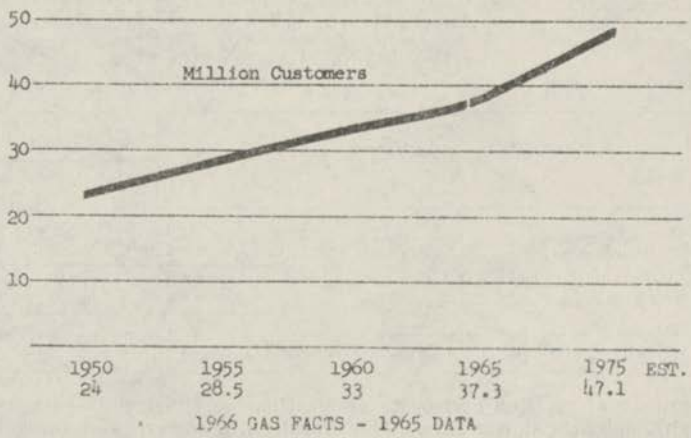
The Commission has not required producers to maintain their accounts in accordance with a prescribed uniform system. One reason for this exemption was to allow time to develop a framework of producer regulation so that appropriate methods of obtaining financial data could be determined.

Now that the Permian opinion has been issued and a pattern for regulation of producers identified, the Commission must decide how to gather the information required for making proper area rate decisions. A program designed to analyze the possibilities available to the Commission and to purify data now being obtained from producers has been started. The three positions allocated in 1967 will also be required in 1968 to carry out this program.

B. PIPELINE OPERATIONS

There are presently 126 pipeline companies subject to FPC jurisdiction. In 1965, these companies sold over 8 trillion cubic feet of natural gas to distribution utilities for resale. In addition, these companies supplied over 3 trillion cubic feet directly to natural gas consumers. Jurisdictional natural gas pipeline companies in 1965 operated over 225,000 miles of pipe. Since 1942, when the Commission implemented the policy of issuing certificates authorizing the construction or operation of pipeline facilities, over 121,000 miles of pipe and 221,000,000 compressor horsepower have been certificated at a total estimated cost of $11.2 billion.

GAS CUSTOMERS



1966 GAS FACTS - 1965 DATA

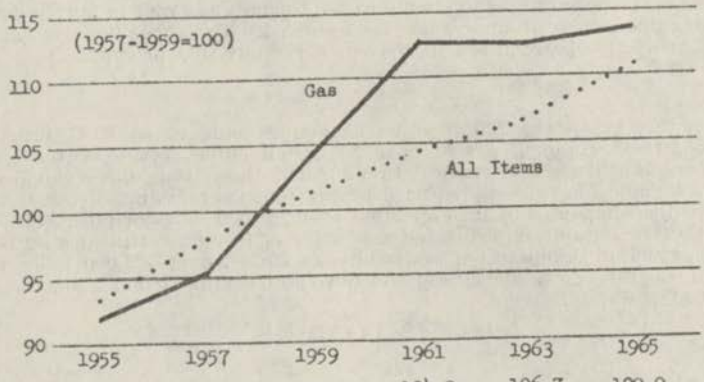
While the biggest increase in natural gas customers through 1972 will be in the metropolitan areas now served by gas, there will also be new customers in areas not now served. The northwestern states, for example, are expected to increase their natural gas requirements by 175 percent by 1980. New England will increase by 120 percent and the southeastern states by more than 100 percent. To meet these needs, the natural gas industry must add an estimated

200,000 miles of pipeline to its present 800,000 miles. Old pipeline must be replaced to insure safe operation.

This expansion will occur in an economy that is experiencing a narrowing of the gap between new sources of economical supply and increasing demand. Pipelines will compete with each other for these sources of supply, and in the competition for markets with other energy sources as well.

In carrying out its regulatory responsibilities under these difficult conditions, the Commission is guided by the objective of assuring gas consumers an adequate supply of natural gas to meet their needs at fair and equitable prices. Consumer gas prices have begun to flatten out and, if the present trend continues, will soon drop below most other items on the Cost of Living Index. In the past few years, the Commission has ordered approximately one billion dollars in refunds and rate reductions to be made by the interstate pipelines to distributing utilities which serve ultimate consumers. While our regulatory processes are fairly well under control, a careful examination of industry applications, filings, and practices is essential to the protection of the public interest.

COST OF LIVING INDEX AND GAS COSTS



	1955	1957	1959	1961	1963	1965
All Items	93.3	98.0	101.5	104.2	106.7	109.9
Gas	92.0	95.1	104.1	112.5	112.5	113.1

1966 GAS FACTS - 1965 DATA

1. Pipeline certificates

	Actual, 1966	Estimated	
		1967	1968
On hand July 1	219	281	261
Plus total received	+544	+530	+535
Total workload	763	811	796
Less total completed	−482	−550	−560
Pending June 30	281	261	236
Positions	67	69	69

The number of pipeline certificate applications received will continue to increase, although at a slower rate. This workload, however, is uncontrolled and subject to wide fluctuation as market conditions change. More applications will be contested, and an increasing number will be competing to serve the same markets. This anticipated heavy workload as well as the contested rate cases, including those that will go to the courts, will require more staff to expedite and conclude the cases.

In the five-year period 1968–1972, the natural gas pipelines expect to add another 24,700 miles of main to their transmission systems, of which 22,000 miles

will require FPC approval. This is comparable to the previous five-year increase of 28,500 miles, of which 24,000, or 85 percent, was authorized by the Commission.

Pipeline authorizations are expected to become self-supporting by collection of a special benefit charge placed on applications for certificates. This program, initiated in 1966, is expected to bring $1,100,000 into the Treasury, defraying part of the cost of processing pipeline certificate applications.

An upward trend in the number of applications to serve the same market was noted in 1966 and is expected to continue. The comparative analysis required for these applications multiplies the time and manpower resources needed. A staff of 69 is needed to carry out this major program in 1968.

2. Pipeline rate filings

	Actual, 1966	Estimated	
		1967	1968
On hand July 1	105	87	81
Plus total received	+1,196	+1,272	+1,297
Total workload	1,301	1,359	1,378
Less total completed	−1,214	−1,278	−1,302
Pending June 30	87	81	76
Positions	31	31	31

Pipeline rate filings are uncontrollable by the Commission in terms of volume or type but must be processed within the thirty days prescribed by statute, or they automatically become effective. As pipeline companies expand their service to new markets, additional rate filings are needed. Pipeline companies execute separate service agreements with each customer, usually for 20-year periods. Each time additional customers are served or the volume of gas delivered is increased, new service agreements are executed and the number of service agreements increases. Competition between energy fuels is causing pipeline companies to seek ways of restructuring their tariffs in order to place them in a better competitive position in the energy market. Each filing must be analyzed and a record memorandum prepared recommending action, and when appropriate, letters to pipelines prepared implementing the recommended action. Protection to the consumer makes it imperative that this work be current. No changes in the 31 positions assigned to the program will be required.

3. Pipeline investigations

	Actual, 1966	Estimated	
		1967	1968
In process July 1	107	101	101
Plus initiated	+80	+72	+74
Total workload	187	173	175
Less completions	−86	−72	−74
Pending June 30	101	101	101
Positions	28	26	26

Pipeline companies under FPC jurisdiction control the flow of 95 percent of the natural gas transported in interstate commerce. Many of these companies are affiliated with each other or with producers. The increasing demands for gas by the country's consumers and the rise in competitive forces in the industry tend to promote situations which require regulatory adjudication. Complaints filed with the Commission are becoming more numerous and must be investigated. Prior to fiscal 1964, the justness and reasonableness of pipeline company rates were determined only through rate increase filings. As a result, pipeline companies earning in excess of their allowed rates of return simply refrained from filing rate change proposals. Since then, the investigations program has included the annual review of the earnings of each jurisdictional pipeline company. To insure that refunds received by pipeline companies from producers

are disposed of equitably, the companies are required to file reports. These reports must be analyzed in order to pass an equitable share of the refunds to the distributor and then the consumer. The 26 positions allocated to the pipeline investigation program during 1967 are considered the minimum required for 1968.

4. Uniform accounting regulation

As in investigations, the expansion of the industry in all its facets is increasing the complexities of managing our accounting programs. There are three broad areas of effort in this program. First, there is the constant need to develop the system of uniform accounting to provide the Commission with the financial data appropriate to our needs, without imposing an undue burden upon the natural gas companies involved. Secondly, the review of annual reports filed with the Commission aids in determining compliance with the reporting requirements in the uniform system of accounts. One hundred seven financial reports of natural gas companies were analyzed in 1966, and 110 reports are expected to be reviewed in 1967 and 1968.

The third area of effort is the on-site audits of the accounting transactions of the jurisdictional gas companies. Such audits are necessary in order to insure that the companies' books and records comply with the FPC's system of accounts to aid in rate determinations by the Commission. During FY-1966, the Commission was engaged in conducting 14 audits of natural gas companies. This year, there will be 17 such audits conducted and in 1968 26 audits are planned.

Another innovation in the accounting regulation area is the development of significant audit ratios to permit rapid identification of deficiencies in accounting and reporting by individual companies. The audit ratios also provide information essential in considering allowable costs in natural gas rates and changes required in the uniform system of accounts.

Twenty-four positions, the same as for 1966 and 1967, will be required for this 1968 program.

C. NATURAL GAS LEGAL PROCEDURES AND OPERATIONS

Major improvements have recently been made by the Commission in processing certificate applications, rate filings, investigations, and audits. Not only is a greater workload being handled by fewer personnel but a more penetrating and effective examination of the industry for regulatory purposes has been initiated. The results are well known; massive backlogs have been reduced; millions of dollars of rate refunds and reductions have been passed on to consumers; and a general reduction in waiting time by industry for the Commission to act has been effected.

A considerable number of applications, filings, investigations, and audits develop into cases that must go through a formal hearing process, where due process is a governing consideration. Cases may involve a single docket or several hundred dockets, and may last a few days or several months. They may involve hundreds of millions of dollars, or they may be concerned with issues that have no direct monetary considerations. Efforts have been made, and successfully, to reduce this workload through shortened procedures and by settlements. There is a definite trend, however, toward full-scale proceedings in which every legal means is used by industry participants and interveners to bring out their case. Further, decisions by the Commission are being appealed more and more to the courts.

1. Cases

The number of formal proceedings is gradually increasing and the cases are becoming increasingly difficult. Relatively few of the thousands of rate filings and certificate applications received by the Commission require formal hearings. Those that do, however, concern situations or issues that require the most thorough and meticulous preparation to assure that all the facts are considered before the Commission's opinion is issued. In a very real sense, each formal proceeding is separate and distinct from every other formal proceeding.

While proceedings do not always involve direct financial issues, they all have economic implications, most of them of considerable magnitude. The legal and technical talent marshalled by industry during these proceedings is impressive, and every technique and argument that can contribute to strengthening its position is employed. The delays in proceedings are presenting serious scheduling problems. The problems are compounded by the unexpected rise in the number of formal cases initiated during the past year.

(a) Producer cases

	Actual, 1966	Estimated	
		1967	1968
Total cases	23	30	37
Certificates	8	11	11
Producer rates	12	14	20
Area rates	3	5	6
Positions	158	162	167

At the beginning of FY–1967 there were over 3,100 suspended producer dockets pending before the Commission. At stake were over one-half billion dollars in amounts subject to refund. Over 500 producer certificate applications are currently awaiting formal hearings. The issuance of temporary certificates and the Commission's intensive settlement program have relieved the pressure to a considerable extent. Through the settlement program, the Commission has since 1961 disposed of approximately 2,000 suspensions, including refunds of nearly $135 million.

In independent producer certificate cases, the initial price to be permitted has become of paramount importance. To save time and manpower, a large number of independent producer applications involving sales from a single producing area are consolidated into a single hearing for a price determination. These proceedings have involved as many as a hundred or more applications. Generally, there are numerous interveners and the proceedings are sharply contested. The large number of parties represented presents unique administrative difficulties of considerable magnitude to the attorneys handling them. They also present novel questions of law as a result of the tactics and arguments employed by these parties.

The workload generated by the court review of the *Permian Basin* area proceeding will continue. While the Permian workload will subside as time passes, a compensating workload can be expected as decisions are issued in other area rate cases. The *South Louisiana* proceeding is scheduled for completion in 1967 and the *Hugoton-Anadarko* and *Texas Gulf Coast* proceedings should be completed in 1968.

New area proceedings continuing the program of extending area pricing to remaining areas of the Nation will be initiated in 1967 with hearings probably beginning in 1968 and concluding during 1969.

(b) Pipelines

	Actual, 1966	Estimated	
		1967	1968
Total cases	70	101	117
Certificates	27	44	52
Competitive certificates	14	20	24
Pipeline rates	29	37	41
Positions	107	103	110

During 1966, the unexpected increase in formal cases necessitated strengthening of the pipeline activity and the temporary detail of staff to relieve the problem. The near doubling of the difficult and time-consuming competitive certificate cases, those in which two or more companies seek authority to serve a single market, and the expected continuation of this trend, will require additional staff in 1968. In other pipeline areas, the number of contested certificate actions requiring formal hearings will be almost double the 27 cases in 1966, and pipeline rate level and tariff complaint cases will also rise.

2. Litigation

The number and kinds of court reviews of Commission actions are increasing about 5 to 10 percent annually, based on records of certifications, pleadings, briefs, petitions, and oral arguments. Each of the approximately 125 cases scheduled for court review must be prepared and brought up to date. During the 1966 fiscal year, the workload in this program required the assistance of a special consultant as well as the temporary detail of two attorneys from other programs. Despite this, no changes are requested to the eight positions allocated to this activity.

3. Rulemaking

The importance of rulemaking in the smooth and effective functioning of the regulatory process is becoming evident. The need for increased financial and technical data, and the procedural advantages resulting from uniformity in format and submission of such data, must be considered with full awareness of the effect upon industry capabilities and costs. Development of Commission regulations benefits the industry and increases the Commission's capability to cope with increased workload. The Commission's Permian Opinion precipitated a radical change in the approach to rate regulation, with attendant changes in the Commission's rules. Specifically, there will be an immediate need for a method of changing rates under contracts after the conclusion of an area proceeding. In addition, the Commission is responsible for assuring safe pipeline operations, and the need for new or revised forms for purchases from small producers and for reporting exports and imports of gas. The staff of 15 assigned to this function is adequate.

4. Legislation

Several important legislative proposals await Congressional decision. These include the broadening of the Commission's authority to secure operational information from the natural gas industry, controlling stock interests, securities issues, import-export of natural gas, and safety requirements of natural gas pipelines. The current staff of five is sufficient to carry out this program.

D. NATURAL GAS RESEARCH AND ANALYSIS

The regulation of the natural gas industry is becoming more and more complicated. The objectives of the Commission to assure an adequate supply of gas at fair prices, and to encourage industry stability, involve broad responsibilities requiring a comprehensive and intensive knowledge of industry, consumer, and economic forces that influence production, transmission and consumption of natural gas. The Commission is becoming more involved in issues such as air pollution, alternate energy sources, and optimum utilization of natural gas.

The direction and growth of the industry in the next few years must be charted. The Commission must have as much data as possible on the future of the industry to guide it in making its decisions.

1. Industry systems analysis

In regulating the natural gas industry, information of a technical, financial, or administrative nature is required. This information may be acquired from individual cases or simply by an awareness of a trend or of incipient problems. The industry systems program enables the Commission to develop these data as needed.

The new dynamic era requires increased investment in economic research activities. Studies are being made of the benefits of interpipeline competition and of market projections in the principal regions of the nation. Pioneer research is under way into the most efficient use and allocation of natural gas, the efficiency of the industry, the application of price theory to the problem of designing the best rate structure, cost behavior, and the like. This research is essential if the Commission is to remain knowledgeable in the complex decisions that must be made.

The following reports are prepared as a part of this program:

Import and Export Reports, presenting the results of investigations into the imports and exports of natural gas companies to provide the Commission with essential information and determine if there have been any violations of Commission orders.

The Annual Report on Underground Storage supplies the Commission with current information on the size and capacity of underground gas storage fields and the use of storage gas in meeting peak-day requirements.

The Construction Cost Report includes the actual cost of new pipelines and compressor stations and of additions to existing facilities.

Report on Budget Type Authorizations informs the Commission of the use made by pipeline companies of their blanket certificate authority.

No increase in the existing staff of 15 is required for this program.

2. Recurring data reporting

The Commission receives natural gas data on a periodic and recurring basis through its reports from the industry. These data are tabulated and published as an aid to both industry and our regulatory process.

In addition to Commission use, the data are widely used by industry and appliance manufacturers in planning and forecasting, by scholars and by other government agencies—local, state, and federal—for research and related purposes. Several statistical publications are issued to meet these public, industrial, commercial, and academic requirements. These include:

Statistics of Interstate Natural Gas Pipeline Companies
Natural Gas Pipeline Companies Operating Revenues and Income
Sales by Producers of Natural Gas to Natural Gas Pipeline Companies
Rates for Gas Delivered to Major U.S. Cities
Quarterly Workload Press Releases

The six positions assigned to this program will be sufficient during 1968.

Mr. WYMAN. Before we get off this particular subject, let us suppose there is a factory in Manchester, N.H., belching black coal smoke, and they make shoes and ship those shoes in interstate commerce, and so forth. Have you thought about, or do you have any power to put a filter on that factory or require that industry to put a filter on that chimney?

Mr. WHITE. We don't, but in the President's legislative program, Mr. Wyman, he has put air pollution very high on his priorities and has asked for authority for the Department of Health, Education, and Welfare to do that. But that is not our function.

Mr. WYMAN. Thank you.

ELECTRIC POWER INDUSTRY

Mr. EVINS. The electric power industry is the Nation's largest industry. The industry in 1966 produced 1.2 trillion kilowatt-hours of electricity, an increase of about 100 percent in the last decade. In a little more than 10 years the Nation's electric power requirements were doubled. This is a very interesting chart on revenues.

Let's place in the record this justification statement from pages 54 through 103.

(The pages follow:)

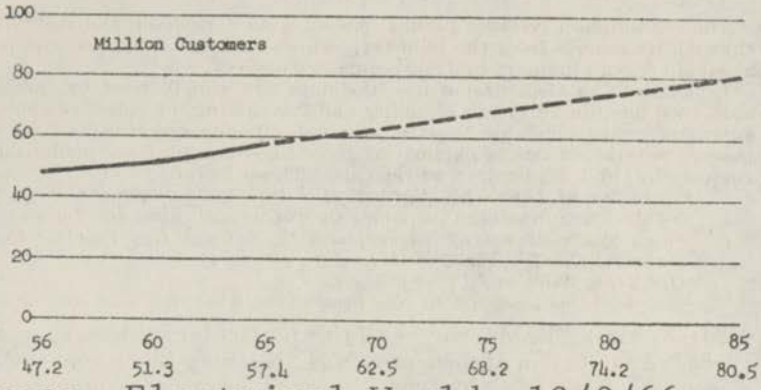
II. ELECTRIC POWER INDUSTRY

Comparative summary of activity

	1966 actual		1967 estimate		1968 estimate	
	Positions	Funds	Positions	Funds	Positions	Funds
A. Electric utility operations	112	$1,341,356	108	$1,327,000	109	$1,360,000
B. Hydroelectric operations	182	2,319,908	190	2,478,000	192	2,532,000
C. Legal procedures and operations	59	699,019	61	739,000	61	739,000
D. Electric power research and analysis	136	1,586,398	143	1,704,000	143	1,704,000
Total	489	5,946,681	502	6,248,000	505	6,335,000

The Federal Power Commission needs a staff of 505 and $6.3 million to meet its responsibilities in regulating the electric power industry during 1968. This is an increase of only .6 percent over the manpower required for 1967.

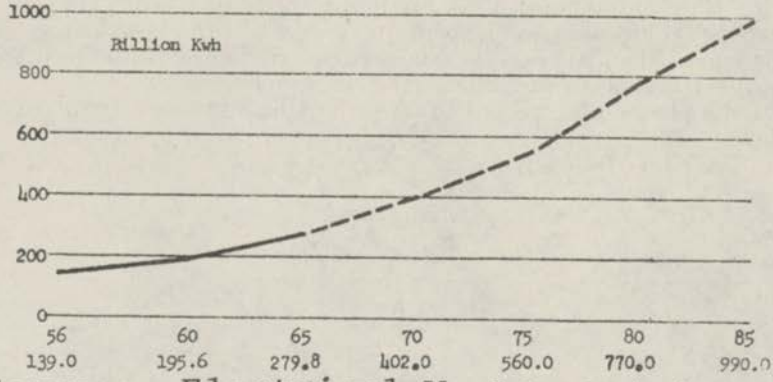
RESIDENTIAL CUSTOMERS



Source: Electrical World, 10/3/66

The production, transmission and distribution of electric energy is the nation's largest industry. Total electric utility plant investment at the end of 1965 approximated $81 billion. The industry in 1966 produced 1.2 trillion kilowatt hours, an increase of about 100 percent in the last decade. Virtually every inhabitant of the United States is an electric power customer and annual per capita consumption is rapidly increasing. This growing demand is encouraging industry expansion plans that will more than double sales and capital expenditures in 1975. In little more than ten years, the nation's electric power requirements will double. National Power Survey forecasts point to a 2.7 trillion kilowatt hour requirement by 1980. Statistics relating to the growth of the industry on sales and revenues show the phenomenal continued increase in the electric power use:

RESIDENTIAL SALES



Source: Electrical World, 10/3/66

Revenues and income of investor-owned utilities

[Classes A and B—Million dollars]

	12 Months Ended		
	June 30, 1966	June 30, 1965	Percent change
Electric revenues	13,806	13,023	6.0
Total electric operating expenses	10,610	10,044	5.6
Fuel expenses	2,079	1,937	7.3
Other operating expenses	4,052	3,792	6.9
Depreciation	1,567	1,474	6.3
Taxes	2,912	2,841	2.5
Total Income	3,613	3,401	6.2
Net Income	2,649	2,497	6.1

Source: Electric Power Statistics, June 1966, FPC.

The Federal Power Act has vested in the Commission the responsibility of assuring optimum development of hydroelectric resources, coordination of all electric power systems for maximum economy, and application of this energy to the wholesale consumer at reasonable prices.

In virtually all areas, the indicators point to an annual growth level of seven to nine percent. The Commission's work load is expected to increase also, but at a somewhat lower rate. The dramatic industry growth, and its formidable potential for an even more explosive surge as technological advances are used to advantage are apparent in the increasing complexities of our workload. An indication is the increasing number of service disruptions and the resultant problems they bring to the Commission in carrying out its responsibilty to assure reliability of service. We fully expect that our productivity improvements will be the chief means by which we will be able to absorb this increase of work. We will, however, require additional personnel resources and maximum use of present personnel to assure optimum development of the nation's hydroelectric resources, coordination of electric power system for maximum economy, reasonable wholesale rates, reliability of bulk power supply, and recognition of the social and economic impact of program decisions on the public and the industry. Technological advancements and the emphasis now being placed on conservation of natural resources and aesthetics will also require consideration.

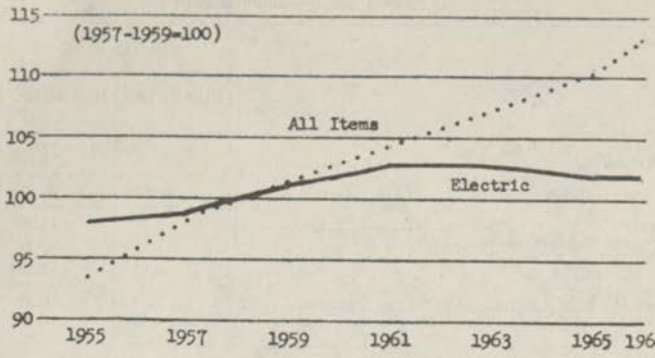
Workload of the Commission will also be affected by the growth of the industry. Investigations and audits of the industry will increase in number and in difficulty. Commission decisions must consider social and economic impacts, and must be supported by well documented staff analyses. The development of a fund of information on the industry, its resources, and the requirements of the country was started by the National Power Survey. The Survey will be reexamined and updated for reissue in 1969.

In the period 1968 through 1972, the Commission will investigate and report on any significant power interruptions that may occur. The reports will include the status of the systems involved just prior to the interruption, including load, generation, tieline flows, abnormal system conditions, if any, etc.; a concise description of the sequence of events up through complete restoration of service; a delineation of causes; and corrective measures. With full participation of an industry advisory committee, the Commission is formulating guidelines and criteria for system design and operation to prevent major power interruptions.

A. Electric utility operations

Cheap, abundant electric power is no longer a luxury. It is an essential. The need for electricity will continue to grow as the population grows and per capita consumption increases. Proper and fair regulation is needed to assure that the best interests of the nation are served by this expansion and that a share of the economies realized is passed on to the public. The major objective of the Commission in this area is to supervise establishment of a fair rate structure for the sale for resale of interstate electric power.

COST OF LIVING INDEX AND ELECTRIC COSTS



	1955	1957	1959	1961	1963	1965	1966
All Items	93.3	98.0	101.5	104.2	106.7	109.9	113.3
Electric	98.0	98.7	101.4	103.0	103.0	102.0	102.0

Source: BLS

The benefits of this program to the nation are supported by fact and in terms of dollars run into the millions. The cost of electric power to the consumer has been declining. The coincidence of this decline with the Commission's strengthening of its electric rate regulation program initiated a few years ago is evidence of the public benefits that have resulted. The magnitude of the potential benefits can be hypothecated for illustration purposes. If the cost of electricity had continued to rise at the same rate it had up through 1961, the American consumer in 1968 would be paying much more for his electric power.

The Commission is continuing its work with the industry to implement the program of system coordination proposed in the National Power Survey, which will make possible a reduction of 27 percent in the cost of electricity, or an annual net savings to consumers of $11 billion, by 1980.

1. Electric filings

	Actual, 1966	Estimated	
		1967	1968
On hand, July 1	325	185	185
Plus total received	+2,656	+2,700	+2,500
Total workload	2,981	2,885	2,685
Less total completed	−2,796	−2,700	−2,500
Pending June 30	185	185	185
Positions	32	31	31

The general trend of filings since 1961 has been sharply upward. This results from Commission emphasis on utility regulation and favorable court decisions in jurisdictional cases. While the uncontrolled nature of this workload makes predictions difficult, it is expected that the trend will level off in FY–1967 and remain fairly constant through FY–1972. Many more filings to be received after 1967 will be the more time consuming rate change filings. The net reduction in total filings will result from a lessening of initial filings despite the increase of change filings. Most of the rate schedules required to be filed as a result of the *Colton* decision have already been submitted to the Commission. The projected growth of the industry will not have any appreciable effect on the filing workload since provisions for increasing wholesale requirements are generally included in existing contracts. Industry growth and technological advancement will, however, affect the complexity of rate filings as interconnection and power pools become more prevalent. The increasing complexity of these filings will require more comprehensive staff analyses to assure that rates

and contract provisions are just, reasonable, nondiscriminatory, and otherwise in the public interest. Since our staff is becoming better trained in rate matters, we are not requesting any increase in manpower to handle these more complex filings. The 31 positions planned for 1968 are adequate to handle the projected workload.

2. Corporate applications

	Actual, 1966	Estimated	
		1967	1968
On hand, July 1	21	11	6
Plus total received	+95	+100	+105
Total workload	116	111	111
Less total completed	−105	−105	−105
Pending June 30	11	6	6
Positions	8	8	9

The growth of the electric power industry will have little effect on our applications workload, as there is little evidence that industry growth and work load have any strong correlation. There was a slight decline in workload in fiscal year 1966 over previous years. This can be attributed to the Commission's firm action on jurisdiction determinations and a substantial increase in interest rates on loans which resulted in fewer issuances of new debt securities pending improved market conditions. We estimate a gradual increase in applications during the period FY–1967–1972. Applications for mergers and acquisitions will become more complex as merging parties increase in size and as new financing means are proposed.

A new policy on processing applications for authority to merge utility companies has been instituted in the Commission. In the future, public hearings would be held on all such applications involving the merger of Class A public utilities, i.e., those with revenues of $2,500,000 a year and over.

There has been a recent trend toward more complicated lease transactions as well as combinations of lease and purchase transactions. The increase in application workload coupled with the anticipated increase in complexity of proposals will be accomplished with nine positions.

3. Investigations

The Commission has inaugurated a program of continual surveillance of all wholesale rate schedules on file to assure that the rates are just and reasonable, nondiscriminatory, and in the public interest. The program hopes to determine whether rates bear a reasonable relationship to cost and to determine propriety of rate schedule provisions, such as fuel cost clauses and restrictive provisions. Continuation of this program is essential to the effectiveness of the Commission's regulatory responsibilities under the Federal Power Act.

The industry and particularly the municipals and small systems are becoming aware of the Commission's determination to relieve rate and service inequities. The Commission is beginning to be recognized as a forum where the municipals and small systems may present their grievances for the elimination of restrictive or discriminatory provisions in contracts which prohibit them from obtaining better and more economical rates and services. We anticipate an increase in the number of complaints filed under Section 202(b) of the Federal Power Act. This will add to the Commission's investigative workload in assuring propriety of rates and efficiency of system operations.

The present ten positions will be adequate in fiscal year 1968 to further our rate investigations program.

4. Accounting Regulation

Continued improvement of the uniform system of accounts is essential in view of the changes in industry and its management. A greater number of reviews of accounting statements and journal entries will be required. The 1,367 annual reports analyzed in 1966 will be surpassed by the 1,514 expected this year and the 1,550 that will be received during 1968.

The time required for comprehensive audits has been reduced from 12 to 6 months average per audit, through the use of working papers of outside inde-

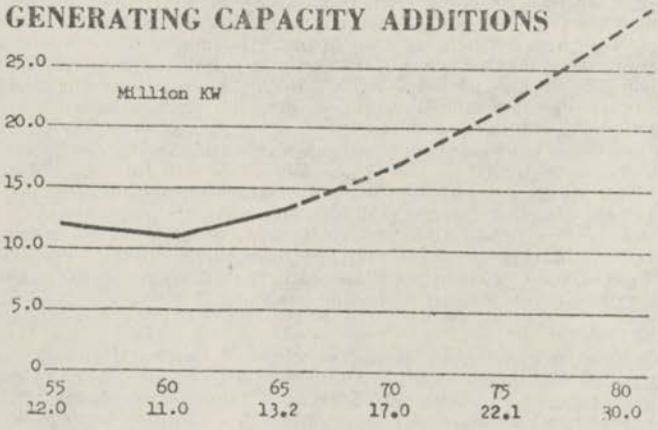
pendent accountants. Beginning in 1969, the number of on-site audits will be reduced, also as a result of the outside work papers and possibly by using certifications of independent accountants. The number of audits carried on in 1966 was 73. After a peak of 86 this year, the number of audits will decline in 1968, with 83 audits to be performed during the year.

Another innovation in the accounting regulation area is the development of significant audit ratios to permit rapid identification of deficiencies in accounting and reporting by individual companies. The audit ratios also provide information essential in considering allowable costs in electric rates, and changes required in the uniform system of accounts.

The staff required in 1968 to continue our improvement efforts, review financial reports, and conduct the on-site audits will remain at the current level of 59.

B. Hydroelectric operations

The power industry has been growing at a rate in excess of seven percent each year since 1948, and this growth is projected into the next 15 years. The nation's electric utilities this past year have attained new peaks in generating capability and output. The installed generating capacity of electric utility plants stood at 241.5 million kilowatts on June 30, 1966, as compared to the 1965 figure of 229.1 million kilowatts. During June 1966, a record high of 105.4 billion kilowatt hours was generated, almost 10 percent higher than the 96.1 billion kilowatt hours generated during June 1965. During FY–1966, the production of electric energy from hydroelectric plants was five percent more than in 1965.



Source: Electrical World 10/3/66

The increased activity in hydroelectric licensing program will have a direct effect on the comprehensive development of our nation's water resources. The number of projects under license continues to increase partly because of new techniques in the use of water for electric power—such as the pumped-storage projects—and partly because the FPC is bringing under license constructed hydroelectric projects not operating under a valid federal permit. There are many uses for water resource projects besides the primary one, such as recreation, fish and wildlife, flood control, irrigation, water supply, natural beauty, and water quality. The increasing demands for such uses by a growing population require the wisest possible regulatory effort. The supervision of projects under construction and in operation is increasing continually.

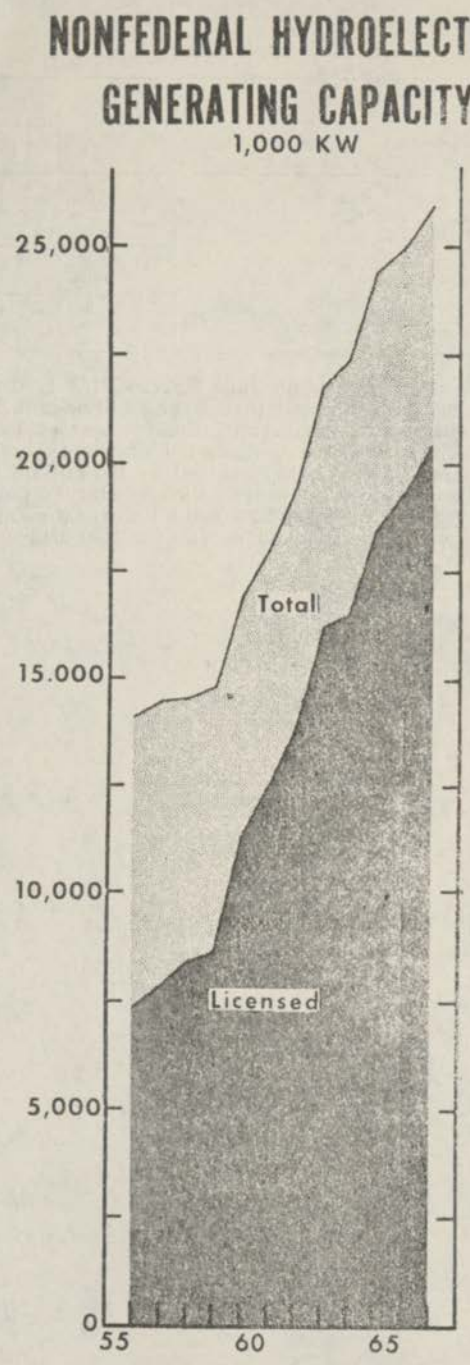
The expiration of licenses between now and 1972 will impose a workload of 44 licenses under evaluation in 1968. As these licenses expire, the Commission must make recommendations to Congress on whether to recapture the licensed projects or to provide for other disposition.

1. Licensing

(a) Applications

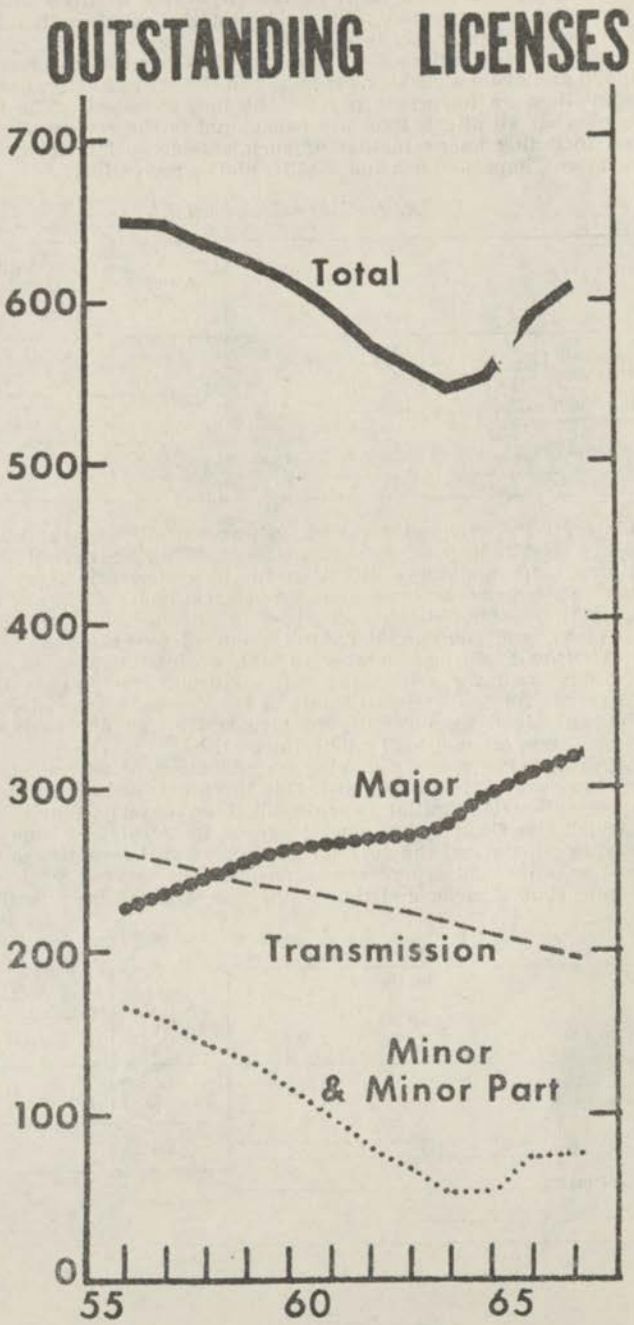
	Actual, 1966	Estimated	
		1967	1968
Project applications:			
In process July 1	288	362	382
Plus applications received	+207	+172	+206
Total workload	495	534	588
Less applications completed	−133	−152	−170
Pending June 30	362	382	418
Positions	61	63	65

The 362 applications in process on June 30, 1966, involved 7.1 million kilowatts of new construction estimated to cost $1.2 billion and 1.9 million kilowatts of existing construction having an estimated cost of $386 million. The 133 applications completed by the Commission during the year include four preliminary permits issued for projects valued at $65 million and with a proposed capacity of about 464,000 kilowatts. Pumped-storage facilities valued at almost $155 million providing almost 1,255,000 kilowatts were approved in addition to other new construction valued at $136 million which will add about 360,000 kilowatts more generating capacity.



In the past ten years, hydroelectric generating capacity under major FPC license has jumped from eight million kilowatts in 245 projects to 19.6 million kilowatts in 322 projects.

The work volume of licensing constructed projects is expected to remain high through 1970 mainly as a result of the Commission's program to bring all constructed projects under license. The Supreme Court's *Taum Sauk* decision confirmed the Commission's authority to issue licenses for all projects generating electricity which flows in interstate commerce.



These applications for licenses will require field investigations of their physical conditions, remedial measures necessary to assure safety, existing and potential recreation use, adaptability to a comprehensive plan of river basin development, and effect of operation on fish and wildlife.

Applications are processed for withdrawal or use of lands reserved or classified as power sites. These applications require search of titles and review of past and potential power values. The public interest requires that these applications be processed as promptly as possible.

An increase of two positions for a total of 65 is required to process the current workload and avoid a backlog, especially in the area of determining primary transmission lines, an important part of the license issued. The Commission must also see that all alternatives are considered in the review of applications for license, including an evaluation of such outside social effects created by scenic alterations, impact on fish and wildlife and on recreation.

(b) *Recreation, fish and wildlife*

	Actual, 1966	Estimated	
		1967	1968
Plans in process July 1	70	99	98
Plus plans received	+71	+79	+98
Total workload	141	178	196
Less plans completed	−42	−80	−95
Pending June 30	99	98	101
Positions	3	4	4

Public interest in outdoor recreation, fish and wildlife, natural beauty, and water quality has intensified greatly in the past few years and the Commission is giving more and more attention to the conservation, protection, and improvement of these natural resources at projects under Federal license. The special recreation exhibit already required in our licensing, filings of recreational use plans, and the special exhibit required for fish and wildlife after August 1, 1966, will add considerably to staff evaluation work in applications both for license and for relicensing. In addition, the opinion of the U.S. Court of Appeals for the Second Circuit in the *Cornwall* case places upon the Commsision an added responsibility to give active and affirmative protection to all these matters of such high public interest.

The Commission is presently making an inventory of recreational facilities at existing projects. When completed, this inventory will ascertain the extent to which recreational potential has already been developed and identify the areas in which the Commission must increase its regulatory supervision.

The growing population, the scarcity of recreational facilities, and the need for fish and wildlife protection together require the most careful examination of each application. Proper and timely analysis will require a staff of four in 1968.

(c) *Recapture*

	Actual, 1966	Estimated	
		1967	1968
Projects review in process July 1	13	32	33
Plus reviews initiated	+19	+4	+11
Total workload	32	36	44
Less reviews completed	−0	−3	−25
Pending June 30	32	33	19
Positions	5	9	11

The Commission has initiated a major new program in the analysis of licensed projects which will become subject to recapture. The process must begin five years before license expiration, and the Commission's report and recommendations must be forwarded to Congress not less than two years prior to expiration. Thus, there is no elasticity in the scheduling and completion of this work. The analysis to be presented to Congress requires, among other things, an appraisal of the water resources of the river basin to determine whether the project is best adapted to the comprehensive development of the stream, or whether redevelopment or some modification is necessary to assure such adaptability. The analysis must determine the net investment and the value of any severance damages to be paid if the project is recaptured. In addition, it must evaluate the positions of parties advocating particular dispositions of the projects.

The total workload will reach a maximum in fiscal 1968 and will require authorization of eleven positions.

(d) Supervision (inspections)

	Actual, 1966	Estimated	
		1967	1968
Project inspections	960	1,000	1,020
Positions	27	32	32

The issuance of a license is but one part of the Commission's responsibility under the Federal Power Act. One of the most important operations in this program is the inspection during construction and operation of the project. During fiscal 1968, it is estimated that 35 developments under construction will require monthly inspections. About 743 developments already in operation will require at least one annual inspection.

Beginning fiscal 1967, spillways for "old" constructed projects will be investigated to determine if they can pass safety design flood flows without endangering downstream life and property. The Commission will review reports prepared by independent consultants on the physical condition of constructed projects and the remedial measures to be taken by the licensee. The safety and soundness of the structures licensed is a fundamental concept of the Federal Power Act.

The safety of dams is a subject of interest to the United States and to the many countries engaged in water resources development programs. The several tragic events in recent years involving the failure of dams in Brazil, France, Spain, Italy, and the United States are forceful reminders of this responsibility.

At the end of fiscal year 1966 the total hydroelectric capacity under FPC license was about 77 percent of all non-Federal hydroelectric capacity. As of this time, there were 377 projects under license, of which 322 were for major projects. Since many licenses for "projects" include several separate developments under a single license, the total number of developments, including dam structures, is much larger than these figures would indicate. The number of projects under license is expected to increase to 427 in 1967 and 472 in 1968.

Inspections of licensed projects under construction and in operation are deemed necessary to assure that the projects comply with the plans approved by the Commission, employ sound engineering practices, and meet both the special and standard provisions of the license. Inspections are also necessary to assure that the projects are operated and maintained in a safe and efficient manner consistent with the Federal Power Act and the terms of the license. Personnel assigned this work have the necessary qualifications and experience properly to inspect these projects and offer advice in the solution of many problems which can be expected to arise during construction and operation. We believe it to be in the public interest that adequate and timely inspections are made. Furthermore, numerous problems arising at projects in operation and affecting other interests such as fish, recreation, and water quality require special inspections and reports.

A close visual inspection is required to determine the condition of structures and the quality and adequacy of maintenance by the licensee. Particular attention is directed toward any evidence of seepage or leakage in the structure or its foundations, and any change in such flows from previous observations.

Abutments and critical areas in the reservoir and slopes of earth and rock-filled structures are examined for any evidence of movement or potential movement. Concrete aprons and buttresses are checked for undermining, and tailrace areas are inspected for any excessive erosion. Periodic reports are required from a number of licensees giving pertinent data on such items as relief well flows, observation well levels, seepage measurement, saturation levels, foundation pressures, and readings on horizontal and vertical control points.

The reliability and effectiveness of the Commission's inspections have been proven in a number of important instances. In one case an inspection uncovered excessive uplift pressures in a construction joint which threatened the stability of the dam and required construction of buttresses on the downstream face of the dam. In another, undermining of a concrete protective slab over an earth embankment was detected, which required removal and replacement of the slab with a new protective covering. In another instance, staff inspection discovered foundation leakage and undercutting of several concrete buttresses which led to remedial measures on the part of the licensee.

A total of 32 positions will be required to carry out this program during 1968.

2. Headwater benefits

	Actual, 1966	Estimated	
		1967	1968
Determinations in process, July 1	48	45	32
Initiated	+12	+10	+11
Total, workload	60	55	43
Determinations completed	−15	−23	−29
Determinations in process, June 30	45	32	14
Positions	16	16	16

Since calendar year 1962, a continuing effort has been made to wipe out the large backlog of headwater benefits investigations which had accumulated. A great deal has been accomplished, despite the fact that progress is being slowed by contested cases requiring conferences, review of conflicting opinions submitted by interested parties, hearings, and litigation in the courts.

Investigations have been made concerning headwater benefits in all river basins from which about 96 percent of the payments to the United States is expected to be obtained. As of June 30, 1966, $9,968,544 had been paid to the U.S. Government, including $235,261 paid under protest and being held in special deposit. Payments approximating $3,000,000 were made both in 1965 and 1966. About the same amount is expected to be received in 1967. Collections between 1968 and 1972 are estimated to average between $2.5 and $3.0 million a year, depending to some extent on the number of cases contested.

There are now 53 river basins in the country which contain non-Federal hydroelectric developments downstream from headwater improvements of the United States or licensees. Section 10(f) of the Federal Power Act requires that investigations be made of headwater benefits in such basins. Twenty of these basins contain no Federal projects. The benefits in 12 of these 20 basins have been studied and the Commission has ordered that no further investigations are required unless future developments warrant a reappraisal. Investigations concerning benefits in three of the remaining eight basins in this category are in progress. Seven river basins contain both Federal and licensed non-Federal headwater improvements, and 26 basins have Federal improvements only which may benefit downstream hydroelectric plants under different ownership. Investigations of benefits in six of these basins are on a current basis, including the Columbia River Basin, from which about 50 percent of payments to the United States are derived, but a new study must be made each year of benefits in five of them. Studies of benefits in 12 additional basins are in various stages of completion. One of these 12 involves an investigation which has been contested in a hearing before a Commission examiner. Although the FPC must investigate the possibility of headwater benefits being required in the remaining 15 basins in which there are Federal upstream reservoirs, preliminary inspections indicate that under the present conditions any payments to the Federal government from these sources would be small. Accordingly, the efforts of the small staff working

on headwater benefits investigations have been directed to those few basins from which the major portion of the payments is expected to come. Several investigations of benefits in some of these basins, however, will probably be required to put the investigations on a current basis.

The Commission's objective is to establish an annual payment to the United States for headwater benefits in each basin in which such benefits occur. This objective may never be realized for all basins, however, because the addition of new projects and the revamping of old projects will require constant reassessment.

The present staff of 16 will be required in 1968.

3. Accounting regulation

	Actual, 1966	Estimated	
		1967	1968
In process July 1	45	35	39
Plus audits initiated	+46	+54	+67
Total audit workload	91	89	106
Less audits completed	−56	−50	−55
In process June 30	35	39	51
Positions	17	15	15

This program involves accounting determinations of actual legitimate original cost, accrued depreciation, and recapture price for licensed projects as a basis for relicensing under Section 4 of the Federal Power Act.

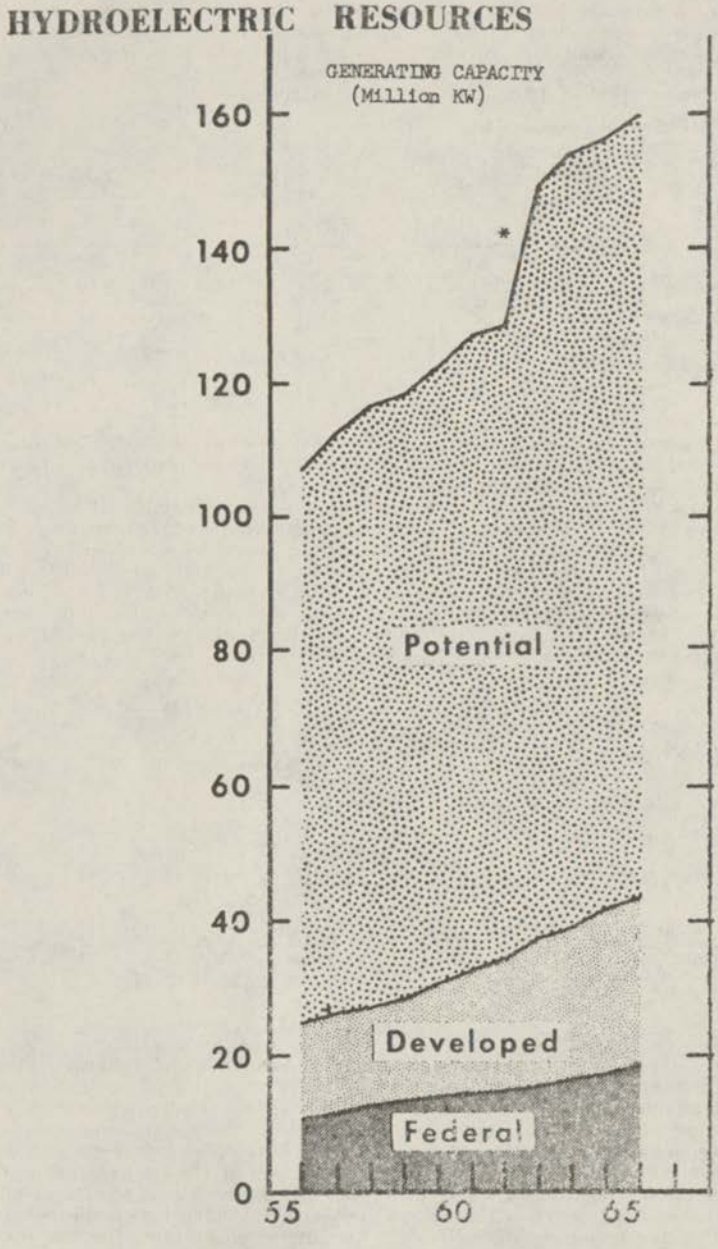
An important consideration which is not now measurable, but will affect workload in the future, is the outcome of present rulemaking on net investment. This rulemaking proposes guidelines for determining the price at which a licensed project would be recaptured by the Government or the basis on which it will be relicensed at the end of the license period. The auditing workload will increase proportionately with the increase in the number of projects coming under license. Recent improvements in audit techniques, however, will enable us to complete these audits with our current complement of 15 positions.

4. Federal projects

	Actual, 1966	Estimated	
		1967	1968
Formal reports in process July 1	18	28	30
Received	+55	+54	+54
Total workload	73	82	84
Completed	−45	−52	−54
Formal reports in process June 30	28	30	30
Other cooperative studies	57	53	54
Survey coordinating committees	20	23	21
River basin commissions		3	6
Federal rate filings	6	10	10
Positions	53	51	49

The Commission plays a vital role in the development of Federal water resources projects and programs, particularly those of the Corps of Engineers and the Bureau of Reclamation. Under authority of the Federal Power Act and the various Flood Control and River Harbor Acts, the Commission cooperates with these agencies in studies of proposed river development projects and makes recommendations with regard to the power phases of the projects. The Commission's unique position in the electric power field provides a wealth of knowledge from which it advises the Federal constructing agencies on the power aspects of water resources development. Acting as consultant, the Commission staff furnishes information on power markets, power values, and estimates of hydroelectric power potential. The Commission furnishes formal comments and recommendations on the power aspects of projects covered in reports by the constructing agencies.

The functions of the Commission staff relative to power problems are important in the planning, development, and operation of the nation's water resources. Over the years Congress has repeatedly assigned this work to the Commission, utilizing its position as an impartial, nonconstructing agency.



* Alaska and Hawaii Included

The principal role of the Commission in cooperative investigations with the Federal constructing and planning agencies is to furnish advice on electric power matters. The cooperative studies with other Federal agencies, including the Corps of Engineers and the Bureau of Reclamation, begin early in the investigatory stage. The initial studies which are made by the Regional Offices in cooperation with the field offices of the other agencies include the hydraulic and power operation routings necessary to determine the amounts of power available under proposed plans of improvement or under suggested alternative development plans; and estimates of the value, market for, and indicated feasibility of power potentially available. These studies are used to determine which facilities should be constructed in order to develop or safeguard the power potential of project sites.

In 1965, an important step was taken in improving coordination of activities relating to water and related land resources development with the passage of the Water Resources Planning Act. That Act created a five-member Water Resources Council, of which the FPC Chairman is a member. The Act authorizes establishment of regional river basin commissions and provides for planning grants to states. The Commission is represented on various committeees operating under the aegis of the Water Resources Council and will be represented on any river basin commissions that are established. Two such commissions are being etablished now and others are contemplated.

A number of survey coordinating committees have been established to effectuate a program of comprehensive river basin studies under the direction of the Water Resources Council.

These committees are comprised of representatives of affected states and interested Federal agencies, including, the Federal Power Commission. As many as 23 committees are estimated to be in operation during the next few years. The survey program, estimated to require about $93 million in Federal funds, is scheduled for completion in fiscal year 1972. The Commission will have major responsibility for the power aspects of the various basin plans.

In accordance with provisions of the 1944 Flood Control Act and other acts, the Commission has the responsibility of approving rate schedules for the sale of electric power and energy generated at certain federally owned projects. These projects consist principally of Corps of Engineers' projects, the power from which is marketed by agencies of the Department of the Interior.

As new projects are brought into commercial operation and added to the Federal systems, these systems become more complex, and the number of rate filings increases. On June 30, 1966, the Commission's rate-approval authority will extend to 57 existing plants with 11.8 million kilowatts installed and 22 plants under construction with planned initial installations totaling 5.8 million kilowatts. Ten rate filings were received in fiscal year 1965 and six in fiscal year 1966. It is estimated that from six to ten filings will be received each year from 1967 through 1972.

The Commission has been given statutory responsibility for allocating the costs of a number of Federal multi-purpose projects. In other cases where the responsibility for allocations has not been assigned by law, the Commission staff participates with representatives of other Federal agencies in cost allocation studies. Cost allocations are needed in the review of Federal project power rates and in making headwater benefits determinations.

The staffing level is being reduced each year to a minimum requirement of 49 positions in 1968. Since Federal participation with the states on water resources planning is encouraged, it is necessary to maintain this staff level through 1972.

C. Electric power legal procedures and operations

The right to use the nation's water resources and to transmit electrical energy across state lines raises many issues that must be decided by due process. This often means that dockets cannot be disposed of with production line regularity. Each case is different and must be decided individually. Yet, delays must be avoided as far as possible since they can be harmful to an applicant with millions of dollars at stake, or to the consumer when he pays his electric bill.

1. Cases

	Actual, 1966	Estimated	
		1967	1968
Electric utility	51	53	55
Hydroelectric	8	9	9
Headwater benefits	2	2	2
Total	61	64	66
Positions	50	52	52

Recent court decisions clarifying the Commission's jurisdiction over hydroelectric facilities and electric utility facilities generating power for interstate use have increased the demands on the Commission and its staff. With the Commission's increased activity in electric rate regulation, with more rate schedules being filed since the *Colton* case, with wholesale customers more aware of their rights before this Commission, and with the more intensive analysis of wholesale rates on file, the number of issues requiring formal adjudication has been increasing since 1962. There will continue to be an increase in cases as a result of Commission action to hold public hearings on mergers of Class A public utilities. Also, the cases now docketed and expected in 1968 will be concerned with issues that require meticulous preparation and analysis. While a small increase in the number of hydroelectric project cases is expected, the major problem for the Commission will be the need for increased staff effort on engineering, legal and social issues arising from the Court of Appeals decision on the *Cornwall* pumped-storage project located on the Hudson River.

The increased activity in the determination of headwater benefits has resulted in approximately $10,000,000 in payments to the U.S. Government. Some of this has been paid under protest and will require hearings to resolve differences. With anticipated annual payments of about $3 million, it is expected that hearings on contested charges will continue at about the 1966 level.

A total of 52 positions will be required in 1966 to carry out adequately the formal case proceedings in the power area.

2. Litigation

Cases appealed to the courts will also rise as tests are initiated. Court litigation has been steadily increasing at a rate of about ten percent each year. Oral arguments rose from 22 in 1963 to 42 in 1965. Major briefs on merits during this three-year period went from 22 to 27, and reply briefs, petitions, etc., went from 8 to 17. This increase has not abated in 1966 and will continue indefinitely. No change in the current authorization of three positions is requested for 1968.

3. Rulemaking

Work in this area is exceptionally difficult to forecast. Current rulemaking actions cover such diverse subjects as amending Part 35 of the Commission Rules of Procedure to expedite rate filings, licensed project recreation inventory, calculation of net investment in licensed projects, reporting of electric outages, and discrimination at licensed projects. Even with increased emphasis on rulemaking as a device for lessening the Commission's substantive burdens, no problems are expected. The three positions currently authorized are adequate for 1968.

4. Legislation

The drafting of legislative proposals and the analysis and evaluation of proposed legislation—including the preparation of comprehensive reports, statements, and testimony to the Bureau of the Budget and the Congress, and the provision of oral and written legal advice to the Commission on pending legislation—have been particularly heavy workloads during recent years. Like rulemaking, the future workload is difficult to predict with any accuracy.

Proposed legislation now before Congress involves Water Diversion, Abandonment of Interstate Electric Facilities and Service, Interconnection of Electric Facilities and Extra-High Voltage. With the emphasis on Commission legislation, and the public concern with such factors as conservation, pollution, and depletion, it can be predicted that the Commission's legislative workload will

continue to rise. However, no increases in the current staff of three positions are requested for 1968.

D. Electric Power Research and Analysis

The residence, industries, and businesses of the United States rely upon electricity so much that improvements in management, technology, cost, reliability, and utilization of electric power must continuously be sought. The advantages and disadvantages of generating fuels must be exhaustively explored, particularly as they affect air pollution. Alternative methods of generating electric energy must be explored and tested so that future requirements can be met. Through these programs the Commission carries out its major objective of encouraging industry growth in the national interest.

1. Comprehensive power surveys

The National Power Survey is a major Commission effort to encourage the electric utilities to seek more economical and reliable means for serving the nation's growing needs for power. A vigorous followup of the 1964 Survey is under way to advance the broad concepts of the Survey. Specific objectives are to accelerate the rate at which groups of systems increase joint planning and operational coordination, and, as a coroliary, to update the Survey information where necessary. This follow-up is being implemented in part through Industry Advisory Committees.

The Executive Advisory Committee, originally established in 1962 in connection with the National Power Survey, was reconstituted with new membership in the fall of 1965. In January 1966, six regional advisory committees were established to provide a nucleus of industry talent to help the Commission and the industry keep mutually up to date on the survey studies, and to assist the Commission in compiling data on current practices in the design and operation of systems in all parts of the nation. Six Commission staff teams for regional studies have also been established.

The Commission plans to update the Survey by 1969, and every three to five years thereafter, using information gathered by the Advisory Committees and supplemented by staff studies. This activity also includes a power survey of the state of Alaska to determine how best to meet the state's load growth over the next 20 years. The Alaska Survey is scheduled for completion in 1968 and will probably be updated every three to five years thereafter.

In 1966, the Commission established an Industry Advisory Committee on Reliability of Bulk Power Supply operating within the framework of its National Power Survey program. This Committee assists the Commission in reviewing and investigating problems involved in assuring a reliable supply of bulk power on an area and regional basis. The initial work of the committee will be completed in 1967, but a continuing staff surveillance of reliability problems will be required.

At the request of the President under the provisions of the Federal Power Act, the FPC undertook an immediate investigation into the causes of the November 9, 1965, power failure in the Northeast and the steps necessary to prevent a recurrence. The Commission's report to the President on the Northeast Power Failure was presented on December 6, 1965. The Commission has since pursued a broader examination of the reliability of bulk power supply for the nation. The Commission hopes to submit a full and final report in the current fiscal year. in response to the President's clear interest in "the causes of the failure and the steps you recommend to be taken to prevent a recurrence," expressed in his memorandum of November 9, 1965, to the Chairman of the Federal Power Commission.

In the period 1968 through 1972, the Commission will investigate any significant power interruptions and prepare reports thereon containing the status of the systems involved just prior to the interruption including load, generation, tieline flows, abnormal system conditions, if any, a concise description of the sequence of events up through complete restoration of service, a delineation of causes, and corrective measures.

Moreover, the Power Survey activity includes interconnection and coordination studies of specific systems to illustrate, by detailed comparison of benefits and costs, the gains that may be realized. There are many small systems seeking interconnection with larger systems or desiring a greater coordination with systems to which they are already interconnected. There are still many small systems that continue to operate as individual entities, without the beneficial power exchanges or reserve support. There are indications that many

of these systems will participate in coordination activities in the years ahead, and each of these participating system proposals will require staff analysis of the effects of coordination on each of the systems involved. Projects completed to date under this coordination program have paved the way for substantial savings to the industry and to the consumer. These studies will be carried forward during the five-year period 1968–1972.

In May 1965, the Commission appointed an Industry Advisory Committee on Underground Transmission to investigate and prepare a report on the state of the art of underground high-voltage electric power transmission. The Committee report, completed in April 1966, outlines and emphasizes the need for further research for both currently used and entirely new methods of underground power transmission. Continuing effort of the staff will be required to encourage implementation of the needed research efforts, and to evaluate the results.

Several other fields require additional information to plan for meeting the nation's power needs. For example, some special staff work will be required in assembling and analyzing data on air pollution, aesthetic improvements of power facilities, reserves of all types of energy sources, and problems involved in power system planning and development.

Sixty-six positions are required in 1968 to handle the workload and update the National Power Survey report. The two new positions provide staff for in-depth studies on power interruptions and reliability of bulk power supply. These two positions are offset by reductions in Power Systems Analysis and Water Resources Appraisal Studies.

2. Power systems analysis

Research and analysis of data pertaining to system operations—generation, loads, sources of power supply, power markets, power requirements, and construction and operating costs—are included in this program. These studies provide the Commission with current industry information on growth and costs used in comprehensive surveys. The studies also enable the FPC to advise other government agencies, the industry, and Congress on projections of power values, power markets, requirements and supply by power supply areas, estimates of construction and operation costs, alternative costs of power, and load growth. The program's studies also include the acquisition and analysis of foreign power systems data, as well as cost data for the Commission's annual publications, "Steam-Electric Plant Construction Costs and Annual Production Expenses" and "Hydroelectric Plant Construction Costs and Annual Production Expenses."

Special studies are made of such technological industry advancements as new ways to use coal, emergence of nuclear and natural gas as fuel sources for energy, and diversified uses of energy, such as electrified automobiles.

Twenty-seven positions are required for this 1968 program.

3. Water resources appraisal studies

The Commission is authorized to issue licenses to individuals, corporations, states, and municipalities for the construction, operation, and maintenance of water power projects on government lands and streams over which Congress has jurisdiction. It may also license these non-Federal interests to utilize surplus water or water power from a government dam.

The Commission's licensing program has long been plagued by the dearth of adequate studies on the nation's river basins. An important provision of the Federal Power Act (Section 10(a)) requires that a project to be licensed must, in the judgment of the Commission, be best adapted to a comprehensive basin plan. Another provision of the Act requires the Commission to make recommendations to Congress on possible recapture of non-public projects when their licenses expire. If Congress decides that the United States should recapture a project, the licensee is entitled to two years' notice in writing by the Commission. Full use will continue to be made of basin studies made by others, including those of the Survey Coordinating Committees and the proposed River Basin Commissions. In many cases, however, these studies do not cover the right areas, are not of adequate scope, or will not be available in time to meet the Commission's needs. Thus, the water resources appraisal studies carried out by the Commission staff are a necessary supplement to the work of others to enable the Commission to exercise effectively its licensing responsibilities. The studies are also valuable to the Commission in disposing of Federal lands withdrawn for power purposes and in cooperative studies of Federal projects with other Federal agencies.

The following quotation from the Court's decision in the *Cornwall* case highlights the Commission's responsibilities for making planning studies:

". . . Congress gave the Federal Power Commission a specific planning responsibility. See Federal Power Act § 10(a), 16 U.S.C. 803(a). The totality of a project's immediate and long-range effects, and not merely the engineering and navigation aspects, are to be considered in a licensing proceeding."

The water resources appraisal program was initiated in 1963. As a first step, the status of planning and development in each of the nation's major river basins was summarized to determine for each the need for basin plans for licensing and other Commission purposes. As of September 30, 1966, a total of 96 Planning Status Reports has been released and drafts have been completed for the remaining 21 basins. Detailed appraisal studies for Commission purposes will be made of those basins most in need of plans and not being investigated by others. Four appraisal reports have been released and nine others are in various stages of preparation.

All of the appraisal studies now under way are associated with licenses that will expire in the next five years. Licenses for 55 projects subject to recapture will expire by the end of fiscal year 1971. The projects have combined installed capacity of about 867,000 kilowatts. In order that the Commission may give the licensees the required two years' notice prior to recapture, a lead time of about five years before license expiration is required to make, review, and act upon the license expiration appraisals.

In relation to the appraisal program, the Commission maintains a current inventory of the water power resources of the United States. Essential data regarding the characteristics of each hydroelectric development, both existing and potential, are kept on record and revised as conditions change. Based on this information, the Commission publishes periodic reports on the status of developed and undeveloped water power resources of the nation. These reports provide the only source of detailed information of this kind available in the United States. The reports are used by industry, the Congress and other Federal, state, and international bodies concerned with water resource development.

Nineteen positions are required for this program in 1968.

4. Recurring data reporting

Engineering information is collected annually and monthly on standard forms. Reports on monthly energy production and changes in generating capacity are received from over 3,400 generating stations. Thermal-electric generating stations report on fuel consumption and fuel stocks along with production information. Monthly data for electric generating stations owned by industrial establishments are collected, processed, and reported to the Federal Reserve Bank System for use in industrial indices. Reports are received on typical report electric bills.

These data are collected, corrected, and tabulated in organized form for analysis and determination, and are made available to the general public. These statistics are the basic source data on the operations of the nation's number one industry. Data are compiled on the construction of new transmission lines and published annually in the form of transmission line maps.

Thirty-one positions are needed to carry out this program in 1968.

REGIONAL OFFICES

The Commission has five Regional Offices of the Bureau of Power located in Atlanta, Georgia; Chicago, Illinois; Fort Worth, Texas; New York, New York; and San Francisco, California.

The Regional Offices support practically all Bureau of Power programs covered by Parts I, II and III of the Federal Power Act. Under Part I of the Federal Power Act, Regional Office personnel inspect licensed projects under construction and in operation; assist in the review of applications for license and amendments; frequently participate jointly with Washington staff in preparation of data for formal proceedings on license project matters including service as witnesses; work closely with the licensees and state and Federal agencies in programs relating to recreation, fish and wildlife, water pollution and other multiple-purpose uses; prepare drafts of water resources appraisal reports (both planning status reports and the more detailed appraisal reports) which are used in connection with licensing and recapture programs; assist in headwater benefit investigations; and participate with other Federal and state agen-

cies in conducting cooperative studies for river basin development, very frequently as chairmen of subcommittees on power requirements and markets.

Under Part II of the Federal Power Act, Regional Office personnel conduct studies for the need, opportunities and value of interconnection and coordination of power systems; provide essential support for National Power Survey follow-up including working with industry representatives to implement NPS guideline recommendations and closely participating with Regional Advisory Committees; conduct studies and survey of power markets and power values; conduct long-range load projections for use by utilities and Federal agencies in planning for expansion; analyze power systems operations with a view of determining and improving reliability of service; collect data on power outages and prepare reports on significant outages; assist in investigating complaints filed under Section 202(b) and participate jointly with Washington staff in jurisdictional investigations and formal rate proceedings including serving as witnesses.

Under Part III of the Federal Power Act, Regional Office personnel collect, compile and analyze data on generation, transmission, distribution and sale of energy; prepare transmission facility maps, and conduct special investigations to acquire data to be used in reviewing proposed legislation.

Under various Rivers and Harbors Acts and other specific legislation, Regional Office personnel consult on and review proposed project plans of other Federal agencies for power development and represent the Commission as participating members of interagency compacts and commissions.

In addition to regular programs of assistance, field offices make numerous local investigations as required by the Commission. Regional Offices, because of their location and close proximity to licensed projects and local electric utilities, are able to discharge the responsibilities assigned to them on a more expeditious basis and at less cost than would be the case if this work were done by a staff in Washington. The work of the Regional Office is closely coordinated by the Bureau headquarters in order to avoid any duplication of effort and to facilitate the handling of assignments with dispatch.

Maximum utilization of the 120 positions is necessary to carry forward our Regional Office work programs.

Mr. EVINS. We will go through this for a few more questions.

The Federal Power Act has vested in the Commission the responsibility of assuring optimum development of hydroelectric resources, coordination of all electric power systems for maximum economy, and application of this energy to the wholesale consumers at reasonable prices. In virtually all areas the indicators point to an annual growth level of 7 to 9 percent. There has been an increasing number of disruptions. You can encourage, you can advise, and you can lead. You say investigations and audits of the industry will increase in number and in difficulty. You also say the Commission is formulating guidelines. We use the word "standards" around here. We thought that was a better word than "guidelines." "Guidelines" has become rather obnoxious and odious. There are too many "guidelines" thrown around. "Standards" is a better word.

Mr. WHITE. We will try to use the word that is least offensive.

"COLTON" DECISION

Mr. EVINS. You say cheap, abundant electric power is no longer a luxury. We all agree it is a necessity. Also the major objective of the Commission is to supervise establishment of a fair rate structure. Then on page 59 you have a chart showing the cost-of-living index. It shows that the cost of living has gone up, but the electric costs have leveled off. This is an interesting chart. Tell us briefly what the *Colton* case provides.

Mr. WHITE. Basically, this is the one that gave unquestioned authority, or supported the concept of the Commission, and its authority to fix—not to fix the rates but the authority to look into the question of discriminatory rates. If you like, we can ask Mr. Solomon to give us a 1-minute dissertation on it.

Mr. EVINS. Give us 1 minute, Mr. Solomon. You are a wise man.

Mr. SOLOMON. The *Colton* decision was the decision which reaffirmed the fact that the Commission had authority to go into the wholesale rate structures of public utilities.

Mr. EVINS. You did get the authority to go into the wholesale rate structure?

Mr. SOLOMON. Wholesale sales of public utilities in interstate commerce. The *Colton* decision, as rendered by the Supreme Court, reaffirmed that authority. As a result of this decision and as a result of this Congress' giving us the manpower, we went into a more intensive program on wholesale rate regulation, which we are now in.

Mr. EVINS. Very good.

You state here that the national power survey will make possible a reduction of 27 percent in the cost of electricity. Has the commission made this a firm conclusion?

RATE REDUCTION RESULTS OF NATIONAL POWER SURVEY

Mr. WHITE. In the December 1964 report which was described as the national power survey it suggested that this whole concept of coordination-interconnection, if it were pushed out to its outer limits and were implemented, the Commission was willing to predict that there could be as much as $11 billion in savings by the year 1980, or a substantial reduction in the cost of electricity.

We have already seen that in the less than 3 years since that survey a tendency in this direction, rates are going down.

Mr. EVINS. On page 63 I notice this:

> The Commission is beginning to be recognized as a forum where the municipals and small systems may present their grievances for the elimination of restrictive or discriminatory provisions in contracts which prohibit them from obtaining better and more economical rates and services.

Mr. WHITE. Yes.

Mr. EVINS. I say good, you do render a service for them. How about the big ones?

Mr. WHITE. Well, they are a little bit more able to take care of themselves in negotiations. But if they need our guidance, our good offices and our forum, why, they are welcome.

Mr. EVINS. You don't bother them too much, Mr. Chairman?

Mr. O'CONNOR. Usually it is the big ones from which the little ones want to purchase, who come to our Commission for assistance.

Mr. WHITE. Yes; and in all frankness, we have worked with some of the major utilities on these advisory committees and we find them to be extremely cooperative. They do sense their public responsibility and they are very proud of the fact that their rates have decreased and they, too, are gung ho to lower the cost of power.

Mr. EVINS. Page 65 shows the growth in generating capacity, which is very impressive. And as to non-Federal hydroelectric generating capacity, the licenses have grown and the total has grown. This is a very interesting chart on page 67.

Now, the *Cornwall* case, you say, places upon the Commission an added responsibility to give active and affirmative protection to all these important matters, fish and wildlife, et cetera. That is the *Cornwall* case.

Mr. WHITE. Yes. We spoke to that a little earlier. It is known by other names, the *Scenic Hudson* case in the Second Circuit Court of Appeals which rendered that decision.

Mr. EVINS. At the end of 1966 the total hydroelectric capacity under FPC license was about 77 percent of all non-Federal hydroelectric capacity. As of this time there were 377 projects under license, of which 322 were for major projects. We believe it to be in the public interest that adequate and timely inspections be made under the Federal Power Act.

We have discussed this. We agree.

There are now 53 river basins in this country which contain non-Federal hydroelectric power developments downstream from headwater improvements of the United States or licensees. This is non-Federal, 53 river basins. How many river basins with Federal hydroelectric developments?

Mr. WHITE. As of January 1, 1967, there were 138 Federal hydroelectric projects with 19,561,112 kilowatts of installed capacity in 30 major river basins.

Mr. BROWN. We have had 107 planning status reports and I think it is safe to say——

Mr. EVINS. The Federal more than doubles the non-Federal?

Mr. BROWN. A large measure of those have Federal projects on them.

Mr. CARVER. In this connection they are talking only about those connecting downstream and the number is 26 for these Federal projects where they affect the downstream private development.

Mr. EVINS. On page 82 the chart shows the hydroelectric resources. The Federal is shown on this chart to be small as compared with that which is developed and the potential.

Read that chart for us in the record.

Mr. BROWN. The Federal Power Commission makes periodic updating of the long-range potential of hydroelectric power.

The chart depicts that approximately 43 million kilowatts of a total potential of approximately 160 million kilowatts of hydroelectric capacity has been developed.

Mr. EVINS. We are not without resource potential; is that right?

Mr. BROWN. We are not.

Mr. EVINS. So those that are alarmed that we are short or running out should be reassured.

Mr. BROWN. Yes.

Mr. WHITE. It gets a little tougher with these other factors of aesthetics, recreation, fish and wildlife, but the hydroelectric potential, as this shows, is substantial.

Mr. WYMAN. Mr. Chairman.

Mr. EVINS. Mr. Wyman.

Mr. WYMAN. We aren't going to need this if the atomic developments which are at hand come to fruition?

Mr. WHITE. It depends a little bit. The atomic development is great but the estimate now is that by the end of this century—and we are talking now about 33, 34 years hence—our power needs will be seven times what they are today. This industry doubles every 10 years in demand. I think we really have to focus on how significant the job is, to make sure that electricity is available and we need it.

Mr. WYMAN. Does this derive from the population explosion or from the additional demands placed on the energy resources by industry?

Mr. WHITE. Both. First of all, there will be considerably more people, it is the per capita consumption of electric energy which goes up remarkably. It is really an indication of an industrialized society. We have a lot of problems that go with that, but we are truly the most industrialized society in the world and when you think of the tremendous plant we have got now, as was pointed out by the chairman, the largest investment of any business in the country, $80 billion, for what we have got today, and what we got today is producing one-seventh of what we will need in the year 2000, you see some of the magnitude of the problem that faces the industry.

Mr. O'CONNOR. Some of these hydro developments are complementary to atomic power energy.

Mr. WHITE. Yes, because of the peaking capacity.

Mr. WYMAN. I would expect that there would be increasing resort to atomic power in the years to come, particularly to have generator capability, to have a number of units similar to those that power nuclear submarines and can power them for a year straight without removing the core, would be quite an opportunity for the future as to power sources, I would think.

ADMINISTRATION

Mr. EVINS. Administrative personnel remains at 92, although you have authority, flexibility to shuffle around.

Mr. WHITE. Yes.

Mr. EVINS. Funds in 1966, you had $1,013,000 and in 1968 it will be $1,083,000. Place in the record pages 111 and 112.

(The pages follow:)

Comparative summary of activity

	1966 actual		1967 estimate		1968 estimate	
	Positions	Funds	Positions	Funds	Positions	Funds
Administration	90	$1,013,778	92	$1,083,000	92	$1,083,000

The administration of Commission activities has historically involved those executive, planning, or policy levels not attributable to any one division of the Federal Power Commission but rather applicable to the Commission as a whole.

The Chairman, the Commissioners and their staff, including the Office of the Executive Director, the Office of Personnel, and the Office of Program, Budget and Financial Services, receive a full measure of the administrative burden. A part

of the Office of Administrative Operations, which includes mail distribution, printing, records files, procurement and drafting is pro-rated as overhead costs to this activity. The function of Director of Administration was reconstituted beginning in 1967 within the office of the Executive Director.

The position and man-year distribution is as follows:

	1966 actual positions	1967 estimate positions	1968 estimate positions
Commissioners and staffs [1]	32	34	34
Personnel [1]	18	18	18
Program, budget and financial services [1]	23	23	23
Administrative operations [2]	17	17	17
Total	90	92	92

[1] Full amount.
[2] Pro-rated.

OBJECT CLASS REQUIREMENTS

Mr. EVINS. Now let us look at the justification by object class requirements. Personnel compensation goes up $258,000, personnel benefits are up $17,000, transportation and travel up $60,000, printing and reproduction is increased by $23,000. Mr. Chairman, can't you hold these costs down? The total is up $530,000, more than half a million.

Mr. WHITE. Of that, of course, a considerable amount is personnel compensation. That was the decision of the Congress to increase pay, with which we do not object, but it has to be paid for.

Mr. EVINS. You can't absorb it.

Place in the record pages 114 through 116 and 121 through 147.

(The pages follow:)

SALARIES AND EXPENSES

Justification by object class requirements—Summary of request by object class

		1966 actual	1967 estimate	1968 estimate	Increase (+) or decrease (−)
11.0	Personnel compensation	$11,155,300	$12,100,000	$12,358,000	+$258,000
12.0	Personnel benefits	803,639	883,000	900,000	+17,000
21.0	Travel and transportation of persons	316,442	340,000	400,000	+60,000
22.0	Transportation of things	16,363	17,000	17,000	
23.0	Rent, communications, and utilities	254,628	244,000	234,000	−10,000
24.0	Printing and reproduction	128,734	204,000	227,000	+23,000
25.1	Other services	168,902	100,000	100,000	
25.2	Services of other agencies	27,360	43,000	43,000	
26.0	Supplies and materials	143,755	131,000	131,000	
31.0	Equipment	363,767	158,000	120,000	−38,000
42.0	Insurance claims and indemnities	5,151			
99.0	Total obligations	13,384,041	14,220,000	14,530,000	+310,000
94.0	Change in selected resources [1]	+36,104			
	Total costs funded	13,420,145	14,220,000	14,530,000	+310,000
	Total	13,420,145	14,000,000	14,530,000	+530,000
Anticipated supplemental			220,000		

[1] See individual justifications for amount applicable to each object class.

11.0 Personnel compensation:

Summary of estimates

	1966 actual	1967 estimate	1968 estimate	Difference
Total obligations and costs	$11,155,300	$12,100,000	$12,358,000	+$258,000

The gross salaries for the 1190 positions estimated for 1968 will amount to $12,897,779, of which 98 percent is for the 1160 general schedule positions at an average of $10,863 each, of the balance $136,500 is for the five Commissioners and $159,853 is for the 25 wage board positions.

The net costs of personnel compensation for which funds are requested amount to $12,358,000 representing a costs savings of $539,779 for estimated unfilled positions and part-year costs of within grade promotions that will not require funding.

The costs of overtime which generally arise as a result of emergencies, changes in deadlines, or special work requirements are estimated at $50,000 but are expected to be absorbed within available funds.

The slight increase in average salary for GS grades in 1968 is attributable to the need of the Commission to recognize the highly skilled professional competence of its staff, many of whom can command higher salaries in the industries regulated.

The retention of such staff possessing the specialized experience which can only be obtained in regulatory work is of paramount importance and requires the development of a personal pride in work accomplishments and recognition of individual achievement through promotions or other tangible rewards.

Some measure of staff stability can be derived from the Commission's personnel turnover rates, which compare favorably with other similar commissions or agencies. There is included a comparison of normal turnover rates by major organizations of the Commission.

The 18 new positions requested for 1968 are summarized by program and office in a table following this narrative. The total personnel compensation costs distributed by bureau and office to the major activities are summarized in a separate table.

12.0 Personnel benefits:

Summary of estimates

	1966 actual	1967 estimate	1968 estimate	Difference
Health benefits	$62,123	$72,000	$74,000	+$2,000
Employees life insurance	35,112	40,000	41,000	+1,000
Civil service retirement	700,202	765,077	779,988	+14,911
FICA tax	5,847	5,000	5,000	
Employees compensation fund	10	923	12	−911
Employee awards	345			
Total obligations and costs	803,639	883,000	900,000	+17,000

Increase in personnel compensation costs for present personnel and the requested 18 new positions are reflected in the additional requirements for personnel benefits contributions in 1968.

21.0 Travel and transportation of persons:

Summary of estimates

	1966 actual	1967 estimate	1968 estimate	Difference
Natural gas industry	$37,752	$38,000	$53,000	+$15,000
Electric power industry	261,457	284,000	329,000	+45,000
Administration	17,233	18,000	18,000	
Total	316,442	340,000	400,000	+60,000

GENERAL

The offices, projects and resources of both the natural gas and electric power industries are situated in all parts of the United States.

Certain Commission functions can be performed only at these locations. These include financial audits, physical inspections, detail investigations, and on-site evaluations and studies of the use and potential of the country's water resources.

Travel costs have been reduced from an average of $390,000 during the last few years to an actual cost of $316,442 in 1966. However, 1966 does not truly represent travel requirements due to the specific dollar limitation imposed by Congress. Travel savings have been accomplished by improved scheduling, by establishment of more stringent administration limitations, and by simply reducing some of our activities. The 1967 requirements represent the normal travel required for the accomplishment of our programs. The increased emphasis in the natural gas rate examination and electric power project inspections, blackout studies, Alaska Power Survey, and the updating of the National Power Survey, will require additional funds in 1968.

The $60,000 increase requested for 1968 will enable us to complete the required work in these areas. This increase was based on a thorough review of our travel programs, with strict attention given to maximum returns in regulatory program.

Specific data related to the travel requirements by activities follows:

NATURAL GAS INDUSTRY

Costs for travel and transportation of persons in 1968 will be about $53,000—$15,000 more than the amount programmed for 1967. Travel in connection with natural gas work has been minimized by having companies submit supporting data for rate increases with their filings. This data accumulation work was formerly performed by our own field staff. However, decidedly more travel will be necessary in 1968 for rate investigations, with emphasis on specific significant data or service issues involved.

More travel will also be required for collecting independent information and verifying data being submitted with the increasing number of competitive applications for certificates. The Commission's staff must keep abreast of the new techniques and improvements in the gas industry. Auditing personnel must travel to examine periodically pipeline companies' accounts for compliance with the Commission's Uniform System of Accounts and their use of electronic data processing procedures.

Company practices must be evaluated, particularly in the area of depreciation, in order to keep original cost determinations current for use in rate cases and investigations.

ELECTRIC POWER INDUSTRY

An increase of $45,000 for 1967 is estimated for the additional travel involved in the investigation of electric power company records and operations, inspection of hydroelectric projects, and special studies and surveys.

To meet the responsibilities of electric rate regulation, rate bases must be verified, and the original cost and depreciation for licensed hydroelectric projects must be established, often by examining company records at field sites. Also, field records must be examined to assure compliance with the approved accounting system. The use of audit reports by accounting firms employed by the utilities accelerates the auditing program and enables us to complete our work much faster.

Other travel involves the supervision of licensed operations, investigation of unlicensed projects, and licensed project accounting. Regional office personnel periodically make inspection trips, along with supervisory personnel from Washington, D.C., to ensure that the construction and operation of the licensed projects conform with approved plans, employ good engineering practices and accepted safety and efficiency standards, and comply with the terms of the license granted by the Federal Power Commission. Some travel is necessary to evaluate planned comprehensive development of river basins and related resources. The total amount estimated for travel in connection with non-Federal hydroelectric projects is reimbursable by licensees under Part I of the Federal Power Act.

In cooperation with the Corps of Engineers and the Bureau of Reclamation, the Commission investigates Federal river development projects for development and planning. Regional and headquarters personnel must make considerable

field travel to maintain close coordination between the Commission and the field offices of the construction agencies and the committees established in recent years.

The Commission currently is represented on 23 River Basin Inter-Agency Survey Coordinating Committees involving six other Federal agencies and governors of the states concerned. They will jointly examine and analyze stream flow, water supply, quality control, flood control and drainage, water shed treatment, navigation, hydroelectric power, recreation, and fish and wildlife conservation. They will also try to determine the status of current development plans, and formulate plans for future development of the water and related land resources.

ADMINISTRATION

The amount estimated for administrative travel for 1968 is $18,000, the same as in 1967 and 1966. This covers the travel of the Commissioners and the staff for purposes not directly chargeable to one of the major operating areas. Administrative travel might include national and international power meetings, regional water power and resources conferences, and inspection of facilities on highly controversial matters.

22.0 Transportation of things:

Summary of estimates

	1966 actual	1967 estimate	1968 estimate	Difference
Freight and express	$2,701	$2,400	$2,400	
Parcel post	600	600	600	
Household effects	13,062	14,000	14,000	
	(+3,241)			
Total obligations	16,363	17,000	17,000	
Change in selected resources	+3,241			
Total costs	19,604			

Estimates for transfers of personnel, freight, express and parcel post fees will remain at the same level for 1967 and 1968, about the same as 1966.

23.0 Rents, communications, and utilities:

Summary of estimates

	1966 actual	1967 estimate	1968 estimate	Difference
Telephone, TWX, telegraph	$127,464	$113,700	$113,700	
Postage	44,800	45,800	45,800	
Rent, EAM-ADP equipment	36,854	38,600	34,300	−$4,300
Rent, Xerox equipment	38,397	43,500	37,800	−5,700
Relocation lease	1,344	1,400	1,400	
Office machine rentals	5,769	1,000	1,000	
Total obligations and costs	254,628	244,000	234,000	−10,000

The total 1968 estimate of $234,000 reflects a $10,000 decrease resulting from reduction in rental equipment retained in 1968 in the EAM–ADP area, and decreased Xerox rental rates resulting from the purchase of one machine in 1967. The cost of telephone, TWX and telegraph reflects a drop in the number of telephones as a result of a 1966 survey. Office machine rentals have been reduced by the acquisition of needed equipment through our replacement program. The postage requirement has been submitted to the Post Office Department to cover official mailings by the Federal Power Commission. The relocation lease requirement covers the rental cost of an emergency relocation site in the southwest area of the United States.

24.0 Printing and reproduction:

Summary of estimates

	1966 actual	1967 estimate	1968 estimate	Difference
Public use forms	$16,948	$10,000	$15,000	$+5,000
Publications	65,139	121,000	156,700	+35,700
	(+38,364)			
Maps	5,498	25,000	5,400	−19,600
Binding	1,286	1,000	1,000	
Legal briefs	20,932	22,200	23,300	+1,100
Printing of forms, cards, and paper	18,931	24,800	25,600	+800
Total obligations	128,734	204,000	227,000	+23,000
Changes in selected resources	+38,364			
Total costs	167,098			

Estimates for printing and reproduction requirements in 1968 covers the following items:

1. Reprinting annual report forms for electric utilities and licensees, and natural gas companies, total	$15,000
2. Printing of publications:	
(*a*) Printing recurring statistical publications as follows:	
Statistics for Interstate Natural Gas Pipeline Companies	2,300
Statistics of Electric Utilities, Privately Owned	5,500
Statistics of Electric Utilities, Publicly Owned	2,000
Sales of Electric Power Under Firm Rate Schedules by Private Electric Utilities for Resale	2,000
Typical Electric Bills	1,700
National Electric Rate Books	5,800
Electric Power Statistics	2,100
World Power Data	600
Steam-Electric Plant Construction Costs and Annual Production Expenses	2,200
Hydroelectric Plant Construction Costs and Annual Production Expenses	900
Sales by Producers of Natural Gas to Natural Gas Pipeline Companies	2,400
All-Electric Homes, Annual Bill	500
Hydroelectric Power Resources of the United States, Developed and Undeveloped	1,700
(*b*) Reprinting and supplementary service of Commission publications as follows:	
Regulations under the Federal Power Act, revised edition	1,300
Federal Power Act	2,800
Uniform System of Accounts Prescribed for Natural Gas Companies, revised edition	1,500
Regulations Under the Natural Gas Act	200
Uniform System of Accounts Prescribed for Public Utilities and Licensees	200
(*c*) Printing the Annual Report of the Federal Power Commission	6,000
(*d*) Printing monthly advance sheets and annual bound volumes of FPC reports, opinions, and decisions:	
(1) Advance sheets for 19-month period September 1966 through March 1968	95,000
(2) Bound volumes for calendar years 1966, 1967	20,000
Total	156,700

3. Printing:	
Principal electric facilities (8 regional maps)	$4,800
Major natural gas pipelines (map)	600
Total	5,400
4. Binding library volumes, total	1,000
5. Printing legal briefs, total	23,300
6. Printing of forms, cards and paper:	
Standard forms	500
Flat folded IBM forms	14,300
Punch cards	1,000
Stationery	300
Columnar statistical paper	2,500
Pamphlets, congressional bills, resolutions, and congressional committee hearing transcripts	2,000
Field reproduction requirements for 5 regional offices	5,000
Total	25,600
Printing and reproduction, grand total	227,000

In light of the exacting scrutiny of the public and the great interest shown by the two industries, the Commission must make its actions public to avoid criticism or legal action. All the printing and reproduction estimate items are necessary in the public interest and must be prepared for the industries and interested parties as well as for the valuable use the documents afford in day-to-day operations.

The most costly items are Commission opinions and decisions. The funds requested for 1968 will be used to bring these volumes to a current status. Printing costs are rising annually, and delays due to lack of funds compound the problem and create higher cost in later years.

25.1 Other services:

Summary of estimates

	1966 actual	1967 estimate	1968 estimate	Difference
Advertising	$6,725	$4,000	$4,000	
Maintenance and repair of equipment	18,318	19,500	19,500	
Construction and alteration	40,786	5,000	5,000	
	(−3,156)			
ADP consulting and contracting	81,561	50,000	50,000	
Other contracting services	8,192	5,000	5,000	
Employee training program	13,244	16,000	16,000	
Reception and representation expenses	76	500	500	
Total obligations	168,902	100,000	100,000	
Changes in selected resources	−3,156			
Total costs	165,746			

The $100,000 estimated for these services reflects a reduction of $65,746, mainly in construction and alteration which has been reduced to a normal level to cover minor moves, and a reduction in ADP consulting and contracting services due to improvement in in-house capability. The $50,000 reserved for ADP consulting and contracting work in based upon our experience that it is sometimes more economical to contract for specific jobs than to endeavor to staff and provide equipment for "crash" programs. The balance of the required funds will be used for employee training; advertisement of license applications, as required by law; contracting for transcripts of hearings; safe repair services and equipment installation costs; equipment maintenance and repair; and reception and representation expenses.

25.2 Services of other agencies:

Summary of estimates

	1966 actual	1967 estimate	1968 estimate	Difference
Security investigations, CSC	$3,320	$8,300	$5,700	−$2,600
Board of examiners, CSC		4,700	7,300	+2,600
Health services, PHS	13,011	15,100	15,100	
Health services, Agriculture	190	200	200	
Health services, GSA	330	300	300	
Hire of laborers, GSA	1,685	2,400	2,400	
Columbia River Basin, Interagency Committee	2,932	3,000	3,000	
Employee training program, CSC	3,362	6,000	6,000	
Employee training program, GSA	2,530	3,000	3,000	
Total obligations	27,360	43,000	43,000	

$43,000 is necessary to provide funds for services performed by other agencies. All of these items are justifiable for the effective operation of the Commission. No additional funds are requested for 1968 over the estimate for 1967. Increased emphasis on security, health services, training, and new examining procedures has increased the costs of services performed by other agencies.

26.0 Supplies and materials:

Summary of estimates

	1966 actual	1967 estimate	1968 estimate	Difference
Expendable supplies	$62,811	$58,000	$58,000	
	(−1,005)			
Duplicating supplies	71,345	64,000	64,000	
Library	9,599	9,000	9,000	
Total obligations	143,755	131,000	131,000	
Changes in selected resources	−1,005			
Total costs	142,750			

Supplies and materials costs are estimated at $131,000 for 1968. The reduction is possible through greater use of the GSA retail store, permitting reduction of inventories of expendable supplies and the improved printing control procedures which are expected to reduce duplicating supplies required in the Printing Plant. The library requirements for periodicals, pamphlets and magazine subscriptions will remain approximately the same as 1966.

31.0 Equipment:

Summary of estimates

	1966 actual	1967 estimate	1968 estimate	Difference
Office machines	$29,825	$50,400	$56,500	+$6,100
Office furniture	22,415	29,600	22,000	−7,600
ADP equipment	244,603	36,000		−36,000
Filing equipment	2,378	2,000	2,000	
Duplicating equipment	54,822	30,000	29,500	−500
Library publications	9,724	10,000	10,000	
Total obligations	363,767	158,000	120,000	−38,000
Changes in selected resources	−1,340			
Total costs	362,427			

Equipment requirements for 1968 total $120,000, a reduction of $38,000 from the 1967 level. The decrease is due mainly to the elimination of the need for automatic data processing equipment in 1968. Major new or replacement equipment to be purchased in 1968 is listed below:

1. Office machines

An additional $6,100 is requested for the purchase of such office machines as typewriters, calculators and adding machines.

The total requirement of $56,500 is based on analysis of break-even points on machine repairs, the aging of equipment, and the replacements that will be required in 1968. This replacement program has been set back many times because of fund limitations, but must be completed to avoid delays due to malfunctioning machines.

2. Furniture

Replacement of furniture such as chairs, desks and tables no longer adequate for use under GSA criteria is estimated at $22,000.

3. Automatic data processing equipment

No additional automatic data processing equipment will be purchased in 1968, thereby showing a reduction of $36,000 from 1967.

4. Filing equipment

The continued purchase of vertical shelving with subsequent release of file cabinets and space for other uses is estimated at $2,000.

5. Duplicating equipment

The following duplicating equipment estimated at $29,500 will be needed in 1968:

Power collator replacement	$14,000
Small press	3,000
Platemaker (statimat)	[1] 4,300
Platemaker (20 by 24 inches) Itek	[1] 8,000
Platemaking table	200
Total	29,500

[1] Actual cost of these items is $9,800 and $12,000, respectively, but is reduced by the rental equity of $5,500 and $4,000.

6. Library publications

Based on recent experience rates, $10,000 will be needed in 1968 for library acquisitions including bound volumes of current reference, and technical and legal literature for staff research.

42.0 *Insurance claims and indemnities:*

Summary of estimates

	1966 actual	1967 estimate	1968 estimate	Difference
Total obligations and costs	5,151			

1966 insurance obligations are in connection with automobile accident claims for which liability was acknowledged by the Government.

AUTOMATIC DATA PROCESSING PROGRAM

Background.—The Commission first began to use automatic data processing in the latter part of 1962 to support its independent producer area rate proceedings. Through 1964 and 1963 we relied primarily on contractual ADP services while developing an in-house staff. Starting in early 1965 the Commission began operating with a mixed contractor/in-house staff, and the ADP contract services have been reduced rapidly as the Commission increased its in-house capability.

In October 1964 the Commission acquired a medium-class computer on a lease-with-option-to-purchase basis. The option to purchase was exercised in September 1965. Because of the growing size and complexity of the ADP applications within the Commission, increases in main frame memory are scheduled in fiscal years 1967 and 1968, together with the addition of a console typewriter which provides a direct communication link between the operator and the equipment.

Recruitment and training of an in-house staff of ADP personnel have proceeded substantially according to schedule, although there have been some lags particularly with respect to recruitment of experienced ADP personnel. At the present time a considerable portion of our ADP staff are trainees who are becoming more productive as time passes. Our capable cadre of experienced personnel combined with increasingly productive junior personnel should enable the Commission to expand considerably the use of data processing in support of substantive activities.

Fiscal year 1968 program.—The automatic data processing applications which make up the fiscal year 1968 program are shown in the attached list. They reflect the rapid increase in the use of automatic data processing in support of the substantive activities of the Commission since its beginning in 1962. Each was selected on the basis of substantive significance, priority, and the extent to which it helped better manpower utilization or bring about economies. First priority is given to maintenance of existing systems which support Commission activities. As time goes on, more and more applications will fall into this category.

The ADP program to date, and as projected through fiscal year 1968, has helped the Commission to hold down requests for additional positions and has increased effective utilization of the Commission's manpower. The outlook is for expansion into the area of industry-Commission data systems cooperation.

The in-house staff planned for fiscal year 1968 reflects the steadily increasing scope and complexity of and is tied directly to the 1968 ADP program. Careful review of systems analysis, programing, and computer operations for each project underlies this program. Moreover, the projects included are those which survived this intensive review. Many projects did not meet the combined test of substantive significance, priority, and better manpower utilization or economy.

Contract funds are requested in the amount of $50,000, the same amount as requested for fiscal year 1967. Contract services are required for data input preparation and related computer services for exceptionally large programs, for contracts with universities or research firms for special projects, and for reimbursements for the use of large computers in special applications beyond the capability of FPC's medium-class installation.

Computer rentals ceased when the computer was purchased in the first quarter of fiscal year 1966. At that time FPC assumed the cost of maintenance formerly borne by the manufacturer. The $11,500 requested for fiscal year 1968 comprise a full year's maintenance for the computer configuration.

We are requesting $34,300 for fiscal year 1968 for lease of electro-mechanical auxiliary equipment and an additional increase in main-frame memory of 8000 characters. Nine of the 13 card keypunch and verifying machines have been replaced by 10 manually operated electro-mechanical data recorders which record data directly onto magnetic tape. By this means a substantial increase in speed and productivity is made possible in preparing input data for the computer. The new machines operate at a higher speed and with considerably less operator fatigue than the keypunch and verifying machines. They also eliminate the card-to-tape operation and many of the processing problems associated with card punching and card handling. The electric accounting machines of our former EAM installations are scheduled to be phased out in fiscal year 1967, leaving one sorter, one collator, and four keypunch and verifying machines that can be used advantageously in conjunction with the computer. It is often more economical to create and sort small files through the use of this type of equipment rather than through the use of more sophisticated electronic equipment. Also in preparing and debugging programs the use of punched cards is sometimes more efficient than going directly to tape.

The growing complexity and scope of the Commission's ADP program will require frequent use of program languages such as COBOL and FORTRAN. Use of these more advanced languages at the Commission requires 32,000 characters of memory. For example, COBOL often requires the use of 25,000 to 32,000 positions of memory for more complex programs. We plan to evaluate completely our computer equipment requirements after the end of fiscal year 1968. Lease-with-option-to-purchase is considered a more prudent and economical basis for these last two memory units than an immediate purchase, pending determination of total computer configuration requirements thereafter. The units lease for $250 per month each, or $6,000 anually for both.

The $25,000 requested for computer materials and supplies includes provision for the purchase of magnetic tapes, computer ribbon, multi-part paper, and other items required for computer operation. Requirement for a limited supply of punch cards is included.

We estimate that net economies resulting from use of the computer in fiscal year 1968 will amount to approximately $90,000.

NATURAL GAS INDUSTRY

1. Rate regulation—*Independent Producer:*
   a. Continued support for area rate matters, including maintenance of nation-wide and area data and cost, rate, gas reserve, and pricing and impact studies.
   b. Maintenance of producer historical index and other basic data.
   c. Summaries of suspended rates, annual sales volumes, and annual statements by independent producers.
   d. Regional gas market projections.
   e. Regression analyses.
2. Rate regulation—*Pipeline:*
   a. Regional gas market projections.
   b. Graphic regression outputs.
3. Certificates of public convenience and necessity—*Pipeline:* Transmission and compression analyses.
4. Investigations—*Pipeline:*
   a. Gas supply—Form 15.
   b. Amounts collected by pipelines from producer refunds.
   c. Cost-of-service and earnings studies.
5. Uniform accounting regulation—*Pipeline:*
   a. Development of audit ratios.
   b. Adaptation of annual report Forms 2 for source data automation.
6. Gathering and analysis of gas data:
   a. Publication: Statistics of Interstate Natural Gas Pipelines Companies.
   b. Publication: Sales by Producers to Natural Gas Pipeline Companies.

ELECTRIC POWER INDUSTRY

1. Rate regulation—Rate schedule index.
2. Power system analysis:
   a. Seasonal load diversity studies
   b. Seasonal energy patterns
   c. Reserve study—Loss probability
3. Uniform accounting regulation:
   a. Development of audit ratios
   b. Adaptation of annual report Forms 1 for source data automation
4. Gathering and analyses of electric data:
   a. Publication: Statistics of Electric Utilities, Privately Owned
   b. Publication: Statistics of Electric Utilities, Publicly Owned
   c. Publication: Firm Power Sales for Resale
   d. Publication: Monthly Electric Power Statistics
   e. Publication: Typical Electric Bills
5. Headwater benefit determinations—Energy gains on the Chattachoochee River, 1965–66.
6. Licensed projects:
   a. Publication: Inventory of outdoor recreation at projects under Federal license
   b. Publication: Fish, wildlife and recreation expenditures at Federal and Federally licensed projects
   c. Publication: Hydroelectric Resources of the United States, Developed and Undeveloped
   d. Computation of annual administrative charges

ADMINISTRATION

1. Payroll and accounting.

COMPUTERS

Mr. Evins. I noted that you bought your computer and that this obviated the necessity of paying a rental. But then you have $11,500 for a full year's maintenance. The computer people really seem to be taking advantage of the Government. After you buy a computer,

then you have to pay them an annual fee to check it and you also are required to buy your related equipment and supplies from them. That is pretty costly.

Mr. WHITE. There is no question, Mr. Chairman, however, that these machines can do so much work, they are really a tremendous timesaver. I know that from your point of view these things sort of sink into it, you don't see any reduction in the total budget request or total people, but it does really increase the amount of work that the same number of people can put out.

Mr. EVINS. When you purchase equipment don't buy all the provisions in the contract that they write in there. When you buy it, that should be enough.

Mr. Chairman, we think you have a very important Commission. We think you have a great mission to perform. We wish you good luck and a lot of success.

Mr. WHITE. Mr. Chairman, thank you.

Mr. EVINS. Thank you all.

THURSDAY, MARCH 9, 1967.

FEDERAL COMMUNICATIONS COMMISSION

WITNESSES

ROSEL H. HYDE, CHAIRMAN
ROBERT T. BARTLEY, COMMISSIONER
ROBERT E. LEE, COMMISSIONER
KENNETH A. COX, COMMISSIONER
LEE LOEVINGER, COMMISSIONER
NICHOLAS JOHNSON, COMMISSIONER
MAX D. PAGLIN, EXECUTIVE DIRECTOR
RICHARD F. SOLAN, BUDGET OFFICER
BERNARD STRASSBURG, CHIEF, COMMON CARRIER BUREAU
GEORGE S. SMITH, CHIEF, BROADCAST BUREAU
STANLEY E. McKINLEY, ASSISTANT CHIEF, MANAGEMENT, BROADCAST BUREAU
MARTIN I. LEVY, DIVISION CHIEF, BROADCAST BUREAU
CURTIS B. PLUMMER, CHIEF, FIELD ENGINEERING BUREAU
JOHN R. EVANS, DEPUTY CHIEF, FIELD ENGINEERING BUREAU
JAMES E. BARR, CHIEF, SAFETY AND SPECIAL RADIO SERVICES BUREAU
VERNON SPRING, ASSISTANT CHIEF, MANAGEMENT, SAFETY AND SPECIAL SERVICES BUREAU
STANLEY KAUFMAN, DEPUTY CHIEF, CATV TASK FORCE
RALPH J. RENTON, CHIEF ENGINEER
HENRY GELLER, GENERAL COUNSEL

Salaries and Expenses

Program and financing

[In thousands of dollars]

	1966 actual	1967 est.	1968 est.
Program by activities:			
1. Commissioners	765	758	801
2. Broadcast	4,000	4,105	4,138
3. Common carrier	2,156	2,348	2,490
4. Safety and special radio services	1,798	1,785	1,797
5. Field engineering	4,477	4,466	4,643
6. Engineering studies and frequency allocation	1,257	1,257	1,777
7. Citizens radio service	623	600	890
8. Community antenna TV	7	272	353
9. Legal services	611	610	616
10. Administrative services	1,492	1,480	1,595
Total program costs, funded [1]	17,276	17,681	19,100
Change in selected resources [2]	105	161	
10 Total obligations	17,381	17,842	19,100
Financing:			
11 Receipts and reimbursements from: Administrative budget accounts—emergency preparedness functions	−80	−30	
New obligational authority	17,301	17,812	19,100
New obligational authority:			
40 Appropriation	17,338	17,338	19,100
41 Transferred to "Operating expenses, Public Buildings Service," General Services Administration (79 Stat. 531)	−37		
43 Appropriation (adjusted)	17,301	17,338	19,100
44 Proposed supplemental for civilian pay act increase		474	
Relation of obligations to expenditures:			
10 Total obligations	17,381	17,842	19,100
70 Receipts and other offsets	−80	−30	
71 Obligations affecting expenditures	17,301	17,812	19,100
72 Obligated balance, start of year	1,081	1,125	1,235
74 Obligated balance, end of year	−1,125	−1,235	−1,835
77 Adjustments in expired accounts	−41		
90 Expenditures excluding pay increase supplemental	17,217	17,246	18,482
91 Expenditures from civilian pay increase supplemental		456	18

[1] Includes capital outlay as follows: 1966, $515,000; 1967, $396,000; 1968, $1,386,000.

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

	1965	1966	1967	1968
Stores	7	12	12	12
Unpaid undelivered orders	743	839	1,000	1,000
Advances	7	11	11	11
Total selected resources	757	862	1,023	1,023

Object classification

[In thousands of dollars]

		1966 actual	1967 estimate	1968 estimate
	Personnel compensation:			
11.1	Permanent positions	14,071	14,794	15,225
11.3	Positions other than permanent	28	35	60
11.5	Other personnel compensation	163	139	180
	Total personnel compensation	14,262	14,968	15,465
12.0	Personnel benefits	1,028	1,096	1,149
21.0	Travel and transportation of persons	232	210	280
22.0	Transportation of things	62	60	76
23.0	Rent, communications, and utilities	429	441	446
24.0	Printing and reproduction	235	210	210
25.1	Other services	227	161	790
25.2	Services of other agencies	56	56	60
26.0	Supplies and materials	199	164	231
31.0	Equipment	503	266	352
32.0	Lands and structures	41	49	41
42.0	Insurance claims and indemnities	2	----------	----------
	Total costs, funded	17,276	17,681	19,100
94.0	Change in selected resources	105	161	----------
99.0	Total obligations	17,381	17,842	19,100

Personnel summary

	1966 actual	1967 estimate	1968 estimate
Total number of permanent positions	1,563	1,563	1,609
Full-time equivalent of other positions	9	10	10
Average number of all employees	1,465	1,475	1,518
Average GS grade	8.6	8.8	8.9
Average GS salary	$9,616	$10,093	$10,199

Mr. EVINS. The committee will come to order.

We have with us this morning our friends of the Federal Communications: Chairman Rosel H. Hyde, Commissioner Bob Bartley, Commissioner Lee, Commissioner Cox, Commissioner Loevinger and Commissioner Johnson.

Has Commissioner Johnson been before the committee before?

Mr. JOHNSON. No, sir; I have not, Mr. Chairman.

BIOGRAPHY

Mr. EVINS. You had better give us a little biography on him. He is in the news lately.

(The biography follows:)

BIOGRAPHICAL SKETCH OF COMMISSIONER NICHOLAS JOHNSON, MEMBER OF THE FEDERAL COMMUNICATIONS COMMISSION

Commissioner Nicholas Johnson was today sworn in as a member of the Federal Communications Commission for a seven-year term to begin July 1, 1966. The oath was administered by Supreme Court Justice Hugo L. Black, whom Mr. Johnson served as law clerk 1959–1960.

President Johnson announced his intent to nominate Nicholas Johnson to the Commission at his press conference on June 18, 1966. The nomination was confirmed by the Senate on June 27.

Mr. Johnson comes to the Commission from the Maritime Administration of the U.S. Department of Commerce where, since March 2, 1964, he had served as Maritime Administrator.

The youngest member to yet serve on the Federal Communications Commission, Commissioner Johnson was born on September 23, 1934, in Iowa City, Iowa.

After attending the University High School there, he received his B.A. and LL.B. degrees from the University of Texas in 1956 and 1958. While in law school he was article editor of the Texas Law Review and was elected to the Order of the Coif. He was also elected to membership in Phi Eta Sigma, Pi Sigma Alpha, and Phi Beta Kappa.

Admitted to the Texas Bar in 1958, he served as law clerk to Judge John R. Brown of the U.S. Court of Appeals for the Fifth Circuit and Associate Justice Hugo L. Black of the U.S. Supreme Court.

In the Fall of 1960 he joined the faculty of the University of California Law School as an acting associate professor. His principal courses were administrative law and oil and gas regulation.

While on the university staff he was a member of the Chancellor's Committee on Natural Resources, and a consultant and associate to the Center for the Study of Law and Society. His research interests related to California administrative agencies and Federal Power Commission regulation of the natural gas industry.

From 1963 to the time of his appointment as Maritime Administrator, he was associated with the Washington law firm of Covington and Burling, where he engaged in practice relating to administrative agencies other than the Maritime Administration and the Federal Communications Commission.

Admitted to practice in the U.S. Supreme Court and the District of Columbia and Texas courts, he is a member of the American Bar Association, the Federal Bar Association and the Texas Bar Association. He has served as chairman of the Junior Bar Conference Committee on Continuing Legal Education, as a director and member of the board of editors of the International Society for General Semantics, and as a member of the Jurimetrics Committee of the Association of American Law Schools, which is concerned in part with the use of computers in legal research.

He is married to the former Karen Chapman of Iowa City. They have two sons, Sherman and Gregory, and a daughter, Julie.

Commissioner Johnson is a Unitarian and a Democrat.

Mr. Max Paglin is the Executive Director; Mr. Solan is in the budget business; Mr. Strassburg is the Chief of the Common Carrier Bureau—that is a big bureau; Mr. Smith heads the Broadcast Bureau, another big bureau; Mr. McKinley is the Assistant Chief, Management, Broadcast Bureau; Mr. Levy is the Division Chief, Broadcast Bureau; Mr. Curtis Plummer is the Chief, Field Engineering Bureau; John R. Evans is the Deputy Chief of the Field Engineering Bureau; James E. Barr, Chief of Safety and Special Radio Services Bureau—this is a busy bureau; Mr. Vernon Spring is Assistant Chief, Management, Safety and Special Radio Services Bureau; Stanley Kaufman is the Deputy Chief, CATV task force, a new field; Mr. Renton is the chief engineer; and Mr. Henry Geller is the general counsel.

Well, they are two men you need, the chief engineer and the general counsel.

Mr. HYDE. Commissioner Wadsworth is in Mexico on official business.

Mr. EVINS. Tell Commissioner Wadsworth we miss him, but we understand.

Mr. HYDE. He would be pleased to be here because, as a matter of fact, he would miss some rather tedious difficulty.

Mr. EVINS. I am sure he is a good ambassador.

Mr. Chairman, we always listen to you with profit, and we will certainly be glad to hear you. You may proceed as you wish.

GENERAL STATEMENT

Mr. HYDE. Chairman Evins, I have a statement here, and since it deals with budget matters which always involve considerable detail——

Mr. EVINS. Mr. Chairman, you may put the entire statement in the record and just highlight it now, if you wish.

Mr. HYDE. Thank you very much. I will read the preliminary part which is designed to put the matter in perspective, and then I will give you the highlights of other pages.

Mr. HYDE. Mr. Chairman and members of the committee, it is a pleasure for my fellow commissioners and me to be here with members of our staff to discuss with you the program activities and the financial requirements of the Commission for the fiscal year beginning next July 1.

SUMMARY OF INCREASES

Our budget request for fiscal 1968 amounts to $19,100,000. This is an increase of $1,287,500 over our appropriation of $17,812,500 for the current year. In summary, the increase of $1,287,500 is proposed for the following items:

1. $404,300 for an increase of 45 man-years of employment.
2. $120,000 for mandatory salary step increases.
3. $54,800 for related employee benefits such as retirement, life insurance, and so forth.
4. $46,325 for travel expenses.
5. $630,000 for contractual technical and economic studies.
6. $32,075 for other miscellaneous items.

In the personal services area, the principal increases are: 17 man-years for our CATV program, 11 for the citizens radio rservice, 8 for common carrier activities, and 7 for the Office of the Chief Engineer.

No other activities, including major activities such as broadcast, safety, and special radio services; or the field engineering activity, will receive more than 2 man-years increase. Although we could very effectively utilize far greater increases in many areas, we are holding our request to an absolute minimum in accordance with the President's budgetary policy for fiscal year 1968.

In other words, we are endeavoring to restrict our requests for funds and manpower in this area to perform essential services.

INCREASE FOR RESEARCH STUDIES

The largest single increase proopsed is for research studies—technical, economic, and social, to be performed on a contract basis. These studies can be diveded into four separate categories. The first is $150,000 for an independent analysis of the citizens radio service problem and for the development of alternative methods to improve the utility of this service which has been impaired by the disregard of the Commission's rules by licensees of the service; next is $300,000 for research designed to provide the means for improving the overall efficiency of utilization of the electromagnetic spectrum; third, $150,000 for technical, social, and economic studies to assist the Commission in its long-range planning and in evaluating the impact of its rules and regulations, and lastly, $30,000 for a study to reevaluate the mission and role of the Commission's laboratory and possibly to begin initial planning for an appropriate facility. Each of the items I have just enumerated will be discussed in more detail.

RECEIPTS FROM FEES

For the current year and for 1968, the Commission anticipates revenue of about $4 million from its user-charges program. But, as the chairman of the committee is aware, we are not permitted to use these funds to augment our appropriation. They go into the general funds of the Treasury.

Mr. EVINS. They have been going up a little bit though, have they not, helping the deficit in the situation?

Mr. HYDE. They tend to go up as applications increase. It is a user fee.

USE OF FCC COMPUTER BY NAVY

We also have contributed to a saving for the Government in computer service. As this committee knows, we have a computer installation in our shop. Pursuant to the overall Government policy, we have entered into an arrangement with the Navy which will save the Navy $500,000. They will use our computer between midnight and the early morning hours. This is another instance where we save the Government money, but it does not come into our appropriations.

INCREASE IN TELECOMMUNICATIONS ACTIVITY

On page 4 of my prepared statement I give a summary of trends in increasing activity in communications, and point out that over the past 20 years while the business, or the activity, has increased, the increases in our budgets have been, as we say, nominal. The staff increases for this Commission from 1948 to the current year, have been approximately 9 percent. At the same time, these past two decades have brought immense growth not only in the number and kind of telecommunications technology but in the regulatory responsibilities of the Commission.

INCREASE IN NUMBER OF LICENSEES

The United States has the most advanced and widely available telecommunications system in the world. There are more than a 1,500,000 transmitting stations licensed in the safety and special radio services alone, which compares with 119,000 in 1948.

Now, ratiowise that is an enormous increase. Similarly, in broadcast services the number of AM, FM, and TV stations have grown from 3,163 in 1948 to 7,296 today.

I think I should add here that with increased volume comes increased complexity, with interferences.

WORKLOAD AND NUMBER OF EMPLOYEES

We have some charts that illustrate graphically or make the comparison of growth in personnel as contrasted with the growth in services. May I pause for just a few minutes and ask Commissioner Loevinger to talk on that.

Mr. LOEVINGER. I have gotten sort of interested in a statistical analysis of the work of the Commission, Mr. Chairman, and undertook to do some of this myself. Actually there is a good deal of statistical

analysis that can be done. I have a number of detailed charts that I shall not burden the committee with. I recognize, and I am sure you all do, the limits of statistical analysis.

As Chairman Hyde has pointed out, these are by no means a measure of the load of the Commission. The complexity and the subtlety of the problems with which we deal have increased disproportionately to the numbers. Furthermore, there are wholly new kinds of problems that do not show up in statistics, such as communications satellites and this sort of thing. However, the statistics alone tell, I think, a rather dramatic story. I have simply made a chart here, and attached to it are the underlying data showing the raw figures. I have copies for each of the members of the committee.

Mr. EVINS. Are these similar to the charts in your budget submission?

Mr. LOEVINGER. No, sir.

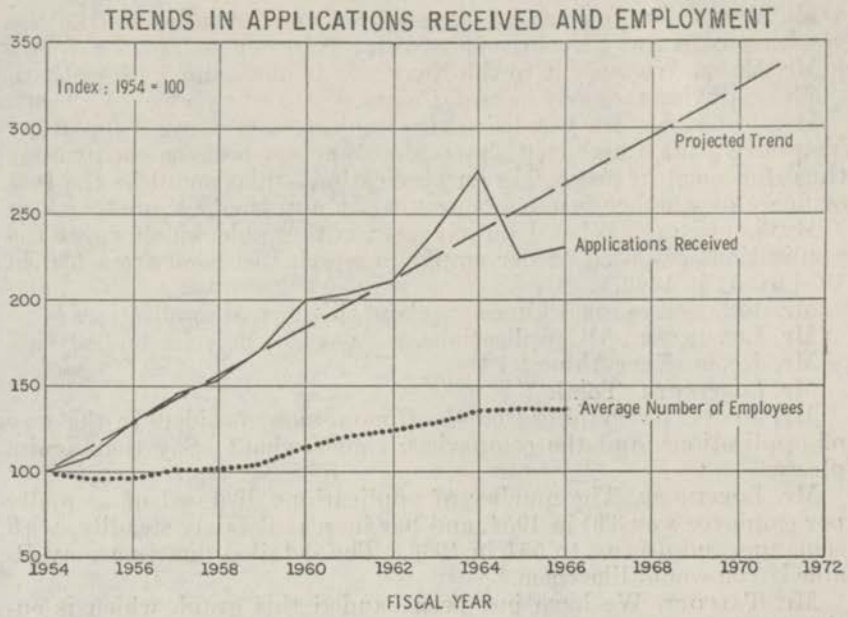
Mr. EVINS. We shall insert these in the record.

(The chart referred to follows:)

FEDERAL COMMUNICATIONS COMMISSION

Trends in applications received and employees

	Total applications Received		Average number of employees	
	Actual	Normalized	Actual	Normalized
Fiscal year:				
1954	360,265	100	1,075	100
1955	388,624	108	1,039	96
1956	464,714	129	1,047	97
1957	519,550	144	1,084	101
1958	552,007	153	1,098	102
1959	616,398	171	1,130	105
1960	721,110	200	1,224	114
1961	732,271	203	1,304	121
1962	760,840	211	1,346	125
1963	864,197	240	1,382	129
1964	990,036	275	1,449	135
1965	805,293	224	1,478	137
1966	828,778	230	1,459	136
	Projected			
1967	1,012,754	281	----------	----------
1968	1,062,277	295	----------	----------
1969	1,111,800	309	----------	----------
1970	1,161,323	322	----------	----------
1971	1,210,846	336	----------	----------



Mr. Loevinger. I think these are impressive, sir. These show very simply the number of applications received and the average number of employees. The application trend line is projected by statistical techniques, and we think it to be fairly reliable.

You will find one great jog. In 1964 it went way up and dropped down in 1965. The reason for that was the institution of filing fees in 1965. In anticipation of the filing fees an abnormally large number of applications were filed, and then, after the filing fees were instituted, the number dropped. However, it is now coming back to the trend line.

I think that the point can be brought home by giving you just a couple of simple figures. In 1966 our average number of employees was 1,459. If we had had a number of employees proportional to the applications we had in 1954, we would have had 2,475 employees.

If we asked for the number of employees proportional to the, simply the, number of applications, not their complexity or anything else, but simply the number of applications that we had 15 years ago, we would be asking for 3,000 employees. In fact, the number being requested is approximately half that, or 1,519.

Mr. Evins. Mr. Loevinger, you become more expert as you go along; you have greater expertise, more efficiency.

A few years ago on an appropriations bill on the floor some Member offered an amendment which, in effect, provided that there not be as many employees in the Department of Agriculture as there are farmers. You do not really need one for every application.

Mr. Hyde. If I can make an observation, Mr. Chairman, we get the meaning of your communication. But I would like to tell you that our efficiency in processing applications has been improved immensely.

As you know, we adopted the computer techniques, and except for these improvements we would be hopelessly lost now.

Mr. EVINS. Do you have a computer of your own besides the one you lease to the Navy Department?

Mr. HYDE. We lease it to the Navy. It is ours, and we lease it to the Navy during the early morning hours.

Mr. JONAS. Before you leave that subject, may I ask a question? You have a table here that shows a comparison between the average time consumed in processing an application—that would be the best evidence of whether you are improving or not, would it not?

Mr. LOEVINGER. What I do have, sir, is the table which shows the applications disposed of per employee which increased from 330 in 1954 to 551 in 1966.

Mr. JONAS. Are we talking now about the normal applications?

Mr. LOEVINGER. All applications.

Mr. JONAS. Everything?

Mr. LOEVINGER. Total.

Mr. JONAS. Everything that the Commission considers in the way of applications, and the comparison shows what? Say that again, please.

Mr. LOEVINGER. The number of applications disposed of annually per employee was 330 in 1954, and has increased fairly steadily, with some ups and downs, to 551 in 1966. The detailed figures are available if you would like them.

Mr. TALCOTT. We have just been handed this graph which is entitled "Federal Communications Commission, Trends in Appplications Received and Employment" and it indicates in 1954 we had 100 applications and 100 employees.

Mr. LOEVINGER. That is normalized.

Mr. TALCOTT. One application for one employee.

Mr. LOEVINGER. No. It is normalized. We took 100 as the beginning level. The figures are on the second page. In 1954 we actually received 360,000 applications, and we had 1,075 employees. For purposes of putting these two disparate figures on the graph both were reduced to 100, and then projected in proportion. The actual numbers are on the second page.

Mr. TALCOTT. I know they are separate, but I just think you are misconveying information by this single graph which does not relate to anything else but the graph itself.

Mr. LOEVINGER. It is simply a means of comparing what the trends have been since 1954.

Mr. TALCOTT. It confuses more than it helps.

Mr. LOEVINGER. Then you disregard it.

Mr. TALCOTT. I will, but an agency of the Federal Government should not try to confuse or mislead the public.

Mr. EVINS. Proceed, Mr. Chairman.

Mr. HYDE. As has been mentioned, the complexity of the business has been increased to an even greater extent than would be indicated by a straight projection in volume of applications. But this is set out in my statement, and I won't take the time to give you the details.

NEW CATV PROGRAM

Now, as an example of new communications techniques there has been the development of the community antenna business. This began to burgeon enormously in the last few years, and we did not have

budget provision for it for the current year. We found it necessary to set up a special task force in order to handle this work. We simply had to draft people from other activities in the Commission.

We do make provision for it in the budget which we are now submitting to you.

Generally speaking what we are trying to do is to administer the regulations in a way that will accommodate both the community antenna service and the broadcast services. In other words, we are trying to strike what is a proper balance between the interests of both, hoping that this will serve the public interest.

It has presented a tremendous administrative problem to us. I submitted further detail in our statement, of course.

ABSORPTION OF NEW FUNCTIONS WITH PRESENT EMPLOYEES

Mr. EVINS. Mr. Chairman, you have a lump-sum appropriation and you pinpoint your employees per the service and the work in the various departments and bureaus. But you have flexibility. You can transfer them wherever you need them. If the workload increases in one you can shift.

Mr. HYDE. Yes, we do, Mr. Chairman, and we would exercise that discretion.

The limitations on it are, of course, the demands of the existing services. It is seldom that we will have one that slacks off. It is usually the case that we have some new demands that we have to try to accommodate. But the way we set up the task force is, of course, an example of the application of the principles you have mentioned. It is useful, but as in this instance, it is not a complete answer.

INCREASE FOR COMMON CARRIER SERVICES

Our budget for common carrier activities is for 204 positions. It represents an increase in average employment of only 8 man-years, less than 5 percent over the 1967 level.

I think that you are all aware that the common carrier field is a field in which we have enormous responsibilities and tremendous new developments. The most dramatic, of course, is the development of space or satellite communications. This is a challenging thing. But there are other very important and dramatic developments such as the sudden burgeoning of the computer industry integrated with communications.

We have instituted a study of this subject, and already we recognize that it is an undertaking which could use up most of our force if we were disposed to put all of our attention to that one service, and it is only beginning.

A.T. & T. INVESTIGATION

As you know, we are pushing ahead on our investigation of the A.T. & T. We completed the taking of testimony on the first phases of that undertaking last month, and we hope to have decisions on some of the principal issues well before the end of this fiscal year.

Mr. EVINS. When was this investigation initiated, Mr. Chairman?

Mr. HYDE. The order was issued October 1965. The taking of evidence started in March of 1966.

Mr. EVINS. You have really been underway about 1 year?

Mr. HYDE. That is right, sir.

Mr. EVINS. And you have about three phases in your program?

Mr. HYDE. There are two major phases, but these are subject to subdivision. The first phase has to do with oevrall rate of return, rate base and separations, that is, the delineation as between revenue requirements of intrastate and interstate. It is or to these matters that we hope to have a decision on in a matter of weeks.

The second phase of it will involve rate structure, an investigation as to the justness or reasonableness of different services as compared with others.

Mr. EVINS. You find A.T. & T. in blue chip condition, do you not?

Mr. HYDE. They are doing well. We would be concerned whether they were doing poorly the same as we are concerned that they are doing well.

We have spelled these duties out in some detail in our statement.

Mr. EVINS. The report of the first phase, you think, will be due within a month or 6 weeks. What is your timetable on the second phase?

Mr. HYDE. Let me make a further explanation of the first phase. Proposed findings will be filed this month. Then we will set up a date for oral argument and, hopefully, next month we will hear further arguments, and then I think in just a matter of a few weeks after that we should have a basic decision.

Mr. EVINS. Are you speaking of the first phase? We understand this may have to be adjusted.

Mr. HYDE. The reason I am using a bit of caution is that this proceeding has important market implications. It has important implications to the entire economy, and I would not want to generate some new problems by stating a target date that did not prove realistic.

I am confident, though, that we will have this concluded, this first phase concluded, well before the end of this fiscal year.

Mr. JONAS. Can you, without violating any rule, state just exactly what the issues are in this first phase?

Mr. HYDE. The principal issues are——

Mr. JONAS. What is the issue that you are going to resolve?

Mr. HYDE. Yes.

The overall rate of return.

Mr. JONAS. Percentage? You mean percentage of invested capital?

Mr. HYDE. Yes, percent on invested capital——

Mr. JONAS. In relation to what?

Mr. HYDE (continuing). In relation to the rate base; and another principal issue, of course, is to define the rate base.

Mr. JONAS. What is the current rate of return allowed?

Mr. HYDE. The rate of return tends to be on the order of 8 percent currently.

Mr. STRASSBURG. It is closer to 8½.

Mr. JONAS. And the action of the Commission will decide whether that is high enough or too high?

Mr. HYDE. That is right, sir.

Mr. JONAS. And you will establish it.

Mr. EVINS. The Commission will point with pride or view with alarm.

Mr. HYDE. That is right.

Mr. JONAS. One other question: Will that decision, whatever it is, be binding on all telephone utilities or just A.T. & T.?

Mr. HYDE. Will it be binding? No, just the company respondent as respects its interstate system, Bell System.

Mr. JONAS. Actually it is the Bell System.

Would you have to have another proceeding, say, involving G.T. & E., say, if you looked at theirs?

Mr. HYDE. Well, actually these are determinations as to the Bell System which will largely cover the interstate services. G.T. & E. of course, is a tremendous company of itself. But, by and large, the independents are largely subject to regulation by the State commissions. There are 2,600 of them.

Mr. JONAS. What I was getting at is, Is this going to settle the industry problem?

Mr. HYDE. Congressman, the rate principles and the rate of return which we would establish would, I expect, be——

Mr. JONAS. Guidelines.

Mr. HYDE. What was that, sir?

Mr. JONAS. A guideline.

Mr. HYDE. It will largely set the figure because interstate is predominantly the Bell System.

COMPENSATION OF INDEPENDENT TELEPHONE COMPANIES

Mr. STRASSBURG. General Telephone Cos., do participate in interstate business, but they are compensated for their participation through contracts which they have with the Bell System Cos.

Mr. JONAS. How about an outfit like United Utility?

Mr. STRASSBURG. That is correct.

Mr. JONAS. The same answer?

Mr. STRASSBURG. That is correct. Most of the companies, most of the independent companies, do not file tariffs with us, but they are listed as connecting companies in the tariffs of the Bell System and, as I say, they are compensated for their participation in the interstate business by these so-called Commission arrangements.

Mr. JONAS. Because they have to use some of Bell's lines, is that the reason?

Mr. STRASSBURG. For the most part Bell furnishes the toll lines. Some independents furnish their own toll lines, but they furnish the local equipment and they are compensated.

(Discussion off the record.)

Mr. EVINS. Proceed on the record, if you will.

CITIZENS RADIO SERVICE

Mr. HYDE. A major challenge to the Commission's regulatory responsibility is the citizens radio service. This is on page 13 of my statement. Heretofore we have budgeted this as a part of our general safety and special radio services activity, but it has become a major challenge in its own, and a very serious one. There are over 830,000 stations currently licensed, and it increases on the order of 14,000 new stations a month. The problem is a breakdown of respect for regulations.

We have made a number of efforts to correct the situation, such as calling in the manufacturers of gear to ask for their cooperation. We particularly asked them not to merchandise equipment that is designed to operate outside the limits and restrictions of the rules, and I expect some cooperation in that direction.

However, in general, compliance is usually obtained——

Mr. EVINS. This is your land mobile transmitter?

Mr. HYDE. Not exactly. This citizens band, a low power, but licensed service for which any person who is a citizen can get a permit.

The problem is that its easy availability has invited misuse of it.

Mr. EVINS. Ham operators.

Mr. JONAS. Chit-chat conversation.

Mr. HYDE. They use it for hobby type when it is a service designed for business, small business, and for communication. But the tendency is to convert it into a hobby somewhat like a ham.

Mr. EVINS. It is approved for business but they use it for pleasure, also.

Mr. HYDE. Yes. Of course, I am not one to say that one should not get some pleasure out of business. But our concern is that its useful service may be destroyed by the abuses.

Mr. JONAS. Have you got that problem of chitchat solved?

Mr. HYDE. We have not got it solved. We are asking for an appropriation of $150,000 for a pilot program to test some enforcement procedures.

If we were to ask you for an appropriation that would provide enough people to have tight enforcement across the country, the requirement would be of the order of $2.5 million. We thought it best to try out some enforcement techniques on a pilot basis, and for that we are asking for $150,000.

Mr. EVINS. What penalties does the Commission have for violations?

Mr. HYDE. I'm going to have the General Counsel answer the question, if I may, Mr. Geller.

Mr. GELLER. We do investigations. When we find violations we impose forfeitures in this field. We can also revoke licenses and we also can refer matters to the Department of Justice to proceed criminally. The U.S. attorney's office brings suits in these areas.

The difficulty, and I think Mr. Plummer can speak to this better than anybody, is finding them. There are so many, and it is like a needle in a haystack very often. The violations are very widespread.

Mr. JONAS. You have a real problem when a man is going home from a job, and he wants to tell his wife he is a little late. Is that an incident——

Mr. HYDE. That is a proper use of it. But if the line is busy with somebody undertaking to make long-distance communications and to talk at length, its availability is limited.

Mr. JONAS. Of course, the problem arises when there is so much of that conversation that somebody cannot get an ambulance.

Mr. HYDE. That is—well, of course, the citizens band is not supposed to interfere in that area. But it is typical of the problem.

DISTINCTION BETWEEN LAND MOBILE SERVICES AND CITIZENS SERVICE

Mr. GIAIMO. I want to clear one thing up here, because we are getting into an area which may result in some confusion. We are talking here about the citizens band. We are not talking about the land mobile band which involves the police departments and the hospitals and ambulances and industrial and business uses and the like; isn't that correct, Mr. Chairman?

Mr. HYDE. In general. There is a degree of overlap.

Mr. GIAIMO. There is a degree of overlap. But, in general, we are talking about a different band.

Mr. HYDE. That is right.

Mr. GIAIMO. And these problems of improper use involved that you have stated——

Mr. HYDE. In the citizens band.

Mr. GIAIMO (continuing). Are applied to the citizens band, not to the land mobile band.

Mr. HYDE. That is right. The discipline in the land mobile is very good. They make efficient use of the channels. A message is given to them, 1, 2, 3, and they are off the frequency.

Mr. EVINS. Mr. Chairman, as the General Counsel has stated, you have the authority by statute to fine.

Mr. HYDE. Oh, yes.

Mr. EVINS. If we give you this money how is that going to speed up your enforcement?

LOCATING VIOLATIONS

Mr. HYDE. The problem is not having the remedies. It is as you have stated. They are available. The problem is to identify the culprit and bring him to justice, and that is what we need the funds for.

Mr. EVINS. How can you identify them?

Mr. HYDE. It takes enough people to monitor them, listen in on them, investigate them when we have reports.

Mr. COX. One of the commonest offenses is that they do not use the required identification so that by simple monitoring you cannot tell which one is offending. You actually have to locate him by triangulation and other techniques which take a good deal of time.

Mr. BOLAND. How many people do you use for this?

Mr. PLUMMER. At the present time we have the equivalent of 36 man-years on citizens radio.

One of the great difficulties with it is that is not productive in some areas because we have to sit in on our offices, say on a Monday morning and spend a lot of hours listening to gripes, people calling in and saying "Somebody interferred with me. Somebody swore at me," and so on and talking with them when they come into the office, giving out literature, forms and so forth. So we are not putting out as much effort, actually knocking on doors and chasing them down as we would like to. We are proposing a pilot program where we would put about 11 or 12 people full time, doing nothing but working on this problem and at the hours that people are having difficulty, that is between 4 p.m. and midnight.

Mr. EVINS. Mr. Plummer, you have explained it very well.

BROADCAST ACTIVITIES

Mr. HYDE. Mr. Chairman, for broadcast activity we are asking no increase in our budget over our current year appropriations. This does not mean that we do not have very significant challenges in this service. We have adopted regulations designed to make our processes more efficient. We have adopted rules which are designed to make a determination upon an application at the threshold when it is being filed.

An application must satisfy certain standards before it is accepted, and we have improved our application forms for filing for renewals in both AM and TV services. We expect that the improved applications, and the delegations to staff will make our operation more efficient.

However, we still have very significant rulemaking matters pending in broadcast services, such as the possible limitation of network ownership in television programs; the question as to the revision of multiple ownership rules, and so forth. They are all set out on page 17 of my statement.

We have had a very significant development in broadcasting, and a new interest in noncommercial or educational broadcasting. The committee knows about the suggestion of the Ford Foundation, the recent report of the Carnegie Commission, and the President's recent message to the Congress. All of these are matters in which the Commission must be prepared to give some enlightened attention.

SAFETY AND SPECIAL RADIO SERVICES

NEED FOR FREQUENCIES IN LAND MOBILE SERVICES

The major problem area in safety and special radio services is a matter of meeting the expanding needs of mobile services. This is a very pressing problem with us, and while we have undertaken some measures designed to meet, to provide frequencies for obvious needs, we still need more emphasis on planning, on the proper appraisal of the needs, and the examination of methods of satisfying these needs.

Mr. EVINS. Give us a little insight on how you make these judgments or decisions. If a hospital or a city police department wants an application for safety or health, then you generally approve those?

Mr. HYDE. That is right.

Mr. EVINS. Suppose a filling station or another small business writes in and says it is needed for the operation of their business. On what basis do you decide those?

Mr. HYDE. He may get it. But, Mr. Chairman, we have allocated bands of frequencies to these several services, and when we get an application such as you mention, we endeavor to find an operating assignment for him within these bands.

But the problem, sir, is that these bands have tended to become saturated particularly in centers of population. We need somehow to provide more channels for these service categories.

Mr. EVINS. If one business gets it, his competitor wants one, too.

Mr. HYDE. That, sir, is right.

Now, by and large, these are shared uses, and we tend to put them on there so that in most instances they will have equal opportunities. But equal opportunity is not a very satisfactory situation if all of those have equal access still have inadequate channels available.

Mr. EVINS. Does he have a right under the statute?

Mr. HYDE. No, he does not. It is a privilege.

Mr. EVINS. It is a privilege.

Mr. HYDE. But, sir, Congress has told us we must provide for the use of radio in the public interest, and we have—in these services that you have mentioned there are public benefits that go along with the use of modern communications techniques as well as benefits to the immediate user.

Mr. EVINS. You are overcrowded in this field?

Mr. HYDE. We are overcrowded.

Mr. EVINS. You have a lot of applications?

Mr. HYDE. And we need urgently to put more emphasis on it.

Mr. EVINS. Mr. Giaimo. He is one of our experts in this field.

Mr. GIAIMO. Actually, speaking of benefits to business and to the public, there we also find economic benefits, do we not?

Mr. HYDE. Yes.

Mr. GIAIMO. In the sense of contributions to the gross national product which are substantial?

Mr. HYDE. No question about it at all.

Mr. GIAIMO. Do you have any figure in mind as to what that contribution is or any estimates?

Mr. HYDE. I do have some general figures in my statement as to the——

Mr. GIAIMO. $20 billion in your justification someplace.

Mr. HYDE. Yes.

FREQUENCY ALLOCATIONS MADE IN 1949

Mr. GIAIMO. You speak of having allocated portions of the spectrum. Referring to your annual report for 1966, on page 49, you say the 1949 decision resulted in the allocation of approximately 60 percent of the 25- to 890-megacycle band exclusively to TV and FM, with another 34 percent for government and governmental-shared use. The remaining 6 to 7 percent is divided among aviation, maritime, amateur, citizen, and the land mobile services. Only 4.7 percent is apportioned to the land mobile services, and in this very limited space is packed over 2¼ million transmitters, with applications for new ones pouring in at the rate of 50,000 a month. This is your report and your findings.

Mr. HYDE. That is correct.

Mr. GIAIMO. So I therefore take it that these allocations were made almost 20 years ago.

Mr. HYDE. That is right.

Mr. GIAIMO. No further allocations, although some solutions have been sought. But the allocations are as they were established approximately 20 years ago, back in 1949, and this very substantial service seems to have roughly only 4.7 percent of the spectrum.

Mr. HYDE. You are correct.

Mr. GIAIMO. This is one of your major problems.

FUNDS FOR LAND MOBILE PROBLEM

Mr. HYDE. I think it is a fundamental problem, and this is why we do in our budget presentation put so much emphasis on the need for

funds to reexamine these allocations. In doing it, as your reference to our annual report shows, we have to look at the relative needs.

Mr. GIAIMO. Right.

Mr. HYDE. And we do have to take into consideration the operations that have been licensed, and so forth, and we do have to take into consideration changes in technology that have taken place since this was made.

Really, you have put your finger on what I think is probably one of the most important challenges in front of us at the time.

Mr. GIAIMO. And critical, I would say.

Mr. HYDE. Yes; fundamental——

Mr. BOLAND. What are you really doing about it?

Mr. HYDE. We are, within the means available to us, making an earnest effort to give some early improvement to it, but we hope to do better.

Mr. BOLAND. You say with the means available to you. Does this suggest if you were given additional means, money, and manpower——

Mr. HYDE. It certainly does.

Mr. BOLAND. That you could actually solve this problem in the area to which Mr. Giaimo addresses himself?

Mr. HYDE. I am satisfied we can make a big improvement in the manner in which allocations to these services are made. This can really be, perhaps, the most important point of our budget, which is the need for funds to make a more satisfactory allocation.

FEES

Mr. EVINS. Mr. Chairman, since this is not a right but a privilege, if you set a schedule of fees or increase them some, they might be happy and pleased to pay this fee for this communications facility.

Mr. HYDE. Mr. Chairman, I will settle right now insofar as new funds go if you will give me the $4 million that we get on our user fee.

Mr. COX. This is one of the complaints of the land mobile people, that they do pay a substantial part of that $4 million because there are so many of them, and they would very much like to see this contribution reflected in funds which would be devoted to handling their particular problem.

AMOUNT OF INCREASE REQUESTED FOR LAND MOBILE SERVICES

Mr. BOLAND. How many people do you need? How many more people have you asked for in the 1968 budget to help try to solve this problem?

Mr. HYDE. At this juncture we have asked for some $300,000 to get contract services on this. I think that we could get some scientists from some of these organized groups who could advise us on the alternative ways of solving the problem, and we would then have the matter of making the judgment as to which course would be taken.

In the past, you know what we have had to do is issue a notice of rulemaking, ask for comments, and we would get the arguments of users as to what would, what they would, like to have. I do not want to disparage their efforts to help us, but we need to be able to get some expert help to make some judgments on our own, both for the

purpose of studying the claims of petitioners and to get the best possible advice on the scientific principles and economic problems involved.

Mr. BOLAND. How much do you have in this budget for that purpose now, $300,000?

Mr. HYDE. $300,000.

Mr. BOLAND. You want to go out and get some expert advice, and the Commission has its hands full with its day-to-day problems without concentrating on this one.

Mr. HYDE. In general that is it. But I would like to tell you this: We expect to get some studies going at the expense of outside interests. But we need both.

ALLOCATION OF SPECTRUM SPACE

Mr. GIAIMO. Mr. Chairman, if I may continue, back on page 49 of your annual report to which I referred earlier, where you set forth the allocations of the spectrum—34 percent for governmental use, 60 percent for TV and FM, 4.7 percent for the land mobile services, and you are speaking there of allocations, now—allocations do not necessarily mean usage, do they?

Mr. HYDE. No. What it means, under section 303 of the act, the Commission is authorized to allocate bands of frequencies to services.

Mr. GIAIMO. Yes.

Mr. HYDE. And then we license stations within those services.

Mr. GIAIMO. Right.

Mr. HYDE. But the initial problem is to make an appropriate balanced judgment as to the relative needs for different kinds of services.

Mr. GIAIMO. Yes. But you understand my point is that this judgment was made almost 20 years ago.

Mr. HYDE. Yes.

Mr. GIAIMO. And I think there is very critical need for making a new judgment.

Mr. HYDE. There is.

Mr. GIAIMO. And my further point is that although 60 percent, for example, has been allocated to TV and FM broadcasting, it does not necessarily mean that the allocations are all being used, does it?

Mr. HYDE. No; it does not, and part of our study would be an examination——

Mr. GIAIMO. Would include that.

Mr. HYDE. As to the uses being made.

Mr. EVINS. Proceed, Mr. Chairman.

Mr. HYDE. I think this discussion has pointed up both the critical thing in both special and radio services, and the remaining things I have here, for the most part, going to this crisis, as to the use of frequencies in the electromagnetic spectrum.

CONTRACT FUNDS FOR FREQUENCY MANAGEMENT RESEARCH

At the top of page 21 we are requesting an additional $300,000 for 1968 to mount an attack on the impending frequency management crisis.

During the past year at least three high-level Government reports have urged a substantial increase in frequency management research.

The Department of Commerce's distinguished and independent Telecommunication Science Panel recommended a new $10 to $50 million research program for improved frequency utilization.

The President's Director of Telecommunications Management reported that "Impending massive trouble in our use of the spectrum is clear," and called for "a substantially increased effort in research."

The President's Crime Commission has reported that America's police forces must have increased communication equipment and frequencies if they are to wage a more successful war on crime.

Mr. EVINS. Mr. Chairman, you brought up three strong witnesses to support you.

Mr. HYDE. Thank you, sir.

This is vital to us, and I will continue with this, if I may.

Mr. EVINS. Surely.

Mr. HYDE. We have cooperated fully with these groups and share their sense of the magnitude of the problem and urgent need for response.

As recently as 15 years ago there was a relatively free supply of available frequencies. Today—

The number of transmitters in use has increased tenfold (to about 5 million)—and we project continued increase of about 20 percent per year.

Gross national product contributed by use of the radio spectrum is now estimated at $20 billion annually.

Frequencies are going fast, and are totally exhausted and congested in some services. In over 15 major metropolitan areas there are many instances of between 10 and 25 authorized users within 10 miles of each other on the same frequency.

It is our belief, and that of others who have studied the matter, that any expenditures on research and planning in efficient frequency management will be returned many times over to the American people and their Government in increased gross national product, and the taxes it produces. There are also untold intangible benefits such as improved service, and safety for the general public.

We are not now prepared to recommend a multimillion-dollar program to the President and the Congress. The President and the FCC do believe, however, that a research program of the modest magnitude we are requesting is not only warranted, but is long overdue.

With this program we propose to do two things.

Begin work immediately on projects intended to provide solutions for the problems currently before us, such as mobile radio.

Undertake longer range studies that will endeavor to predict projected demand for frequency use 10 and 20 years from now, test alternative criteria for the allocation of scarce frequencies, and carefully construct a more inclusive, coordinated research program for the future.

We are now considering several alternative proposals with a view toward getting the greatest possible return for our research expenditures.

Here is just one example of a specific study. With the spectacular growth of land mobile radio—in the face of relatively constant FCC budgets—the agency has had its hands full just issuing licenses. As a result, we have a need for improved information about the number of units actually used by our licensees, an agreed measure of use or "con-

gestion" on frequencies (the number and length of messages, peak time periods of use, and so forth), the advantages of multiple, frequency or "block" assignments to groups of related users (such as suburban police forces, or other local government users), possible methods of sharing of relatively unused frequencies in a given geographical area, and so forth.

Ultimately this analysis should be done on a nationwide basis. However, we believe a more economical and efficient way for now may be to start with a "pilot project" in a representative city. From such a study can come many proposals which—while, of course, inadequate to solve our long-range problems—can go far to alleviate our current needs. Moreover, such a study would give as much of the information we need to plan effective, hardheaded research programs for the future.

Of course, we are also interested in pursuing many other economic, engineering and other studies designed to improve the present use of the spectrum. For example, one project aims at elimination of particular kinds of interference in the land mobile service. Another addresses some of the technical problems associated with allocations at frequencies too high in the radio spectrum to be generally useful today. But these are sufficiently illustrative of the nature of our approach.

COORDINATION WITH DTM

The FCC shares with the DTM the responsibility for allocating frequencies to provide the most efficient use of this very valuable national resource, and obviously our research efforts in the frequency management program will continue to be fully coordinated with those of the other Government agencies concerned. Indeed, the Bureau of the Budget has advised the two agencies that it will insist upon "a joint effort" and planned "delineation of specific problems * * * methodology and schedule 'before' the funds earmarked for research are apportioned."

I believe that that gives our overall problem, Mr. Chairman.

DETAILED STATEMENT OF THE CHAIRMAN

Mr. EVINS. Thank you, Mr. Chairman. This is a rather lengthy and comprehensive report. It will all be included in the record.

Mr. HYDE. Thank you very much.

(The statement of Mr. Hyde follows:)

STATEMENT OF CHAIRMAN ROSEL H. HYDE

Mr. Chairman, and members of the Committee, it is a pleasure for my fellow Commissioners and me to be here with members of our staff to discuss with you the program activities and the financial requirements of the Commission for the fiscal year beginning next July 1.

Our budget request for fiscal 1968 amounts to $19,100,000. This is an increase of $1,287,500 over our appropriation of $17,812,500 for the current year. In summary, the increase of $1,287,500 is proposed for the following items:

1. $404,300 for an increase of 45 man-years of employment
2. $120,000 for mandatory salary-step-increases
3. $54,800 for related employee benefits such as retirement, life insurance, etc.
4. $46,325 for travel expenses
5. $630,000 for contractual technical and economic studies
6. $32,075 for other miscellaneous items.

In the personal services area, the principal increases are: 17 man-years for our CATV program, 11 for the Citizens Radio Service, 8 for Common Carrier activities, and 7 for the Office of the Chief Engineer. No other activities, including major activities such as Broadcast, Safety and Special Radio Services, or the Field Engineering activity, will receive more than 2 man-years increase. Although we could very effectively utilize far greater increases in many areas, we are holding our request to an absolute minimum in accordance with the President's budgetary policy for FY–1968.

The largest single increase proposed is for research studies—technical, economic, and social, to be performed on a contract basis. These studies can be divided into four separate categories. The first is $150,000 for an independent analysis of the Citizens Radio Service problem and for the development of alternative methods to improve the utility of this service which has been impaired by the disregard of the Commission's rules by licensees of the service; next is $300,000 for research designed to provide the means for improving the overall efficiency of utilization of the electromagnetic spectrum; third, $150,000 for technical, social, and economic studies to assist the Commission in its long-range planning and in evaluating the impact of its rules and regulations; and lastly, $30,000 for a study to reevaluate the mission and role of the Commission's laboratory and possibly to begin initial planning for an appropriate facility. Each of the items I have just enumerated, I will discuss in more detail later.

For the current year, and again in FY–1968, the Commission anticipates revenue of about $4 million from its user-charges program. As you know, all of these funds must be deposited into the general fund of the Treasury and none of this money is available to the Commission for obligation. One of our difficulties with this program is that many applicants in some of the services are of the opinion that, since they are paying fees, they are entitled to more prompt action on their applications than we are able to provide. We are hopeful of making some improvement in the troublesome areas.

In addition to the revenue derived from the user-charges program, and I might add that the Commission was one of the forerunners among the independent agencies in this program, the Commission has now worked out a computer sharing agreement with another agency. Under an agreement signed January 25, 1967 the Navy Department will save $500,000 over the next 18 months by avoiding the cost of renting commercial computer time. They will use the Commission's computer between midnight and 6 in the morning. Again, this $500,000 is a saving to the Navy Department and not additional funds available to the Commission for obligation.

Before going into further detail with respect to our request for FY–1968, I would like to remind the Committee that the Commission received no increase in appropriation for the current fiscal year except for an amount necessary to cover the cost of pay-increase legislation. In fact, all increases over the past 20 years have been very nominal. The staff increases for this Commission between FY–1948 and the current year have amounted to only 9%. At the same time, these past two decades have brought immense growth not only in the numbers and kinds of telecommunications technology, but in the regulatory responsibilities of the Commission. The United States has the most advanced and widely available telecommunications system in the world. There are more than 1.5 million transmitting stations licensed in the Safety and Special Radio Services alone, compared with 119,000 in 1948. Similarly, in the Broadcast services, the number of AM, FM and TV stations has grown from 3,163 in 1948 to 7,296 today. This growth has greatly multiplied the Commission's enforcement and regulatory problems and its continued growth is presenting serious problems with respect to available usable space in the electromagnetic spectrum. We will talk considerably more about this later.

The additional workloads placed upon the Commission as a result of this fantastic growth of the communications industry is not reflected in applications for licenses alone, but in entirely new legal and policy problems which must be resolved; and these are by no means simple, routine, or easily resolved as the Committee well knows. Although television has been with us for some time now, it is still not without its problems. We still have issues like the UHF problem, subscription TV, educational TV and its various plans, and the rapidly growing CATV. In the common carrier area, we are dealing with complex problems such as satellite communications, coaxial and submarine cables, microwave systems, the integration of electronic computers and data processing equipment as integral parts of our communications system. The problems and policy questions arising out of these areas require considerable time to study and demand

the attention of the most capable staff that can be found. In view of this general situation of continued growth and technological expansion in the communications industry, we feel that our budget request for FY–1968 is a most modest one.

At an earlier point in this statement I referred to the fact that we were requesting 17 man-years increase for our CATV program. I would like to now tell you a little more about this program. Following adoption of its CATV rules, the Commission, on about September 1, 1966, established a Task Force, entirely independent of the Broadcast Bureau, to handle the workload of filings that would inevitably follow. Since the program really came into its own after our FY–1967 budget was submitted to the Congress, no funds were included in our budget for this activity. As a result, we had to "beg, borrow, and steal" staff from other organizational units and have now built up a staff of 13 professional employees and 6 secretaries. Obviously building up a staff in this manner slowed other programs, but to request a supplemental appropriation for this purpose would have provided funds too late in the year to be of much help. I might point out that former Chairman Henry anticipated the possibility of the need for a supplemental appropriation and so informed this Committee and the Senate Committee last year. However, the timing was not on our side and we have consequently been struggling with what might be called a skeleton force in this area.

Generally speaking the workload in this program falls in 4 categories:

First, we have the "top-hundred market" cases. When a CATV system proposes to bring "distant" signals into one of the top 100 television markets the Commission holds an evidentiary hearing, unless a waiver of this rule is granted. Approximately 170 such proposals have been filed, and the Commission has initiated action (ordered hearings and permitted complete or partial operation) in approximately 55 of them. To dispose of one such case requires considerable time since we have had no precedents for many of the problems.

Second, we have requests for special relief. The rules permit CATV systems to request relief from the carriage and program exclusivity rules, and also, on the other hand, permit television stations to request additional protection beyond that provided for in the rules. Approximately 300 such requests are pending, and more than 80 such requests have been disposed of.

Third, we have CATV hearings, requiring the use of manpower in the Office of Hearing Examiners, the Office of Opinions and Review, and Review Board. It is estimated that 20 hearing cases will be carried over into FY–1968 and 50 more designated for hearing during the year.

And fourth, what we term "Rule Making and Research". Information Reports have been obtained from approximately 1500 CATV systems which were in operation on December 1, 1966. The information furnished will be programmed into the Commission's computer and analyzed for use in developing data as a basis for appropriate Commission action. There is little doubt that rule making inquiries will be required in FY–1968.

The increase of 17 man-years to be devoted to the CATV program will, however, provide only 5 additional positions to the Task Force. As I explained earlier, the Task Force was first formed in September and keeping this staff on for a full 12 months and adding the 5 new positions will result in an increase in effort for the year of only 9 man-years. The balance of the 17 man-year increase is for the various other Commission units involved in the CATV program.

Our budget request for common carrier activities is for 204 positions or, stated another way, an increase in average employment of only 8 man-years—or less than 5% over our 1967 level. As indicated earlier, revolutionary changes have occurred in the field of public communications during the past decade, and are continuing at an accelerating pace. In our opinion, a staff of the level proposed is necessary to perform the most essential functions which changes and growth require of the Commission.

During recent years we have seen satellite communications develop from its early conceptual stage into an established means of communication for international services of all types. The technology has also been proposed for domestic services using satellites. At the same time, tremendous improvements have been made in the quality and capacity of terrestrial facilities, such as coaxial and submarine cables and microwave radio systems. Electronic computers and data processing systems have also become integral parts of our communication networks. These and related developments, together with the ever increasing demands of industry, government and the general public for expanding and new services, produce a myriad of difficult and novel regulatory problems.

They are problems which call for timely and effective positive action by the Commission in policy, rate-making, and licensing areas. This, in turn, requires the availability of an adequate staff of trained experts in each of these areas. May I cite just a few of the more pressing problems which confront us, to illustrate our needs.

No Commission task is more challenging and permeated with public interest considerations than the determinations to be made concerning the proposed use of satellites for domestic communication purposes. The Satellite Act of 1962 leaves unanswered a number of basic questions in this regard. Thus, we must determine, for example, what entities may properly be authorized to establish a domestic satellite system and the circumstances under which any such authorization will be in the public interest and consistent with the purposes and policies of the Satellite Act and the Communications Act. To arrive at a meaningful and informed judgment on these questions, we instituted a public inquiry last April. Responses have been filed by the Communications Satellite Corporation, common carriers, and others interested in this matter, including the Ford Foundation. Final comments are due on April 3, 1967. You will appreciate the complexity of the technical, economic and policy problems involved in this matter and the increasing demands upon our staff resources for prompt and effective resolution.

The Commission's rate-making policies and activities, must, of course, be responsive to the momentum of satellite technology and its application for commercial purposes. Rates must be established for the satellite channels and services furnished by the Communications Satellite Corporation to the conventional carriers which will afford Comsat a reasonable opportunity to earn a fair return. Rates also must be established for services rendered by the conventional carriers to the ultimate users at levels which reflect the economies of satellite technology. You will recall in this connection the expressed admonition of the Communications Satellite Act that economies of this new technology shall be passed on to the public. This two-level rate-making process is not without its unique problems. Complaints which have been made concerning the level of Comsat's charges have led to formal rate-making proceedings which will continue through 1968.

Last November, the Commission opened a formal inquiry into the regulatory and policy questions being raised by the growing interdependence of computers and communications facilities and services. Common carriers are using computers for message switching and other communications operations. Certain carriers are now planning to program these computers to render data processing and specialized information services. At the same time, it is now possible for data processing and computer service organizations to program their equipment to switch messages between their subscribers—an activity heretofore limited to communications common carriers. These trends have sparked widespread concern as to the extent to which these various uses of computer services are to be regulated—whether rendered by common carriers or others. Other basic concerns have also been expressed. One relates to the adequacy of existing common carrier offerings to meet the communications requirements of the burgeoning computer industry. Another relates to the need for protection of the privacy and proprietary nature of data stored in computers or transmitted over common carrier facilities. About 35 private entities and associations, as well as government agencies, are already participating in this important inquiry. The information, views, and recommendations of these and other interested parties which are to be filed with us by October 2, 1967, will be of great assistance in evaluating and resolving these many issues.

We are now in the process of concluding the first major phase of our proceedings with respect to the rates of AT&T and the other Bell System companies for interstate communications services. By the application of specially devised procedures, the cooperation of the parties, and the hard work our staff, we have closed, in record time, the hearing record dealing with the companies' rate, base, rate of return and the propriety of the principles and procedures used by Bell to allocate costs between interstate and intrastate services. A decision on this phase of the proceeding, including consideration of the need, if any, for interim rate adjustments should be rendered well before the end of this fiscal year. We will then turn to the other important aspects of the proceeding. One relates to the determination of appropriate principles for the establishment of proper rate levels and relationships for the Bell System's various service classifications. The need for a resolution of this matter was brought into sharp focus by

a cost study made by the Bell System at our request. The results revealed that certain services were producing high earnings (e.g., message toll telephone), while other services—competitive with Western Union—were producing very low earnings. Another question of major import relates to the reasonableness of the prices and profits of Western Electric in light of the effects thereof on the revenue requirements of the Bell System companies and the level of their rates.

We also wish to stress the continuing increase in the number of applications being filed by the landline and miscellaneous common carriers for microwave point-to-point and mobile radio services. As these services grow, and because of the interference-free status of these services, the job of processing applications becomes ever more onerous and time-consuming. We have taken many measures wherever possible to improve our processes and curb our backlogs. However, we are proposing a few additional positions for this activity.

One of the Commission's most difficult regulatory problems is in the Citizens Radio Service. In our budget this year, we have shown this program as a separate activity. Heretofore part of the effort was reflected in the Safety and Special Radio Services Activity and part in the Field Engineering Activity. This year, because it presents such a serious problem, and one which must be dealt with, we have chosen to show it independent of other activities.

There are over 830,000 stations currently licensed in this service and approximately 14,000 new stations are being added each month. It is by far the largest and fastest growing service administered by this Commission. The Citizens Radio Service is a radio communications service of fixed, land and mobile stations intended for short-distance personal or business radio communications, radio signalling, and control of remote objects or devices by radio. Disregard of the Commission's rules governing this service has become so widespread as to impair the over-all usefulness of the service to the public. Further, the serious nature of the violations and the flouting of the Commission's authority by many citizens radio licensees constitutes a threat to the Commission's ability to carry out its statutory obligation to regulate the use of the radio spectrum in the public interest.

To give you a better idea of the magnitude of the problem, in terms alone of the number of licensees in this service and the geographical distribution, I have had our computer produce a summary of the number of licensees in this service in each state. I have sufficient copies here, Mr. Chairman, if you would like to have them for distribution to the members of the Committee, including those who were not able to attend the hearing this morning.

Based upon preliminary studies by the Commission we concluded that a many-phased program to deal with the problem would require in the neighborhood of 250 additional employees and cost almost $2,500,000. Before embarking on such a costly program, it was decided to explore further the possibility of arriving at a less costly approach. What we are presenting to you today is a double-barrel plan, not to remedy completely the situation, but hopefully to provide us with a less costly solution to the problem. There is no doubt that one phase of this program will have immediate salutary effects but it will not, in itself, be the solution. I am referring here to our proposal to establish a pilot enforcement program to evaluate the effects of increased monitoring, investigations, and inspections. This has long been recognized and accepted as an effective way of dealing with this sort of a problem. However, in order to evaluate its effectiveness in this particular situation and to determine the magnitude of the effort required on a national basis, we are proposing a pilot study in a limited geographic area. This pilot program will require 13 positions in our field service. This trial, or experiment if you want to call it that, will be conducted under closely controlled conditions in order that we can evaluate its effectiveness. The area involved will be roughly the size of two average states, so that effort may be concentrated in several large cities simultaneously and then shifted to other cities. After application and withdrawal of effort, on a time cycle of a minimum of two weeks, the situation will be monitored at intervals over a period of several months to evaluate the initial impact and the length of time the effort remained effective. Three or four cycles in a representative number of cities are expected to produce data on which a reasonable estimate of the national manpower requirements may be based.

Although we are proposing this pilot enforcement program, we are fairly well convinced that to try to combat this situation by increased enforcement alone, to the extent of bringing the situation under reasonable control, would be a costly and continuing expense. We recognize that some level of increased enforcement

will be necessary but we want to explore other and possibly less expensive ways of accomplishing the same objectives. It is for this reason that we are asking for $150,000 for contractual studies for an independent evaluation which hopefully will disclose other alternative measures that might be taken to improve the situation. By obtaining objective data, statistics, analysis, and alternative proposals, the Commission would be in a greatly improved position to determine the most effective and economical method to deal with the situation in order to avoid more drastic measures such as the suspension of further licensing or the complete discontinuance of the service.

I might point out that there are some other steps which we feel will be helpful—some long-range and some short-range—which we can take with little or no increased costs. Naturally, we are proceeding with these measures now.

Although our FY–1968 request for the Broadcast Activity reflects a slight decrease compared with our current year appropriation, we shall continue to devote a major share of our efforts and resources to this vital activity. Our workload in processing applications and in conducting hearings is expected to increase again in FY–1968. We plan to handle this additional work by intensifying our efforts to further streamline our operations and thereby increase productivity on the part of our employees. Along with these objectives, we plan to increase our utilization of the computer in the broadcasting area. One example of the computer's effectiveness in broadcasting operations is the current program for researching out possibilities for more UHF–TV channel assignments. It would not be possible to accomplish such a search manually because of the tremendous drain upon our engineering manpower. We hope to expand our data processing program in the near future to include searches for additional assignments in the FM and VHF services.

Last year you were told that we were studying AM proposals to expand and regularize pre-sunrise operation. The Commission has completed its studies and we are coordinating our proposals with Canadian Government authorities. As soon as their concurrence is received, the Commission will be prepared to issue a Report and Order in this matter. We also have adopted this year a revised program form and new logging rules for television stations. The Commission is continuously reviewing its processing delegations to the staff, in order to expedite its work.

Significant areas of Commission activity of immediate concern in broadcasting include: negotiation of a new agreement with Mexico governing relations between the two nations in AM broadcasting matters; possible limitation of network ownership in television programs; resolution of the question of possible revision of the multiple ownership rules as to publicly held corporate licensees, as well as possible limits on multiple ownership of television stations in large markets.

Additional areas of importance include consideration of outstanding inquiries and rule-making proceedings dealing with subscription television, FM educational assignment rules, proposed establishment of antenna farms, and possbile changes in our rules governing the use of international broadcast frequencies.

The Plan of the Ford Foundation and the Report of the Carnegie Commission dealing with various proposals for aiding the growth and developing of educational and non-commercial television could and undoubtedly would have a substantial impact on Commission programs if and when any such proposals come to fruition. The Commission is undertaking a study of these proposals to determine their full impact. The conclusions of this study may well indicate that our FY–1968 budget submission does not provide sufficient resources to deal with the scope and breadth of the developments which could occur in the field of educational and non-commercial television. This would be so whether Commission action is taken under the present law, or under new legislation which might be enacted along the lines of current proposals.

The major problem area concerning the Safety and Special Radio Services is in the policy and technical area of meeting the expanding radio communications needs of the country. For the past ten years, while the applications filed in these services increased at a high rate, manpower was devoted necessarily to handling this paper workload, while the policy and technical areas were not adequately staffed. The total increase proposed for this entire activity for FY–1968 is less than 2 man-years. Now, by reason of the documented frequency needs of the users in these services, as demonstrated by a number of proceedings before the Commission and the Congressional interest in this matter, it has become vital to direct attention and to devote qualified manpower to these policy and technical problems. To meet these requirements, the Safety and Special Radio Services

Bureau has been reorganized; qualified engineering and legal personnel are being recruited; and management is directing increased attention to improving productivity and eliminating outmoded procedures in handling the continually increasing paper load of handling applications. The goals for fiscal 1967 and 1968 are to meet the challenge of the policy and technical demands and the application workload by reallocation of resources and a minimum of overall personnel increment, while at the same time not reducing current standards of service to the public. These will not be easy goals to achieve and will require much cooperation from the staff by way of increased efficiency and productivity.

In connection with the administration of these Safety and Special Services I would like to take a few moments to speak about a very major problem. It is familiar to you I think as the land mobile problem. The land mobile services are composed of some 21 individual service categories including the two-way radio communication activities of public safety agencies and other local governmental functions, as well as those associated with the Nation's land transportation, industrial, and general business activities.

Collectively, these services pose a multitude of individual problems demanding Commission action. Generally speaking, these problems result directly from a very fast growth rate and the constantly increasing numbers of stations on the air, aggravated to a great extent by a very limited amount of frequency space in which their operations may be conducted. These services, in addition to offering substantial contributions to the national economy and to the safety of life and property, also offer economic advantages to the user. The growth of the services has been closely related to the economic and population growth of the country, resulting in large numbers of systems concentrating in the metropolitan areas and saturating the available frequency space. This condition represents by far the major problem in these services and has caused increasing concern by the industries involved, the Commission, and even Congress.

While many of the land mobile users feel that an outright allocation of additional spectrum space should be made by the Commission to meet their needs, it must be realized, of course, the frequency band involved is fully allocated and any adjustments in favor of one service can be made only at the expense of other services. Consequently, the Commission is approaching this problem from the standpoint of attempting to satisfy the land mobile needs with the minimum amount of disruption to other established radio services. Among other approaches is the work done by the Advisory Committee on Land Mobile Services in exploring methods of increasing the utilization of frequencies now available. In addition we are exploring the feasibility of either sharing or reallocating frequency space now assigned to other services. Of course, any change in basic allocations involves many complex technical and economic considerations. Here, again, the Commission's efforts are being augmented by a government-industry committee. These projects are well underway, and in fact, in the case of the Advisory Committee for the Land Mobile Services, final reports are being prepared and some have been forwarded to the Commission.

While a high percentage of the individual land mobile problems could be readily solved with additional spectrum space, it should be borne in mind that these services are daily increasing in size and in importance to the population and economy of the country and that their regulatory problems are becoming more complex. If the maximum potential value of the services is to be derived and maintained, it will be necessary to proportionately increase the regulatory efforts devoted to them.

We are requesting an additional $300,000 for FY-1968 to mount an attack on the impending frequency management crisis.

During the past year at least three high-level government reports have urged a substantial increase in frequency management research.

The Department of Commerce's distinguished and independent Telecommunication Science Panel recommended a new $10 to $50 million research program in improved frequency utilization.

The President's Director of Telecommunications Management (DTM) reported that "impending massive trouble in our use of the spectrum is clear", and called for "a substantially increased effort in research".

The President's Crime Commission reports that America's police forces must have increased communication equipment and frequencies if they are to wage a more successful war on crime.

We have cooperated fully with these groups, and share their sense of the magnitude of the problem and urgent need for response.

As recently as 15 years ago there was a relatively free supply of available frequencies. Today:

The number of transmitters in use has increased ten fold (to about 5 million)—and we project continued increase of about 20 percent per year.

Gross national product contributed by use of the radio spectrum is now estimated at $20 billion annually.

Frequencies are going fast, and are totally exhausted and congested in some services. In over 15 major metropolitan areas there are many instances of between ten and 25 authorized users within ten miles of each other on the same frequency.

It is our belief, and that of others who have studied the matter, that any expenditures on research and planning in efficient frequency management will be returned many times over to the American people and their government in increased gross national product, and the taxes it produces. There are also untold intangible benefits such as improved service, and safety for the general public.

We are not now prepared to recommend a multi-million-dollar program to the President and the Congress. The President and the FCC do believe, however, that a research program of the modest magnitude we are requesting is not only warranted, but is long overdue.

With this program we propose to do two things:

Begin work immediately on projects intended to provide solutions for the problems currently before us, such as mobile radio.

Undertake longer-range studies that will endeavor to predict projected demand for frequency use ten and 20 years from now, test alternative criteria for the allocation of scarce frequencies, and carefully construct a more inclusive, coordinated research program for the future.

We are now considering several alternative proposals with a view toward getting the greatest possible return for our research expenditures.

Here is just one eaxmple of a specific study. With the spectacular growth of land mobile radio—in the face of relatively constant FCC budgets—the agency has had its hands full just issuing licenses. As a result, we have a need for improved inforamtion about the number of units actually used by our licensees, an agreed measure of use or "congestion" on frequencies (the number and length of messages, peak time periods of use, etc.), the advantages of multiple-frequency or "block" assignments to groups of related users (such as suburban police forces, or other local government users), possible methods of sharing of relatively unused frequencies in a given geographical area, etc.

Ultimately this analyses should be done on a nation-wide basis. However, we believe a more economical and efficient way for now may be to start with a "pilot project" in a representative city. From such a study can come many proposals which—while of course inadequate to solve our long-range problems—can go far to alleviate our current needs. Moreover, such a study would give us much of the information we need to plan effective, hard-headed research programs for the future.

Of course, we are also interested in pursuing many other economic, engineering and other studies designed to improve the present use of the spectrum. For example, one project aims at elimination of particular kinds of interference in the land mobile service. Another addresses some of the technical problems associated with allocations at frequencies too high in the radio spectrum to be generally useful today. But these are sufficiently illustrative of the nature of our approach.

The FCC share with the DTM the responsibility for allocating frequencies to provide the most efficient use of this very valuable national resource, and obviously our research efforts in the frequency management program will continue to be fully coordinated with those of the other government agencies concerned. Indeed, the Bureau of the Budget has advised the two agencies that it will insist upon "a joint effort" and planned "delineation of specific problems . . . methodology and schedule 'before' the funds earmarked for research are apportioned".

We are requesting $150,000 for FY–1968 to begin a program of contractual studies and research to aid the FCC in most wisely resolving some of the major communications issues now confronting this nation.

America has been blessed with a burgeoning new technology in communications: communications satellites, electronic switching for telephones, interconnection between computers, facsimile copy transmission, cable television, and

miniaturization of electronics equipment—to name some of the more obvious examples. Laser beams and other comparable innovations are surely on the way.

With the blessings of these advances come the burdens: identification and response to the social, industrial, political, economic, regulatory, and technological issues that are posed. We have neither the power nor the inclination to resist change. We welcome it. But we must welcome it intelligently, with anticipation of its implications for our society and our present communications system. Here is an example:

Cable television has implications for our domestic communications system, as well as for the local broadcaster. A wealth of home services can be provided: consoles to computers, picture telephones, banking and shopping by telephone, facsimile transmission of hard copy, etc. How can they best improve the quality of American life? When will they be provided? Who is to provide the communication and terminal services—AT&T, the cable TV companies, IBM? Should the cable systems be compatible for national interconnection? Is competition feasible? If not, how can price and quality of service best be regulated?

We are now holding hearings that touch on some of these questions, as well as the comparable computer inquiry, domestic satellite, and AT&T hearings. To them could be added the problems of electronic eavesdropping and bugging that come from the new equipment made possible by miniaturization. We might well know more than we do of the impact of broadcasting upon our political system, and our society generally. The FCC should be in a position to make fuller contribution to the current Congressional consideration of the President's proposals for increased support of "Public Television".

Each of these issues—which are just illustrative of the significant communications problems before us—deserve the best in intellectual resources that our nation can bring to bear. The reservoir of expertise within the FCC has much to contribute to their resolution, but it is not enough. Skills are needed which can more economically be obtained through consultants than by increasing the payrolls of the FCC with additional permanent employees.

This program, like the frequency management program, involves two areas of attack. Expert consultants can be (and to some extent are being) used in presently pending hearings. At the same time, more general planning can help us to chart a total program of areas needing additional analysis.

For example, the FCC, like most government agencies, is currently in the process of applying the Bureau of the Budget's "program, planning and budgeting" techniques to a fundamental evaluation of the agency's functions. Techniques of economic and systems analysis are useful in asking, "What are the missions of the FCC?", "What are the alternative means of achieving its goals?" and "What are the most appropriate and efficient means?" Specifically included is an additional $30,000 for evaluating the FCC's present laboratory, and the agency's most appropriate future research and development needs.

These requests, though minimal in amount, are important programs for the FCC, and capable of having a substantial long-range impact upon its effectiveness as an institution.

I wish to thank you, Mr. Chairman, for this opportunity to read this general statement. My colleagues and I would now be pleased to discuss further any matters of interest or concern to the Committee.

Mr. EVINS. Many of these general discussions have been very interesting. We can review the number of jobs and budget estimates, but maybe these exercises will be more helpful if we try to get at the problem. Then the committee can really see where your needs are.

FINANCIAL CONDITION OF BROADCASTING INDUSTRY

You discuss this matter of revoking or renewing licenses, but not at length. What are some of your current problems? What is the state of the industry? Are they all reasonably prosperous and healthy? Is it expanding?

Mr. HYDE. Yes, sir. This would be true as to communications generally.

In the broadcast services there are, of course, many stations which are marginal, there are some that show a loss. Nevertheless, there

is continuing interest in the development of new stations, and the overall return is very good.

APPLICATIONS FOR NEW RADIO STATIONS

Mr. EVINS. Are requests for franchised radio stations still mounting or have they reached the saturation point?

Mr. HYDE. Well, we have made the judgment in certain rules that any new ones should be directed to unserved areas. We call them white areas.

Mr. EVINS. You put a freeze on new applications a few years ago. Then you lifted the freeze. What is the present situation?

Mr. HYDE. I think you may be referring to a processing freeze which we imposed to sort of catch our breath.

As of now, we have a limitation, a restriction, which requires an applicant for a new station to show that 25 percent of the area which he would serve would be an area without a primary service or a community with no station at all. I think I have got that right.

Mr. LEVY. That is at night, Mr. Chairman.

Mr. HYDE. If an applicant wanted to put in a station which would operate at night, he must show as a condition precedent to getting his application on file that he will bring service to areas having no service at all or a first station to the community.

Mr. EVINS. What about daytime applications?

Mr. HYDE. Well, the situation is more congested than ever. There are about 1,900 daytime only stations. Many of them do feel they should have or are interested in extending their hours, of course.

We have urged in the past that they use the technology of FM broadcasting. But we still do have applications for changes in operating assignments for, a typical one would be for, nighttime.

However, even in the case of a daytime only station present rules would require that an applicant for a nighttime service show that he would bring service to an inadequately served area. We call it a white area.

NEWSPAPER OWNERSHIP OF STATIONS

Mr. EVINS. You have a rule that daytime applications or, I suppose, even nighttime applications for radio franchises will not be issued to stations which are owned, managed, or controlled by newspapers?

Mr. HYDE. No, we do not have such a rule. But we do have——

Mr. EVINS. Would you clarify the situation then?

Mr. HYDE. I will endeavor to do that.

Actually I suppose about 20 percent—this is a figure that was developed at one time—of stations are owned or controlled by newspaper operators. But in a typical contest for a radio frequency there may be an applicant who has other stations, there may be an applicant who has a newspaper interest, there may be an applicant who just has no other interests at all. There is a statement of policy which undertakes to give criteria for comparative hearings which is designed to encourage diversification. So, all other factors being equal, the applicant associated with a local paper would have a substantial burden of proof as against nonaffiliated applicants.

Mr. EVINS. You look for diversification, but there is no firm set of circumstances or facts.

Mr. HYDE. That is an accurate statement of it. You put it in fewer words than my statement.

Mr. EVINS. Mr. Pryor is a new member of our committee. Mr. Pryor?

Mr. PRYOR. Just one question, Mr. Chairman.

CRITERIA FOR AUTHORIZING INCREASED POWER OF RADIO STATIONS

If you have two stations in a town and the weaker one wants to increase its power, what criteria would you use in judging whether or not to grant this?

Mr. HYDE. There are a number of tests that we would have to meet. The first one would have to be, of course, the availability of a frequency assignment that would not involve him with other stations. To better effect a distribution of services he would have to likewise show, if it was an application for a new nighttime station, for instance, that he would serve areas not now served. Not infrequently an existing station will file an objection to an application for a new station or an improvement to a competing one on economic grounds.

We examine these carefully because obviously there would be some incentive to just delay competition. But there is a pretty well established principle that an applicant or a station which has an economic interest can bring matters to the attention of the Commission which would be relevant to a public interest judgment, and it is not infrequent that we will have to make a decision on an application which is contested on just economic grounds.

Mr. PRYOR. In other words, the station's increased power would cut into a stronger station's profit.

Mr. HYDE. On occasion that argument will be made. But usually the circumstances that tend to keep one station, let us say, on a regional frequency, and one on a local frequency, would be lack of available frequency assignments.

In a typical situation you will find that the better position obtained by the applicant who came into the field earlier. The station that you referred to as the weaker one, being someone who has come into business much later, and there would not be a good opportunity for a comparable assignment.

Now, in FM we have a much better situation. We established an engineering plan, a list of station assignments, and it is designed, and, I think, does provide a more equitable opportunity for competing applicants or competing stations.

Mr. PRYOR. Thank you.

Mr. HYDE. The same is true in television. We do have this differentiation between UHF and VHF. But within those two bands they are on a pretty even basis.

FINANCIAL CONDITION OF BROADCASTING INDUSTRY

Mr. EVINS. The radio broadcast industry is healthy and growing?

Mr. HYDE. Right, sir.

Mr. EVINS. Telephone communciation is prosperous?

Mr. HYDE. Yes, sir.

Mr. EVINS. How about television now, what are the problems in that field?

Mr. HYDE. They are even more prosperous, except that the development of UHF continues to be a challenge. But we think they are making progress.

I am confident that some of these new stations that have gone on, and I am thinking now of one in Chicago, are going to demonstrate the viability of the operation of UHF.

We are doing our best to——

RESULT OF UHF-TV STUDY IN NEW YORK

Mr. EVINS. We appropriated some money for a special study a few years ago on UHF.

Mr. HYDE. We did.

Mr. EVINS. What resulted from that study?

Mr. HYDE. Well, the end result was a demonstration of the workability, the usefulness of it, even in such an area as New York, which is difficult. Since then the Congress has passed the all-channel law, as you know. Any set sold in interstate commerce must provide reception on both UHF and VHF.

Mr. EVINS. When does that go into effect?

Mr. HYDE. It is in effect. It was in effect in 1964.

Mr. COX. May 1, 1964.

Mr. HYDE. Since 1964, and the number of sets in use is increasing rapidly, particularly because of the new interest in color. Persons buying new sets to get color also get the additional channels, and this, I am sure, is contributing to increased interest in UHF.

Mr. EVINS. All new sets currently are available both on UHF and VHF?

Mr. HYDE. That is right, sir.

INCREASE IN APPLICATIONS FOR UHF CHANNELS

Mr. EVINS. Have the applications increased?

Mr. HYDE. Yes. The number of applications is increasing.

Mr. EVINS. Increasing?

Mr. HYDE. Yes; where previously there would be no applications, we now have contests for channels.

I do not mean to indicate that this is a completely rosy picture. It is a challenge to the operator.

TV PROGRAMING

Mr. EVINS. What does the Commission do about raising the tone and quality of the television programing?

Mr. HYDE. With the cooperation of Congress, we are trying to get more stations on the air to give the public more alternatives to choose from.

Mr. EVINS. One alternative is to turn it off.

Mr. HYDE. Well, that is right. A station cannot continue with the programing he is offering if the viewers and listeners turn them off.

Mr. EVINS. You can encourage them but what else can the Commission do?

Mr. HYDE. We can still show concern, of course, but it is the public that makes the program judgment. The competition between the networks and stations serves to improve programing.

Mr. EVINS. The ratings are what they are all interested in.

Mr. HYDE. They are interested in ratings. They do want to make their program popular. We would hope that the popularity and quality would be synonymous. I am not sure it always is.

Mr. EVINS. Mr. Chairman, does the Commission set any standards or have any regulations as to the amount of newscasts, entertainment, educational, or religious programing?

Mr. HYDE. We have no rules as such. Applicants filing applications are required to state or to show that they have examined their market, their community, and show what steps they have taken to satisfy the needs of such market.

We endeavor to examine them to see if they have made a responseful, rational appraisal of their opportunities, and that is just about all we can do because, you know, what a morass we would get into if we undertook to make subjective judgments as to program quality.

Mr. EVINS. Some audiences like more sophisticated music and others enjoy popular music.

Mr. HYDE. That is right. Like the Supreme Court said, one man's trash is another man's treasure.

Mr. EVINS. Mr. Wyman.

ADVANTAGES AND DISADVANTAGES OF UHF

Mr. WYMAN. What are the advantages of UHF and its disadvantages?

Mr. HYDE. There are certain claimed advantages for it. Some operators claim that they get a better quality of color. But actually the big difference between UHF and VHF has been the higher cost of UHF, less range, and also the fact that VHF was developed first and has been a challenge to the development of UHF. Most sets in the hands of the consumers were VHF.

When a man would undertake to get a UHF station into operation he had the problem of getting consumers to buy converters for sets or to buy new sets, and this would be a real problem, particularly if the three network shows would be available on VHF.

Mr. WYMAN. This creates a whole new spectrum, doesn't it?

Mr. HYDE. UHF, we have channels running from 14 to 82 as compared with two to 13 at VHF.

Mr. WYMAN. Why would a man or a corporation or a group of people who wanted to have a television station choose the UHF approach?

Mr. HYDE. Oh, he would not.

Mr. LEE. That is all that is left.

Mr. WYMAN. That is all that is left?

Mr. HYDE. Only because the other have been licensed.

AVAILABILITY OF UHF CHANNELS

Mr. WYMAN. Are there openings in UHF now?

Mr. HYDE. Yes.

Mr. WYMAN. In areas that are saturated with VHF?

Mr. HYDE. There are, and there tend to be contests for these assignments because there are no V's available.

Mr. LEE. One small qualification: I think in about the top 50 to 75 markets, which is really an indication of the success of UHF, the assignments are all gone. They are either in contest, they have been granted, or have been built.

Mr. BOLAND. The assignments of UHF are all gone? That is interesting. That has developed over the last couple of years.

Mr. LEE. Since the all-channel set.

Mr. BOLAND. That is interesting because they were going begging at one time.

Mr. LEE. Right.

Mr. BOLAND. Some were folding up.

Mr. LEE. Actually every station in the large markets—and I have looked at any number of them—their projected revenue has been substantially better than they anticipated or actually budgeted for. This does not mean that they are yet making money, but it is very obvious that they are going to alright.

EFFECT OF CATV ON UHF

Mr. BOLAND. What effect has the CATV had on UHF?

Mr. LEE. Well, you can get two arguments. In certain areas where the CATV is in the smaller markets, and they carried the U, and they are now required to, under our rules, it helps UHF.

Some of us think that they are a threat in the larger markets.

Mr. BOLAND. You do require them to carry a U in the smaller markets?

Mr. LEE. Yes.

Mr. WYMAN. In terms of operating costs does it cost as much to get set up to produce on UHF as it does on VHF?

Mr. LEE. It costs more—power, principally.

Mr. HYDE. Commissioner Lee has spearheaded our effort to stimulate interest in UHF, and I will accept his answer there.

Mr. EVINS. Generally, it is my impression that in the metropolitan areas CATV is not being approved. But in the rural areas where they do not have adequate or sufficient coverage in television the CATV concept is being expanded; is this about it?

Mr. HYDE. This is the way it is working at the moment for this reason: That out of concern for the development of the UHF stations, the Commission does prohibit by its CATV regulations the importations of distant signals into the first 100 markets. In the smaller markets——

Mr. EVINS. Currently, the first 100 markets are closed to CATV?

Mr. HYDE. Unless they get a waiver, that is closed to importation of distant signals. But in smaller markets they must give notice to a local station that they are going to go in, and a station can petition the Commission to prohibit their developing. But the way it operates is very much as you have said, that they are expanding in the smaller markets.

Mr. EVINS. Would you supply for the record the markets where UHF is now employed?

Mr. HYDE. Yes.

(The information referred to is as follows:)

City	Channel No.	Call letters	Status
Alabama:			
Anniston	40	WHMA	C.P. only.
Birmingham	42	WBMG	Operating.
Do	68	NEW	C.P. only.
Decatur	23	WMSL-TV	Operating.
Florence	26	NEW	C.P. only.
Do	15	WOWL-TV	Operating.
Do	[1] 36	WFIQ	C.P. only.
Huntsville	31	WAAY-TV	Operating.
Do	[1] 25	WHIQ	Do.
Do	19	WHNT-TV	Do.
Mobile	[1] 42	WEIQ	Do.
Montgomery	[1] 26	WAIQ	Do.
Do	20	WCOV-TV	Do.
Do	32	WKAB-TV	Do.
Tuscaloosa	33	WCFT-TV	Do.
Arizona:			
Phoenix	33	KGPA-TV	C.P. only.
Do	21	KPAZ-TV	Do.
Arkansas: Little Rock	16	KMYO	Do.
California:			
Bakersfield	29	KBAK-TV	Operating.
Do	23	KERO-TV	Do.
Do	17	KLYD-TV	Do.
Concord	42	KCFT-TV	Suspended operation.
Corona	52	KMTW	Operating.
Fontana	40	KLXA-TV	Do.
Fresno	53	KAIL-TV	Do.
Do	30	KFRE-TV	Do.
Do	47	KJEO	Do.
Do	24	KMJ-TV	Do.
Guasti	46	KBSA	C.P. only.
Hanford	21	KSJV-TV	Suspended operation.
Los Angeles	[1] 28	KCET	Operating.
Do	34	KMEX	Do.
Do	22	KWHY-TV	Do.
Modesto	19	KLOC-TV	Do.
Monterey	46	KCMH	C.P. only.
Sacramento	40	KTXL	Do.
San Bernardino	30	KITR	Do.
Do	[1] 24	KVCR-TV	Operating.
San Diego	39	KAAR	Do.
Do	51	KJOC-TV	C.P. only.
San Francisco	26	KTSF-TV	Do.
Do	20	KEMO-TV	Do.
Do	44	KHJK-TV	Do.
Do	32	KSAN-TV	Operating.
San Jose	36	KGSC-TV	C.P. only.
Do	[1] 54	KTEO	Operating.
San Mateo	[1] 14	KCSM	Do.
Santa Barbara	14	KIHP-TV	C.P. only.
Santa Rosa	50	KHCD	Do.
Ventura	16	KKOG-TV	Do.
Vasalia	43	KICU-TV	Operating.
Colorado: Denver	20	NEW	C.P. only.
Connecticut:			
Bridgeport	43	WFTT	Suspended operation.
Hartford	[1] 24	WEDH	Operating.
Do	18	WHCT	Do.
Do	61	WVTV	C.P. only.
New Britain	30	WHNB-TV	Operating.
New Haven	59	WTVU	C.P. only.
Norwich	[1] 53	WEDN	Operating.
Waterbury	20	WATR-TV	Do.
District of Columbia:			
Washington, D.C.	[1] 32	WETX	C.P. only.
Do	20	WDCA-TV	Operating.
Do	[1] 26	WETA-TV	Do.
Do	14	WOOK-TV	Do.
Florida:			
Clearwater	22	WHJR-TV	C.P. only.
Fort Lauderdale	51	WSMS-TV	Do.
Fort Pierce	34	WTVX	Operating
Jacksonville	30	WDUV-TV	C.P. only.
Do	17	WJKS-TV	Operating.
Melbourne	31	WPCT	C.P. only.
Miami	23	WGBS-TV	Do.
Do	39	WTML	Do.
Do	[1] 17	WSEC-TV	Operating.

[1] Educational.

City	Channel No.	Call letters	Status
Florida—Continued			
Orlando	35	WORU–TV	C.P. only.
Do	[1] 24	WMFE–TV	Operating.
Pensacola	[1] 23	WSRE	C.P. only.
St. Petersburg	44	NEW	Do.
Do	38	WSUN–TV	Operating.
Tampa	28	WTSS–TV	C.P. only.
Do	[1] 16	WUSF–TV	Operating.
Georgia:			
Ashburn	[1] 23	WJIA–TV	C.P. only.
Atlanta	36	WBMO–TV	Suspended operation.
Do	[1] 30	WETV	Operating.
Do	17	WJRJ–TV	C.P. only.
Augusta	54	NEW	Do.
Chatsworth	[1] 18	WCLP–TV	Operating.
Cochran	[1] 15	WDCO–TV	C.P. only.
Columbus	[1] 28	WJSP–TV	Operating.
Dawson	[1] 25	WACS–TV	Do.
Phelam	[1] 14	WABW–TV	Do.
Wrens	[1] 20	WCES–TV	C.P. only.
Illinois:			
Bloomington	43	WGNH	Do.
Champaign	33	WCHU	Operating.
Chicago	26	WCIU–TV	Do.
Do	32	WFLD	Do.
Do	44	WSNS	C.P. only.
Do	[1] 20	WXXW	Operating.
Danville	24	WICD	Do.
Decatur	17	WAND	Do.
Dreeport	23	WCEE–TV	Do.
Jacksonville	14	WJJY–TV	C.P. only.
Joliet	14	WTVG	Do.
La Salle	35	WEEQ–TV	Operating.
Onley	[1] 16	WUSI–TC	C.P. only.
Peoria	25	WEEK–TV	Operating.
Do	19	WIRL–TV	Do.
Do	31	WMBD–TV	Do.
Rockford	39	WTVO	Do.
Springfield	20	WICS	Do.
Indiana:			
Bloomington	[1] 30	WTIU	C.P. only.
Evansville	25	WEHT	Operating.
Do	14	WFIE–TV	Do.
Elkhart	28	WSJV	Do.
Fort Wayne	15	WANE–TV	Do.
Do	32	WKJG–TV	Do.
Gary	56	NEW	Do.
Hammond	62	WAXN	C.P. only.
La Fayette	18	WFAM–TV	Operating.
Lawrence	40	NEW	C.P. only.
Marion	31	WTAF	Operating.
Muncie	49	WLBC–TV	Do.
Roanoke	21	WPTA	Do.
South Bend	16	WNDU–TV	Do.
Do	22	WSBT–TV	Do.
St. John	[1] 50	WCAE	C.P. only.
Vincennes	[1] 22	WVUT	Do.
Iowa:			
Davenport	18	KSTT–TV	Do.
Des Moines	17	KSO–TV	Do.
Fort Dodge	21	KVFD–TV	Operating.
Sioux City	14	NEW	C.P. only.
Kansas:			
Salina	34	KSLM–TV	Suspended operation.
Topeka	27	NEW	C.P. only.
Wichita	24	KWIS–TV	Do.
Kentucky:			
Ashland	[1] 25	NEW	Do.
Bowling Green	[1] 53	NEW	Do.
Covington	[1] 54	WCVN	Do.
Elizabethton	[1] 23	NEW	Do.
Hazard	[1] 35	NEW	Do.
Lexington	[1] 46	NEW	Do.
Do	27	WKYT–TV	Operating.
Do	18	WLEX–TV	Do.
Louisville	41	WDRB	C.P. only.
Do	21	WEZI	Do.
Do	[1] 15	WFPK–TV	Operating.
Do	32	WLKY–TV	Do.
Madisonville	[1] 35	NEW	C.P. only.
Morehead	[1] 38	NEW	Do.
Murray	[1] 21	NEW	Do.

[1] Educational.

City	Channel No.	Call letters	Status
Kentucky—Continued			C.P. only.
Newport	19	WSCO-TV	Do.
Owensboro	31	WDCL	Do.
Do	19	WVJS-TV	Do.
Owenton	[1] 52	NEW	Do.
Paducah	29	NEW	Do.
Pikeville	[1] 22	NEW	Do.
Somerset	[1] 29	NEW	Do.
Louisiana:			
Lake Charles	29	KIKS-TV	Do.
New Orleans	20	WJMR-TV	Do.
Do	26	WWOM	Do.
West Monroe	39	KUZN-TV	Do.
Maryland:			
Baltimore	24	WMET-TV	Operating.
Salisbury	16	WBOC-TV	Do.
Massachusetts:			
Adams	19	WCDC	Do.
Boston	38	WSBK-TV	Do.
Do	[1] 44	WGBX	C.P. only.
Do	25	WREP	Do.
Cambridge	56	WKBG-TV	Operating.
Greenfield	32	WRLP	Suspended optration.
Springfield	40	WHYN-TV	Operating.
Do	22	WWLP	Do.
Worcester	14	WJZB-TV	Do.
Michigan:			
Detroit	20	WJMY	C.P. only.
Do	50	WKBD-TV	Operating.
Do	[1] 56	WTVS	Do.
Do	62	WXON	C.P. only.
Grand Rapids	17	NEW	Do.
Jackson	18	WKHM-TV	Do.
Mount Pleasant	[1] 14	WCMU-TV	Do.
Muskegon	54	WMKG	Do.
Saginaw	25	WKNX-TV	Operating.
University Center	[1] 19	WUCM-TV	Do.
Minnesota:			
St. Paul	[1] 17	KTCI-TV	Do.
Do	29	WGTC	C.P. only.
Mississippi:			
Jackson	[1] 29	NEW	Do.
Do	16	WAPT	Do.
Meridian	30	WCOC-TV	Do.
Missouri:			
Joplin	16	KUHI-TV	Do.
Kansas City	41	KBMA-TV	Do.
Do	50	KCIT-TV	Do.
Do	[1] 19	KCSD-TV	Operating.
Do	62	KPTC-TV	C.P. only.
Poplar Bluff	15	KPOB-TV	Suspended operation.
St. Louis	24	KGSL-TV	C.P. only.
Do	30	KDNL-TV	Do.
Springfield	27	KMTC	Do.
Nebraska:			
Omaha	42	KAKS	Do.
Do	15	KNIO-TV	Do.
Do	[1] 26	KYNE-TV	Operating.
New Hampshire:			
Berlin	[1] 40	WEDB	C.P. only.
Hanover	[1] 15	WHED-TV	Do.
Keene	[1] 52	NEW	Do.
Lebanon	31	WRLH	Operating.
Littleton	[1] 49	WLED-TV	C.P. only.
Manchester	50	NEW	Do.
New Jersey:			
Asbury Park	58	WRTV	Do.
Burlington	48	WKBS-TV	Operating.
Glen Ridge	[1] 77	WNJE-TV	C.P. only.
Linden	47	WNJU-TV	Operating.
New Brunswick	[1] 19	WTLV	C.P. only.
Paterson	41	WXTV	Do.
Wildwood	40	WCMC-TV	Operating.
New York:			
Albany	45	NEW	C.P. only.
Binghamton	34	WBJA-TV	Operating.
Do	40	WINR-TV	Do.
Do	[1] 46	WQTV	C.P. only.
Buffalo	49	WBAU-TV	Do.
Do	[1] 17	WNED-TV	Operating.
Do	23	WTVF	C.P. only.

[1] Educational.

City	Channel No.	Call letters	Status
New York—Continued			
Elmira	18	WSYE-TV	Operating.
Ithaca	52	WCIC	C.P. only.
Do	[1] 14	WIET	Do.
Jamestown	26	NEW	Do.
New York	31	WNYC-TV	Operating.
Do	[1] 25	WNYE-TV	C.P. only.
Rochester	[1] 21	WXXI	Operating.
Schnectady	[1] 17	WMHT	Do.
Syracuse	[1] 24	WCNY-TV	Do.
Do	43	NEW	C.P. only.
North Carolina:			
Asheville	[1] 33	WVLE	Do.
Do	21	WANC-TV	Operating.
Charlotte	18	WCCB-TV	Do.
Do	36	WCTU-TV	C.P. only.
Do	[1] 42	WTVL	Operating.
Fayetteville	40	NEW	C.P. only.
Greensboro	48	NEW	Do.
Hickory	14	WHKY-TV	Do.
Linville	[1] 17	WUND-TV	Do.
Raleigh	28	WJHF-TV	Do.
Ohio:			
Akron	23	WAKR-TV	Operating.
Ashtabula	15	WICA-TV	Do.
Athens	[1] 20	WOUB-TV	Do.
Bowling Green	[1] 70	WBGU-TV	Do.
Canton	17	WJAN	Do.
Do	67	NEW	C.P. only.
Cincinnati	[1] 48	WCET	Operating.
Cleveland	61	WAFT-TV	C.P. only.
Do	[1] 15	WVIZ-TV	Do.
Columbus	[1] 34	WOSU-TV	Operating.
Do	47	NEW	C.P. only.
Dayton	22	WKEF	Operating.
Kettering	16	WKTR-TV	C.P. only.
Lima	35	WIMA-TV	Operating.
Lorain	43	WUAB	C.P. only.
Newark	[1] 28	WGSF	Operating.
Oxford	[1] 14	WMUB-TV	Do.
Portsmouth	30	WRLO	Do.
Springfield	26	WSWO-TV	C.P. only.
Toledo	24	WDHO-TV	Operating.
Do	[1] 30	WGTE-TV	Do.
Youngstown	21	WFMJ-TV	Do.
Do	27	WKBN-TV	Do.
Do	33	WYTV	Do.
Zanesville	18	WHIZ-TV	Do.
Oklahoma:			
Oklahoma City	14	KLPR-TV	Do.
Do	[1] 25	KOKH-TV	Do.
Tulsa	41	NEW	C.P. only.
Do	23	KCEB	Suspended operation.
Pennsylvania:			
Allentown	[1] 39	WLVT-TV	Operating.
Erie	[1] 54	NEW	C.P. only.
Do	66	WEPA-TV	Do.
Do	24	WJET	Operating.
Do	35	WSEE-TV	Do.
Harrisburg	21	WHP-TV	Do.
Do	27	WTPA	C.P. only.
Hersey	[1] 33	WITF-TV	Operating.
Johnstown	56	WARD-TV	C.P. only.
Lancaster	15	WLYH-TV	Operating.
Philadelphia	23	WGTI	C.P. only.
Do	29	WIBF-TV	Operating.
Do	17	WPHL-TV	Do.
Do	[1] 35	WUHY-TV	Do.
Pittsburgh	53	WECO-TV	C.P. only.
Do	22	WENS	Do.
Do	[1] 16	WQEX	Operating.
Scranton	22	WDAU-TV	Do.
Do	16	WNEP-TV	Do.
Do	[1] 44	WVIA-TV	Do.
Wilkes-Barre	28	WBRE-TV	Do.
York	43	WSBA-TV	Do.
Puerto Rico:			
Mayaguez	22	WITB-TV	C.P. only.
Do	16	WMGZ	Do.
Ponce	20	WITP-TV	Do.
Do	14	WPSJ	Do.
San Juan	30	WITA-TV	Operating.
Do	18	WTSJ	Do.
Rhode Island: Providence	[1] 16	WNET	Do.

[1] Educational.

City	Channel No.	Call letters	Status
South Carolina:			
Anderson	40	WAIM-TV	C.P. only.
Allendale	[1] 14	NEW	Do.
Columbia	19	WNOK-TV	Operating.
Do	25	WOLO-TV	Do.
Do	[1] 35	WRLK-TV	Do.
Florence	[1] 33	NEW	C.P. only.
Do	15	WPDT	Do.
Greenville	[1] 29	WNTV	Operating.
Tennessee:			
Chattanooga	[1] 45	WTCI	C.P. only.
Kingsport	19	NEW	Do.
Knoxville	26	WTVK	Operating.
Memphis	30	WMTU-TV	C.P only.
Nashville	30	WKTO-TV	Do.
Do	17	WMCV	Do.
Texas:			
Abilene	32	KWKC-TV	Do.
Austin	42	KHFI-TV	Operating.
Do	24	KVET-TV	C.P. only.
Dallas	39	KDTV	Do
Forth Worth	21	KFWT-TV	Do.
Galveston	16	KVVV-TV	Do.
Houston	39	KHTV	Operating.
Houston	20	KUAB	C.P. only.
Longview	16	KLUE-TV	Do.
Lubbock	28	KJJ-TV	Do.
Do	34	KKBC-TV	Do.
Midland	18	KDCD-TV	Suspended operation.
Nacogdoches	19	KTES	Operating.
Richardson	[1] 23	KRET-TV	Do.
Rosenburg	45	KJDO-TV	Do.
San Antonio	41	KWEX-TV	Do.
Do	29	KBRT	C.P. only.
Victoria	19	KXIX	Do.
Waco	25	WACO-TV	Do.
Utah: Ogden	[1] 18	KWCS-TV	Operating.
Vermont:			
Burlington	[1] 33	WETK	C.P. only.
Do	22	NEW	Do.
Rutland	[1] 28	WVER	Do.
St. Johnsbury	[1] 20	WVTB	Do.
Windsor	[1] 41	WVTA	Do.
Virginia:			
Charlottesville	29	WINA-TV	Do.
Do	64	WVIR-TV	Do.
Danville	24	WBTM-TV	Do.
Hampton	[1] 15	WHRO-TV	Operating.
Norfolk	49	NEW	C.P. only.
Do	33	WNTU-TV	Do.
Portsmouth	27	WYAH-TV	Operating.
Richmond	[1] 23	WCVE-TV	Do.
Do	[1] 57	WCVW	C.P. only.
Roanoke	[1] 15	WBRA-TV	Do.
Do	27	WRFT-TV	Operating.
Washington:			
Lakewood Center	[1] 56	KPEC-TV	Do.
Pasco	19	KEPR-TV	Do.
Richland	25	KNDU	Do.
Tacoma	[1] 62	KTPS	Do.
Yakima	29	KIMA-TV	Do.
Do	23	KNDO	Do.
Do	[1] 47	KYVE-TV	Do.
West Virginia:			
Morgantown	[1] 24	WWVU-TV	C.P. only.
Parkersburg	15	WTAP-TV	Operating.
Wheeling	14	NEW	C.P. only.
Wisconsin:			
Janesville	57	NEW	Do.
Madison	[1] 21	WHA-TV	Operating.
Do	27	WKOW-TV	Do.
Do	15	WMTV	Do.
Milwaukee	24	WCAN-TV	C.P. only.
Do	[1] 36	WMVT	Operating.
Do	18	WVTV	Do.
Wyoming: Cheyenne	27	KDWN-TV	C.P. only.

[1] Educational.

Mr. EVINS. And your 100 market areas where the CATV is closed.
Mr. HYDE. If you will——
Mr. EVINS. You do not like that word "closed."

(The information referred to is as follows.)

Alphabetical rankings of top 100 TV markets, 1965, ARB

Market	Rank	Market area commercial TV stations
Albany-Schenectady-Troy, N.Y	37	WAST, WRGB, WTEN.
Albuquerque, N. Mex	100	KGGM-TV, KOAT-TV, KOB-TV.
Altoona, Pa. (See Johnstown-Altoona.)		
Asheville, N.C. (See Greenville-Spartansburg-Asheville.)		
Atlanta, Ga	19	WAGA-TV, WAII-TV, WSB-TV.
Augusta, Ga	96	WJBF, WRDW-TV.
Baltimore, Md	11	WBAL-TV, WJZ-TV, WMAR-TV.
Baton Rouge, La	85	WAFB-TV, WBRZ.
Bay City, Mich. (See Saginaw-Bay City-Flint.)		
Binghamton, N.Y	82	WBJA-TV, WINR-TV, WNBF-TV.
Birmingham, Ala	39	WBMG, WAPI-TV, WBRC-TV.
Boston, Mass	5	WBZ-TV, WHDH-TV, WIHS-TV, WNAC-TV.
Buffalo, N.Y	22	WBEN-TV, WGR-TV, WKBW-TV.
Cape Girardeau, Mo.-Paducah, Ky.-Harrisburg, Ill.	87	KFVS-TV, WPSD-TV, WSIL-TV.
Cedar Rapids-Waterloo, Iowa	74	KCRG-TV, KWWL-TV, WMT-TV.
Champaign-Decatur-Springfield, Ill	73	WCIA, WICS, WAND (formerly WTVP), WCHU.
Charleston-Huntington, W. Va	45	WCHS-TV, WHTN-TV, WSAZ-TV.
Charlotte, N.C	29	WBTV, WCCB-TV, WSOC-TV.
Chattanooga, Tenn	92	WDEF-TV, WRCB-TV, WTVC.
Chicago, Ill	3	WBBM-TV, WBKB, WCIU, WFLD, WGN-TV, WMAQ-TV.
Cincinnati, Ohio	16	WCPO-TV, WKRC-TV, WLWT, WKYC.
Cleveland, Ohio	8	WEWS, WJW-TV, WKYC-TV.
Columbia, S.C	83	WIS-TV, WNOK-TV, WOLO-TV.
Columbus, Ga	84	WRBL-TV, WTVM.
Columbus, Ohio	30	WBNS-TV, WLWC, WTVN-TV.
Dallas-Fort Worth, Tex	15	KRLD-TV, KTVT, WBAP-TV, WFAA-TV.
Davenport, Iowa. (See Quad City.)		
Dayton, Ohio	28	WHIO-TV, WKEF, WLWD.
Daytona Beach, Fla. (See Orlando-Daytona Beach.)		
Decatur, Ill. (See Champaign-Decatur-Springfield.)		
Denver, Colo	40	KBTV, KWGN-TV (formerly KCTO) KLZ-TV, KOA-TV.
Des Moines, Iowa	76	KRNT-TV, WHO-TV, WOI-TV.
Detroit, Mich	6	CKLW-TV, WJBK-TV, WKBD, WWJ-TV, WXYZ-TV.
Durham, N.C. (See Raleigh-Durham.)		
Elkhart, Ind. (See South Bend-Elkhart.)		
Evansville, Ind	88	WEHT, WFIE-TV, WTVW.
Flint, Mich. (See Saginaw-Bay City-Flint.)		
Fort Wayne, Ind	99	WANE-TV, WKJG-TV, WPTA.
Fort Worth, Tex. (See Dallas-Fort Worth.)		
Fresno, Calif	91	KAIL, KFRE-TV, KJEO, KML-TV.
Grand Rapids-Kalamazoo, Mich	38	WKZO-TV, WOOD-TV, WZZM-TV.
Green Bay, Wis	64	WBAY-TV, WFRV-TV, WLUK-TV.
Greensboro-Winston Salem-High Point, N.C	49	WFMY-TV, WGHP-TV, WSJS-TV.
Greenville-Spartanburg, S.C.-Asheville, N.C	44	WFBC-TV, WISE-TV, WLOS-TV, WSPA-TV.
Greenville-Washington-New Bern, N.C	89	WITN-TV, WNBE-TV, WNCT-TV.
Hampton, Va. (See Norfolk-Portsmouth-Newport News-Hampton.)		
Harrisburg-Lancaster-Lebanon-York, Pa	33	WGAL-TV, WHP-TV, WLYH-TV, WSBA-TV, WTPA.
Harrisburg, Ill. (*See* Cape Girardau-Paducah-Harrisburg.)		
Hartford-New Haven, Conn	13	WHCT, WTIC-TV, WNHC-TV.
Hastings, Nebr. (*See* Lincoln-Hastings-Kearney.)		
High Point, N.C. (*See* Greensboro-Winston-Salem-High Point.)		
Holyoke, Mass. (*See* Springfield-Holyoke.)		
Houston, Tex	25	KHOU-TV, KPRC-TV, KTRK-TV.
Huntington, W. Va. (*See* Charleston-Huntington.)		
Indianapolis, Ind	18	WFBM-TV, WISH-TV, WLWI, WTTV.
Jackson, Miss	79	WJTV, WLBT.
Jacksonville, Fla	72	WFGA-TV, WJXT.
Johnstown-Altoona, Pa	41	WARD-TV, WFBG-TV, WJAC-TV.
Kalamazoo, Mich. (*See* Grand Rapids-Kalamazoo.)		
Kansas City, Mo	24	KCMO-TV, KMBC-TV, WDAF-TV.
Kearney, Nebr. (*See* Lincoln-Hastings-Kearney.)		
Knoxville, Tenn	80	WATE-TV, WBIR-TV, WTVK.

Alphabetical rankings of top 100 TV markets, 1965, ARB—Continued

Market	Rank	Market area commercial TV stations
Lancaster, Pa. (*See* Harrisburg-Lancaster-Lebanon-York.)		
Lansing, Mich.	47	WILX-TV, WJIM-TV.
Lebanon, Pa. (*See* Harrisburg-Lancaster-Lebanon-York.)		
Lincoln-Hastings-Kearney, Nebr.	93	KHAS-TV, KHOL-TV, KOLN-TV.
Little Rock, Ark.	71	KARK-TV, KATV, KTHV.
Los Angeles, Calif.	2	KABC-TV, KCOP, KHJ-TV, KMEX-TV, KNBC, KNXT, KPOL-TV, KTLA, KTTV.
Louisville, Ky.	48	WAVE-TV, WHAS-TV, WLKY-TV.
Madison, Wis.	81	WISC-TV, WKOW-TV, WMTV.
Manchester, N. H.	53	WMUR-TV.
Memphis, Tenn.	34	WHBQ-TV, WMCT, WREC-TV.
Miami, Fla.	20	WCKT, WLBW-TV, WTVJ.
Milwaukee, Wis.	23	WISN-TV, WITI-TV, WTMJ-TV, WUHF.
Minneapolis-St. Paul, Minn.	17	KMSP-TV, KSTP-TV, WCCO-TV, WTCN-TV.
Mobile, Ala.-Pensacola, Fla.	75	WALA-TV, WEAR-TV, WKRG-TV.
Moline, Ill. (See Quad City.)		
Monterey, Calif. (See Salinas-Monterey-Santa Cruz.)		
Nashville, Tenn.	42	WLAC-TV, WSIX-TV, WSM-TV.
New Bern, N.C. (See Greenville-Washington-New Bern.)		
New Haven, Conn. (See Hartford-New Haven.)		
New Orleans, La.	43	WDSU-TV, WVUE, WWL-TV.
Newport News, Va. (See Norfolk-Portsmouth-Newport News-Hampton.)		
New York, N.Y.	1	WABC-TV, WCBS-TV, WNBC-TV, WNEW-TV, WNJU-TV, WOR-TV, WPIX, WNYC-TV.
Norfolk-Portsmouth-Newport News-Hampton, Va.	55	WAVY-TV, WTAR-TV, WVEC-TV WYAH-TV.
Ogden, Utah (See Salt Lake City-Ogden-Provo).		
Oklahoma City, Okla.	51	KOCO-TV, KWTV, WKY-TV.
Omaha, Nebr.	60	KETV, KMTV, WOW-TV.
Orlando-Daytona Beach, Fla.	67	WDBO-TV, WESH-TV, WFTV.
Paducah, Ky. (See Cape Girardeau-Paducah-Harrisburg.)		
Pensacola, Fla. (See Mobile-Pensacola.)		
Peoria, Ill.	98	WEEK-TV, WIRL-TV, MWBD-TV.
Philadelphia, Pa.	4	KYW-TV, WCAU-TV, WFIL-TV, WIBF-TV, WKBS, WPHL-TV.
Phoenix, Ariz.	62	KOOL-TV, KPHO-TV, KTAR-TV, KTVK.
Pittsburgh, Pa.	9	KDKA-TV, WIIC-TV, WTAE.
Poland Spring, Me. (See Portland-Poland Spring.)		
Portland, Oreg.	36	KATU, KGW-TV, KOIN-TV, KPTV.
Portland-Poland Spring, Me.	59	WCSH-TV, WGAN-TV, WMTW-TV.
Portsmouth, Va. (See Norfolk-Portsmouth-Newport News-Hampton.)		
Providence, R.I.	14	WJAR-TV, WPRO-TV, WTEV.
Provo, Utah. (See Salt Lake City-Ogden-Provo.)		
Quad City (Davenport, Iowa-Rock Island-Moline, Ill.)	66	WHBF-TV, WOC-TV, WQAD-TV.
Raleigh-Durham, N.C.	50	WRAL-TV, WTVD.
Richmond, Va.	65	WRVA-TV, WTVR, WXEX-TV.
Roanoke, Va.	61	WDBJ-TV, WLVA-TV, WSLS-TV.
Rochester, N.Y.	68	WHEC-TV, WOKR, WROC-TV.
Rockford, Ill.	94	WCEE-TV, WREX-TV, WTVO.
Rock Island, Ill. (See Quad City.)		
Sacramento-Stockton, Calif.	27	KCRA-TV, KOVR, KXTV.
Saginaw-Bay City-Flint, Mich.	46	WJRT-TV, WKNX-TV, WNEM-TV.
St. Louis, Mo.	12	KMOX-TV, KPLR-TV, KSD-TV, KTVI.
St. Paul, Minn. (See Minneapolis-St. Paul.)		
St. Petersburg, Fla. (See Tampa-St. Petersburg.)		
Salinas-Monterey-Santa Cruz, Calif.	52	KNTV (San Jose), KSBW-TV.
Salt Lake City-Ogden-Provo, Utah.	63	KCPX-TV, KSL-TV, KUTV.
San Antonia, Tex.	57	KENS-TV, KONO-TV, KWEX-TV, WOAI-TV.
San Diego, Calif.	54	KFMB, KOGO-TV, KAAR, XETV, XEWT-TV.
San Francisco, Calif.	7	KGO-TV, KPIX, KRON-TV, KTVU.
Santa Cruz, Calif. (See Salinas-Monterey-Santa Cruz.)		
Schenectady, N.Y. (See Albany-Schenectady-Troy.)		

Alphabetical rankings of top 100 TV markets, 1965, ARB—Continued

Market	Rank	Market area commercial TV stations
Scranton, Pa. (See Wilkes-Barre-Scranton.)		
Seattle-Tacoma, Wash	21	KING-TV, KIRO-TV, KOMO-TV, KTNT-TV, KTVW.
Shreveport, La	69	KSLA-TV, KTAL-TV, KTBS-TV.
Sioux Falls, S. Dak	90	KELO-TV, KSOO-TV.
South Bend-Elkhart, Ind	97	WNDU-TV, WSBT-TV, WSJV.
Spartanburg, S.C. (See Greenville-Spartanburg-Asheville.)		
Spokane, Wash	77	KHQ-TV, KREM-TV, KXLY-TV.
Springfield, Ill. (See Champaign-Decatur-Springfield.)		
Srpingfield-Holyoke, Mass	78	WHYN-TV, WWLP.
Steubenville, Ohio. (See Wheeling-Steubenville.)		
Stockton, Calif. (See Sacramento-Stockton.)		
Syracuse, N.Y	35	WHEN-TV, WNYS-TV, WSYR-TV.
Tacoma, Wash. (See Seattle-Tacoma.)		
Tampa-St. Petersburg, Fla	32	WFLA-TV, WLCY-TV, WSUN-TV, WTVT.
Toledo, Ohio	26	WSPD-TV, WTOL-TV.
Troy, N.Y. (See Albany-Schenectady-Troy.)		
Tulsa, Okla	58	KOTV, KTUL-TV, KVOO-TV.
Washington, D.C	10	WMAL-TV, WOOK-TV, WRC-TV, WTOP-TV, WTTG, WDCA-TV.
Washington, N.C. (See Greenville-Washington-New Bern.)		
Waterloo, Iowa. (See Cedar Rapids-Waterloo.)		
West Palm Beach, Fla	85	WEAT-TV, WPTV.
Wheeling-Steubenville, Ohio	31	WSTV-TV, WTRF-TV.
Wichita, Kans	56	KAKE-TV, KARD-TV, KTVH.
Wilkes-Barre-Scranton, Pa	70	WBRE-TV, WDAU-TV, WNEP-TV.
Winston-Salem, N.C. (See Greensboro-Winston Salem-High Point.)		
York, Pa. (See Harrisburg-Lancaster-Lebanon-York.)		
Youngstown, Ohio	95	WFMJ-TV, WKBN-TV, WYTV.

Mr. HYDE. May I offer you a statement of just what we deem the situation to be?

Mr. EVINS. That will be better; that will be fine.

(The information referred to follows:)

The Commission's Rules (Section 74.1107) require a CATV system proposing to import distant signals into one of the top-100 television markets to make a showing in an evidentiary hearing that the proposed operation will be consistent with the public interest. The Rules also provide that the Commission may, upon an appropriate showing, waive the hearing requirement. The top-100 markets are those 100 markets which have the highest total net weekly circulation. For purposes of the Commission's Rules, a top-100 market area is all of that area which lies within a predicted Grade A contour of any television station in one of the top-100 television markets. These markets are listed in the Appendix attached hereto.

In the below-100 markets, the Rules require a new CATV system or an existing system proposing to import new distant signals to notify all local television stations at least 30 days prior to the commencement of the proposed operation. Copies of the notification are to be sent to the FCC, and if no objection is made within 30 days, a CATV system may commence operations.

POLICY ON EDITORIALIZING AND POLITICAL CAMPAIGNS

Mr. EVINS. How does the Commission view editorializing on political campaigns? Do you have a diversity of opinion on this in the Commission?

Mr. HYDE. I believe not. No, I believe not, I think not. The Commission adopted a policy statement on editorialization by broadcast licensees in 1949, and this is not in terms of editorialization for political candidates, but just in general.

This policy statement superseded the old Mayflower doctrine which held that a broadcast licensee may not be an advocate. But in 1949

the Commission developed a policy and the concept that a station should be permitted to have opinions.

Mr. EVINS. They may editorialize on crime, health, and beautification?

Mr. HYDE. We put it this way, editorialize on anything of public significance under conditions of fairness, advocate any matter that is appropriate to broadcast purposes, subject to the requirement that you afford the public reasonable opportunity to hear other sides of the issue.

Mr. EVINS. What about franchised radio or television stations taking out after political candidates saying, "We don't like his philosophy." They could blast away day and night. One would not have time to answer it at all. What kind of redress can one get under those circumstances?

Mr. HYDE. The procedural redress is that you direct immediately a complaint to the Commission that you are being treated unfairly and this, of course, we would take up with the station immediately. They are under Commission statements of policy, which have in fact been endorsed by the Congress in the amendments to section 315, they are to treat other candidates fairly.

It is a little bit more difficult to administer than the equal opportunity for political candidates because there the law simply requires that if you sell time to one legally qualified candidate you will have an obligation to afford equal opportunity to other legally qualified candidates for the same office.

Mr. EVINS. If a candidate from one party uses 30 minutes, the candidate in the other party is entitled to 30 minutes. If he is not given 30 minutes, that is a black mark on the station's application for renewal?

Mr. HYDE. As a matter of fact, it would be a violation of the law.

Mr. EVINS. Mr. Jonas.

Mr. JONAS. May I ask a question allied with that. It is not exactly in point, but is there any principle of public policy which will require a station to sell time to political candidates?

Mr. HYDE. No, there is not. Well, I think—as you recall in the statute it says if a station sells time to a candidate it then must——

Mr. JONAS. I am not talking about that.

Mr. HYDE. I know.

Mr. JONAS. I am talking about refusing to sell time to any candidates.

Mr. HYDE. What I am suggesting is that since the statute says if he does sell it he must sell it to the other candidates, then the language of the statute goes on to say, but these provisions do not——

Mr. GELLER. Nothing in this section requires that there be a use of the station by the other candidates. We have given a memorandum to the House Commerce Committee on what that means, and we would be glad to supply it to you. We have said that the station cannot arbitrarily refuse to present political candidates. If it did so then it would not be fully meeting the needs and the interests of the area.

Mr. JONAS. That was the point I was getting to. That was the public interest involvement that I thought.

How can you require a station—there being no question about denying the opponent equal time—but assume that Candidate X in his

campaign wants to use some television and the station says, "We don't have any available."

Mr. Cox. I think the way we have administered it is that an individual candidate, if he is not being unfairly tested in comparison with his opponent, has no right to insist on even the purchase of time, much less the donation of time. But that we do have the view that a station should make reasonable time available for the presentation of political candidates and then leave substantial discretion to the station as to which are the most important races, and as to how that time should be apportioned.

Mr. Hyde. I think where we would have to say this: That the only place in the act, insofar as it relates to broadcast operators, where there is a clear statutory obligation to sell time, is in the instance where they have sold time to one candidate, and the other fellow makes a claim. In that situation there is a clear legal requirement.

The principle that Commissioner Cox referred to is the matter of serving the overall public interest. They may very well provide facilities for the broadcasting of political messages on the basis that it is in the public interest for the public to know the candidates and what they stand for and all.

Mr. Giaimo. Mr. Chairman—will you yield, Mr. Jonas?

Mr. Evins. Mr. Giaimo.

Mr. Giaimo. This point that disturbs me. As I understand it, if the station, without being arbitrary, decides they are not going to have either candidate, they can do that, isn't that so? If they are not being arbitrary and if they decide they won't take X or Y?

Mr. Hyde. There have been some studies on it. This would be my feeling about it.

Mr. Giaimo. All right.

Assuming that that is the rule at the present time, then we get back to the chairman's question. The station itself can editorialize.

Mr. Hyde. That is correct.

Mr. Giaimo. And, therefore, can editorialize on a political campaign or on a candidate. Now, at that point would the station then have to give the other person running an opportunity——

Mr. Hyde. No.

Mr. Giaimo (continuing). For equal time with the station?

Mr. Hyde. Not precisely in that form.

Mr. Giaimo. I did not think they would.

Mr. Hyde. They would not be obligated to give the other candidate equal time, but he would have an obligation under the fairness doctrine to see that there was opportunity for discussion of the opposite viewpoint. This is not a right that runs to the other candidate.

Mr. Cox. It runs to a spokesman for the candidate.

Mr. Giaimo. Is that the doctrine? Let us get away for the moment from political candidates.

Mr. Hyde. That is true doctrine.

Mr. Giaimo. Let us say the station editorializes on beautification and takes one position on it. Is the station obligated to have a spokesman for the alternative view to come in and have equal time? I did not understand it that way.

Mr. Hyde. No. The doctrine says it relates to issues, controversial issues of public importance, and I would not expect that——

Mr. EVINS. Generally speaking, if a candidate is permitted time, equal time must be accorded his opponents.

Mr. HYDE. Right.

Mr. EVINS. If they refuse one candidate, they, therefore, refuse the others.

But getting back to Mr. Giaimo's question, they have a right to editorialize or blast away as they want.

Mr. GIAIMO. Then what happens?

Mr. COX. If he does that he is supposed to notify the candidate disadvantaged, the candidate opposed, and make an offer to comparable time for the presentation of support of that candidate by a spokesman.

Now, at the present time it does not run to the candidate individually because that would then create a right in his opponent to get time in addition to the time occupied by the station editorial. But there is a clear requirement that he must permit a response be made on behalf of the candidate he is opposed to.

Mr. EVINS. There is a requirement, but there can be an unfairness in that the station management can use the best available time for one candidate, and then offer the other candidate some time that is not prime time.

Mr. COX. The time should be comparable. But it may be, of course, that there is an advantage in the production—for the use of the production facilities of the station.

Mr. HYDE. It is a difficult principle to apply.

Mr. EVINS. It is a very difficult weapon.

Mr. WYMAN. Do you have any regulations with regard to comparability, as Commissioner Cox just spoke of?

Mr. HYDE. We have a booklet which recites rulings that have been made in a number of cases which are illustrative, and which provide a pretty good guide.

Mr. WYMAN. What I had reference to was, for example, if the subject matter complained against was presented from 7 to 7:30 p.m., which, of course, in terms of that station's listening audience is prime time, is there any requirement in the sense of a regulation of the Commission——

Mr. HYDE. No; not a precise regulation.

Mr. WYMAN. In terms of audience participation that the comparability must reach equal listening numbers?

Mr. HYDE. Well, what we say in this situation is that there should be comparability and if, in fact, they broadcast his reply at some low audience, awkward time, we would certainly not hold that as fair.

Mr. WYMAN. And suppose he did not, what can you do about it? I mean, if you applied the maximum of your powers, Mr. Chairman, what can you do about it with regard to that station?

Mr. HYDE. If they do not provide a satisfactory answer for their treatment there, this will become an issue on renewal.

Mr. COX. We can also order them to supply it.

Mr. GELLER. We also have outstanding a notice of proposed rulemaking which would adopt a rule, and once we adopted a rule, we could require cease and desist, and we could also fine on the basis of that rule, and the rule is involved in this field of political broadcasting.

Mr. WYMAN. Is the rule in existence at the present time?

Mr. GELLER. It is a notice of proposed rulemaking at this time.

Mr. WYMAN. I see.

Mr. GELLER. What has happened, when we do issue these rulings they are either appealed or obeyed because, as the Chairman has stated they do not wish to have it an open question when their license comes up.

Mr. HYDE. That is really the principal operating sanction that they do not want to have an unsatisfied complaint to face at the time of renewal.

Mr. JONAS. This really gets into the political thicket. It is a real difficult thing to handle.

Mr. HYDE. Yes. It is difficult for us, and I am sure it is difficult for the stations. It is difficult for candidates, too, I am told.

PROGRAM CONTENT

Mr. EVINS. What about a situation where a State has 75 radio stations and a dozen or a half dozen television stations, and they have a trade association and an organization who get together and say, "We are going to distribute a weekly circular indicating what you should put out over your station." Then, after they distribute this circular, they all use the same thing. What does the Commission do about things like that?

Mr. HYDE. I really cannot recall a complaint against that kind of a thing coming to our attention.

I cannot think, I cannot recall a ruling on it. But I will tell you this, that it is basic in our administration of the act to require what we call licensee responsibility.

In other words, we take a very dim view of it if an operator of a station delegates or permits someone else to control what goes over the station. We put a lot of importance on licensee responsibility.

Mr. EVINS. That is very good. But I think there are some State associations in which they have a bulletin that is passed around to all the members.

Mr. HYDE. I wonder if any of the Commissioners have known of such a thing?

Mr. COX. I am not familiar with that. I think a number of State associations have on special occasions put together ad hoc statewide networks for the broadcast of a political event. But so far as I know it has never come to our attention that there has been any effort to indicate or to suggest to stations that hey should follow a paricular line except on defensive measures against regulatory activities. They do suggest to each of them that they write to their Congressman to keep the FCC from doing something that they disapprove of. But nothing that I would know of other than that.

Mr. EVINS. I am going to give you my little philosophy off the record.

(Discussion off the record.)

CENTRAL CONTROL OF PROGRAMING

Mr. EVINS. On the record. There has been some discussion and concern about the monopoly of radio and television stations leading to thought control in this Nation. It is a policy which we do not wish to be developed.

Mr. LOEVINGER. Mr. Chairman, I am in complete agreement with the concern that you have expressed and would like to reassure you on several points. First, the Commission generally does not seek to control programing. There are differences among the Commissioners as to the Commission's role in relation to programing but all of the Commissioners agree that the Commission should move cautiously in this area and a majority of the Commission, including Chairman Hyde and myself, feel that the Commission should very largely leave programing altogether to the judgment of the broadcasters and the public, subject to the well established legal rules regarding obscenity, lotteries, section 315, and the fairness doctrine. Second, there is far greater diversity of station ownership and operation than is generally realized. There are far more individual owners of broadcast stations than there are owners of daily newspapers, and every sizable community has a number of broadcasting stations. Third, as a purely subjective judgment, I would venture the opinion that broadcasters as a whole are doing a pretty good job of reporting news and public affairs objectively and fairly. Based on the record of performance by broadcasters in this field I do not think that any greater degree of Government control is called for and I think that an attempt by the FCC to exercise greater control over broadcast programing or news would pose serious threats to our democratic system.

Mr. BOLAND. There has been testimony to what you say, Mr. Loevinger, in some of the foreign countries where you have a controlled state.

ADEQUACY OF COMMISSION'S BUDGET

I have been throwing a question out to a number of regulatory commissions which have been appearing before us. There have been some criticisms both in books and in the press with respect to the failure on the part of Congress to really provide the regulatory agencies and commissions with the tools necessary to do the job that Congress has handed the commissions to do over the years.

Now, with respect to the FCC we have given the FCC an increase of, perhaps, $11 million over the past—since 1958—over the past 8 years or so in the budget. I think your budget back in 1958 ran around $8, $9 million, and today you are up to $19 million.

Mr. HYDE. In 1953 it was around $6.4 million. This year we have about $17 million.

Mr. BOLAND. I think 1958 it was close to $8 million.

Anyhow, we have increased the amount by some $10 million over that period of time, and we have done it because you have, of course, got great additional duties imposed upon you by statute—by the Congress. But are we really giving you all the funds you need to do the job that has to be done?

Mr. HYDE. No.

Mr. BOLAND. Before you answer, let me ask you this: What did you ask the Bureau of the Budget for, for fiscal 1968, moneywise and bodywise?

Mr. HYDE. It was a little more than $23 million.

Mr. BOLAND. So they reduced you by $4 million. What about the number of increased personnel? You are asking for increased personnel of some 53 this year.

Mr. LOEVINGER. We asked in the budget for 1,748 average employment.

Mr. BOLAND. They reduced you by 230 jobs.

Now, the general question: Are we really—in the money request for fiscal year 1968—is this enough money to run your shop with the tremendous and vast responsibilities you have to the American people and to the industry itself?

Mr. HYDE. We can run our shop on the basis of assigning priorities: that is, doing only the most essential things we have to do. It will be very, very tight for us. We would not be able to do as much work in many of the areas as we would think would be desirable. But, of course, this question of how much you will invest is one of judgment.

In the common carrier field we feel that we are doing a responsible regulatory service. We could do a lot more if we had more funds.

Mr. BOLAND. You talk about this budget problem you have with educational TV. This is relatively new, and it imposes additional problems.

Mr. HYDE. As a matter of fact, we have not provided any special provision for our responsibilities under this public television concept that is coming on. We do have a little notice in our statement.

Mr. BOLAND. Yes, you do.

Mr. HYDE. We may come back to you for that reason.

Mr. BOLAND. You would have to come back if there was additional legislation in this field—you would have to come back for more funds.

Mr. HYDE. We very probably would, and it would depend a lot, of course, on the form the legislation takes.

Mr. BOLAND. Mr. Giaimo pointed out on the land mobile service that this is going to get worse instead of better unless the Commission comes up with some answers to it. It is inconceivable to me how the Commission can come up with answers to this problem with the present staff.

Mr. HYDE. I will tell you why we cannot do it. We do an enormous licensing business. We get 30,000 to 40,000 applications a month in Safety and Special Services. We get a lot of petitions proposing new uses of radio frequencies which require the attention of the experts that we have got.

What has got us in the position we are in now is we have been budgeted in the past largely for the purpose of processing applications, usually at the Budget Bureau and here, where the test as to our effectiveness has been in terms of what your backlog is, how current are you on your applications.

Mr. BOLAND. Exactly.

Mr. HYDE. What I am urging on you today is that we need to do more of this forward planning. I would wish that when the allocation that was made, 20 years ago, had been made that the Commission had been—I was a member of it, had been—able to study the projected future years and made a more enlightened judgment as to what was developing. I hope we are making the same kind of mistake now.

Mr. BOLAND. Well, one of the fears expressed on this side of the table, and I think properly so, by all members is that those who are supposed to regulate are oftentimes regulated by the industries they are supposed to regulate. If this is so, then it could be so because of

the failure on the part of the Congress to appropriate funds which are sufficient to do the job. We do not say this is so at the FCC, but this could be so for the failure to provide the funds to do the job.

Mr. HYDE. We could be complacent, or we could be leading in the field of telecommunications. But it is the feeling here. It is the industry, too, which is complaining that we are not giving them attention, and there is basis for the complaint.

Mr. LEE. Mr. Chairman, inasmuch as Congressman Boland asked what the Congress can do, I think this makes it appropriate for me to mention an area where you could help us without costing money, perhaps saving some, and that is this bill which passed the Senate last year, S. 1015, which would give the Commission the authority to set standards at the manufacturing level on devices that radiate. We have a big enforcement problem, and our people have to ride airplanes, and so on, and go into this triangular fix problem, and finally find the culprit who is a fellow who bought a garage door opener from a manufacturer, and we would like to go to that manufacturer and set up standards and, perhaps, eliminate this enforcement problem.

Mr. GIAIMO. Would you yield at that point, Mr. Boland? I think Mr. Boland brings up a very good point. We seem to create regulatory agencies in this country, and then either because of lack of foresight on the part of Congress, or on the part of the public or the part of the agency itself, we suddenly find some years later that we are in critical condition, and that all that we have done with the regulatory agency is, perhaps, give them the power to keep a finger in the dike.

It seems to me that when this happens then we get great pressures, to set up another agency.

Now, we are seeing this, for example, in the field of transportation. For years we did nothing, and we relied upon the one regulatory agency to solve the problem, perhaps with inadequate funds, perhaps with inadequate R. & D. or whatever it might have been. And now we find ourselves in a terrible turmoil and terrible critical situation nationwide. So, therefore, to solve this problem now, we have to set up a Department of Transportation.

I certainly am no expert in this field. But I can foresee, just from reading the newspapers, tremendously new crises facing us in the telecommunications industry. I read in the newspapers that we are going to be banking through telecommunication before long, we are going to be making payments on our charge purchases in the department stores and all kinds of new, wonderful things that the American people want. It is going to put tremendous burdens on the regulatory agency, your own.

It means, I think, that we have to foresee this and do something about it before we become swamped. Getting back to Mr. Boland's question, then, have we, in effect, made you just a licensing bureau?

Mr. HYDE. Yes.

Mr. GIAIMO. So that you have all you can do just to keep up with licensing and have no time left to think of your present and future problems.

Mr. HYDE. That is a good generalization of it.

I would want to say that we have had some opportunity to make studies and projections. They have been inadequate.

Mr. GIAIMO. You have done some in-house studies.

Mr. HYDE. We have done some foresighted things. I think our reservations for channels for educational TV, which make it possible to at least examine the possibility of having a national educational TV system, was a very foresighted thing.

Mr. BOLAND. It was, indeed.

Mr. HYDE. And there are other matters that have been handled in a timely and, I think, farseeing basis.

But it has been far less than I think would be required to adequately or to anticipate with reasonable provision for the development of communications techniques.

These matters that you have mentioned about banking and shopping and bookkeeping by computers, these are all involved in this study that I mentioned having to do with the relationship of computers to communications services.

Many small businesses, you know, can have all their bookkeeping, checkwriting, and inventory keeping done at a central computer, and the possibilities in this area are about as broad as your imagination. We should be anticipating these things instead of reacting to the crises afterward.

Mr. EVINS. Well, you have been engaged in research over the years. This committee has supported you with respect to your UHF special studies and other studies.

Mr. HYDE. I do not want to overargue my case in the previous judgments of the committee.

Mr. EVINS. Mr. Boland, any other questions?

Mr. Giaimo?

LAND MOBILE SERVICES

Mr. GIAIMO. I have a series of question I would like to get into on the land mobile problem. It ties in with what Mr. Boland was just speaking about. It involves that $300,000, I think, that you are asking for for study.

Mr. HYDE. Right, sir. I discuss this on page 25 or 27 in my statement.

Mr. GIAIMO. Right.

From your statement and from other observations you have made from reports and all, there is no question in my mind that this study is warranted, and I am convinced that it is long overdue, because it seems to me the last time effective action was taken in this was back in 1949, and a lot has happened since then.

But, of necessity, this is one of the things we were just talking about. This is a long-range study, is it not?

Mr. HYDE. Yes—well, yes, but not entirely. We intend to have going concurrently studies to meet current emergencies, you might call them.

Mr. GIAIMO. Right.

I am not speaking against the study or against the $300,000.

Mr. HYDE. No.

Mr. GIAIMO. I think very honestly, and many Members of Congress think, and I am sure you know, Commissioner, that there probably is not a Member of Congress who does not constantly receive letters of complaint from home concerning applications for land mobile usage.

Mr. HYDE. I know we do.

Mr. GIAIMO. I think your liaison office will tell you I am constantly writing and badgering you.

Mr. HYDE. I even get calls from the chairman on this as far away as Los Angeles.

Mr. WYMAN. Does it help?

Mr. HYDE. Yes. I try to be helpful, yes.

Mr. GIAMO. So I think that we have to say or I have to say anyway, at the outset, that I am all for this study, I think you need it, and I think you are going to have to work this out with the DTM.

Mr. HYDE. Indeed we are. We fully coordinate it with them.

Mr. GIAIMO. Or anybody else.

Mr. HYDE. Well, for several purposes.

Mr. GIAIMO. I would like to address myself to the short-range solutions now, temporary solutions, short-range solutions. I refer—and just by coincidence our chairman, Mr. Evins, is also the chairman, as you know—to the Select Committee on Small Business, and its Subcommittee No. 6 which this past year had an investigation and study made of your regulatory agency. If you go to page 171 of the report, they say very clearly there in their recommendations:

> It is recommended that the Federal Communications Commission undertake at once such action as may be necessary to allocate additional radio frequency spectrum to small business and other users of land mobile radio.

So that the long-range study is not going to accomplish this recommendation of the Congress or of the committee, is it?

Mr. HYDE. No, sir; it is not.

Mr. GIAIMO. What are we doing about this problem?

Mr. HYDE. We do have some studies under way. One program which is providing additional channels is the split channel or the proceeding to split the channels in the frequencies from 450 to 470 megacycles.

We have issued a policy statement calling for a division of the channels from 50 kilocycles to 25, and will be implementing that in terms of making allocations to different services as rapidly as we can. We will take further proceedings.

We do have a study underway looking for the possible sharing of VHF space with mobile services and we have a test operation getting underway right now here in the Washington area.

We have had some studies going on within our organization which have not been the subject of public notices, looking toward the possible use of some part of the UHF allocation for television for mobile services, but for reasons with which I am sure you will agree, it is best not to issue public notices about this until we can give it a little direction and definition, otherwise we might be stirring up a lot of trouble which can be prevented if we can get the thing organized a little better before we get to the public. We are moving rapidly on this.

Mr. GIAIMO. Well, all right.

Now, what we are really faced with here is spectrum utilization.

Mr. HYDE. It is, sir.

Mr. GIAIMO. In your letter to me you mentioned these two things, either in your letter or in your memorandum.

Mr. HYDE. I am not sure.

Mr. GIAIMO. I think it was in the memorandum.

Mr. HYDE. I think I would have been a little more specific as regards the use of UHF.

Mr. GIAIMO. The way I understand it is you have provided for some splitting which means—I am no engineer frankly—in general it means tightening up in between the stations.

Mr. HYDE. That is right. What it means is taking advantage of improvements and technology, and actually the user to occupy less spectrum space.

Mr. GIAIMO. Less space on the spectrum.

Mr. HYDE. Yes, sir.

Mr. GIAIMO. Then you also have suggested utilization of some portion of the spectrum on the higher side.

Mr. HYDE. This has been—I cannot recall exactly what I said in my letter to you, but I do recall writing you, and there has been discussion of possible use of the higher part of UHF. There has been just enough talk about that to generate a lot of representations to the Commission, that the development of mobile equipment is not such as to make this an answer to their problem.

Mr. GIAIMO. That is right.

Mr. HYDE. And, on the other hand, I am getting a lot of advice as to the possibility of using some part of the lower UHF space, and actually we are undertaking to define a study in both areas, and as regards the study of the use of the lower part of the UHF. We will probably be investigating both adjustments in the allocation of UHF or shared use in, oh, on a geographical basis. By that I mean we might use certain low UHF channels in one area and others in another.

This will create design problems for equipment manufacturers. But it is something that we must study because we do want to solve this mobile radio problem without creating—without jeopardizing the development of the UHF television industry. We have got to handle this in a manner that won't nullify the development we have got going to expand the television industry.

Mr. GIAIMO. Mr. Chairman, there was an article in the Broadcasting magazine of December 5, and also one in the Industrial Communications of December 16, indicating that the Commission is intensively studying methods of utilizing channels now assigned to UHF television to provide relief for this two-way radio program. You verified this, I believe, today.

Mr. HYDE. I did.

Mr. GIAIMO. Can you indicate the particular areas that the Commission is looking to for relief and the progress that is being made? Are the additional funds requested in this budget sufficient to fund this effort and to provide a solution for this?

Mr. HYDE. I think they are. The funds—well, let me put it this way: I think the funds that are asked for will fund the projects which we can get immediately underway.

Mr. GIAIMO. I am also informed that the lower channels in the UHF spectrum are those which are deemed most useful for providing relief for the immediate problems of the two-way radios. I think you brought this out earlier when you mentioned that the costs were higher as you get up. I suppose it is because of more expensive equipment?

Mr. HYDE. It is more expensive equipment; the problem of getting power, the power necessary at the higher frequencies.

I have been told by engineering talent of two or three of the manufacturers that it is no answer to their problem to give them space at the top of the UHF band now.

Mr. GIAIMO. This is what I heard from the users.

Mr. HYDE. Maybe 20 years from now, but not now.

But, you know, one of the reasons we have to have funds to make a responsible study is that we do not want to be dependent upon the advice of, entirely dependent on them—I do not mean to disparage them or to suggest they are not honest, but naturally their judgment is going to be affected by their design problems and their interest in selling the product immediately. I do not quarrel with that a bit.

But we want to be equipped so that we can make an objective study of the whole business. On the basis of what they tell me we just could not use the top of the UHF at this time—perhaps 20 years from now, 10 to 20 years from now—but not now, and that we would not have solved their problem if we give them some of the top UHF.

Mr. GIAIMO. Well, I think we have to consider all of the possibilities and get some independent judgment for our purposes.

Is this going to be done, are we going to have to wait for a long-term study?

Mr. HYDE. No, sir. We are going to have some relief in less—in a more favorable time schedule than that indicates. Actually I believe that channel splitting technique which is rapidly getting into its position, will take care of all indicated present needs for, perhaps 2 or 3 years. But this, of course, is not an answer to your big problem.

Mr. GIAIMO. No.

(The articles from the two magazines previously referred to follow:)

The staff committee points to "several elements which should be considered" in connection with the "area of possible land mobile frequency relief from the UHF TV space". Pending requests in this regard, it notes, include a (National Association of Manufacturers) petition to share channels 14 and 15 in Los Angeles, and a request to field test the feasibility of such sharing. Also pending is the petition of A. Earl Cullum, Jr., to enlarge the issues in docket 16398 to include a study of the UHF–TV/LM sharing.

"The staff feels," it says, "that an exhaustive in-house Commission study should be done to evaluate thoroughy the potential of land mobile utilizing a portion of the UHF–TV space before we invite public participation in tests. The results of such a study should yield needed information to dispose of the pending items."

"There are several approaches to utilizing UHF–TV space," the committee says, such as: (a) Land mobile use of unused TV channels in a given city with the existing TV taboo limits, slightly modified to conform to the lower power of the land mobile station; (b) Overlapping TV channels to some extent and collecting the resultant space for reallocation to land mobile; (c) Consideration of major changes in the taboo protection values and a complete re-vamp of the assignment table looking toward accommodating essentially the same TV service in the upper 63 channels in lieu of the existing 70 channels, the remaining 7 channels to be reallocated to land mobile; . . .

LAND-MOBILE JAM EASED SLIGHTLY; FCC REDUCES SOME CHANNEL WIDTHS IN 450–470 MC REGION, STARTS RULEMAKINGS FOR SPLITS THAT COULD AFFECT REMOTES

The FCC, under increasing pressure from land-mobile radio users and their allies on Capitol Hill, continued last week its effort to find ways of easing the radio-spectrum shortage plaguing land-mobile radio. Inevitably, broadcast frequencies were involved in Commission discussions and actions.

The Commission issued two notices of proposed rulemaking, one of them affecting frequency space now available for aural broadcasts by remote pickup stations, the other reducing channel width in a common-carrier band. It also

adopted an order splitting channel assignments in the 450–470 mc band for land-mobile services.

But these steps are only partial solutions at best. And the Commission instructed the staff to continue studying the host of ideas that have been collected since May, when Chairman Rosel H. Hyde ordered an intensive effort to solve the spectrum problem.

Commission thinking on the proposals has not jelled, and until it does officials are reluctant to discuss any plans for fear of calling attention to any proposal that may be out of proportion to its worth. "We're considering all kinds of ideas, including obviously kooky ones," said one official. Consideration, he said, doesn't mean endorsement.

It's known, however, that wo proposals in the pot involve land mobile radio use of frequency space now allocated to UHF television.

Channel-Splitting: The rulemaking of particular interest to broadcasters that was issued last week proposes the allocation of two half-megacycle segments of spectrum space to land-mobile radio services. This would be accomplished by splitting the frequencies (from 100 kc to 50 kc) in both the 450–451 mc and 455–456 mc bands which are now used for radio broadcasts and the voice portion of telecasts, by remote pickup units.

The channel splitting would leave the same number of channels—20—available for broadcast purposes, while 20 new channels would be made available for land-mobile radio. But the Commission has invited comment on whether the splitting would impair the present quality of service.

The two proposals said to be under consideration that would affect the UHF–TV portion of the spectrum are more sweeping than that involved in the rule-making. One suggests the reallocation of UHF's top 14 channels—70 through 83—to land mobile for limited use within certain metropolitan areas. Commission engineers feel this might be accomplished without undue disruption of TV service. (The channels now are used primarily for translators.) However, they say that more research is needed before recommendation can be made.

The other proposal—frequently advanced by land-mobile radio representatives—looks to a sharing of the seven lowest UHF channels with land-mobile services. Here, again, additional studies are said to be needed before the Commission could decide whether to institute a formal rulemaking proceeding or consider setting up a test.

Commission members were said to be cool to that proposal, on the ground it would disrupt a large number of existing assignments. Some staffers, however, favor it, contending the equipment costs for land-mobile radio users on the lower UHF channels would be less than on the higher ones. The Commission has asked for a study of comparative equipment costs.

More Likely Prospect: However, one proposal said to have more support among key staffers than those affecting the UHF channels is one which would look to Commission abandonment—or modication—of its policy of allocating frequencies to various land-mobile services in blocks. Under the proposal, a pool arrangement would be established, under which land-mobile frequencies could be shared among various groups of users.

This idea was advanced by a government-industry Advisory Committee for the Land Mobile Radio Services, which is headed by Commissioner Kenneth A. Cox and which is expected to have a considerable impact on Commission policy in the area.

The committee, which has been studying means of squeezing additional use out of the spectrum space allocated to land-mobile radio, is scheduled to file its report in the spring.

USE OF LOWER AND HIGHER SPECTRUM

Mr. GIAIMO. You have spoken of the splitting and the usage of the higher portions of the spectrum.

Mr. HYDE. Yes.

Mr. GIAIMO. But isn't it also true, and haven't many of these people suggested—and just to have proper perspective, we are speaking of an industry which generates, as you said earlier, $20 billion worth of gross national product, and which, in my opinion, is going to con-

tribute much more in the future years—haven't they suggested use of the lower spectrum?

Mr. HYDE. We are preparing right now to make definitive studies as to possible change in the lower UHF portion of the service.

Mr. GIAIMO. This what I am getting to.

Mr. HYDE. Or changes in area. We are going to do both.

Mr. GIAIMO. Isn't it true that essentially the same UHF service could be provided in the upper channels 21 to 83, thereby permitting the reallocation of the seven lowest UHF channels to meet the immediate needs of land-mobile radio, as has been suggested by people?

Mr. HYDE. It is true that the fixed stations such as the television can use the ultrahigh better than can a mobile station at the present development of the art, that is true.

It is also true that the development of UHF has been pretty much concentrated on the lower channels and they have got to figure out some way to handle this problem that will accommodate this development.

Mr. GIAIMO. What we are suggesting is to slide them up a bit, isn't that right, and then use the lower portion?

Mr. HYDE. This is one of the techniques which has been proposed. It is—both sliding up and also, perhaps, changing engineering standards.

We are told there can be some—I am told that our present allocation, it was a bit conservative, based upon engineering technology of about 1945, and that with improvements within the technology we can make better use of the channels than was contemplated by the 1952 allocation.

Mr. GIAIMO. If you eventually got to that point where you had reallocation of UHF channels to make two-way radios—to make space available on the lower portion for the two-way radios—would you have to have a rulemaking proceeding?

Mr. HYDE. Yes, we would.

Mr. GIAIMO. Is this going to further stretch out the time when some immediate solutions can be obtained?

Mr. HYDE. It will, but Congressman, this is required by the Administrative Procedure Act. It is a process that will require a significant amount of time.

However, we can make use of that time effectively with a little more muscle on our own part and get things done even within a time frame.

Mr. GIAIMO. Well, is it proper, if you do get to a rulemaking position in this thing, and since you do not know how long it would take, is it proper for you to keep the Congress advised of the progress?

Mr. HYDE. Yes, sir. We will certainly undertake to do that.

Mr. GIAIMO. Because there is no question that this is becoming critical in the minds of many Congressmen, as indicated by the report of the Subcommittee on Small Business.

Mr. HYDE. This crisis as to frequency space for mobile services has been a concern of the Congress. I am well aware of that. There have been a lot of communications about it, and one of the first things I undertook to give some special attention to when I became Acting Chairman—and sometimes it seems a long time ago and sometimes it seems only a short time, last May—was to——

Mr. EVINS. Mr. Hyde is a young man, but he is getting a little seniority.

Mr. HYDE (continuing). Was to see if I could not get something done in here.

We had the Chief Engineer and his advisers in to just ask and explore what can be done here. Something has got to give, and I was so bold as to say "Why don't we just take channels right now."

Mr. GIAIMO. I think you put your finger on it right now. Something has got to give.

Mr. HYDE. That is right. Why can't I take a couple of these channels right now? Well, they are scientists, experts, who say "Well, let's not be quite so rash as that. Let us give you an analysis that will indicate perhaps what would be the optimum, the better way to do this."

We had such an analysis made. It took longer than I wished it might, but with the manpower available it was the best that could be done, and I think we are just about ready to make—to give public notice of some areas for specific study.

Mr. EVINS. The Commission is not without knowledge and expertise in this field, and we feel they are going to move in this direction.

Mr. HYDE. We are going to move, and I think we will very shortly have a public notice on some areas which seem to offer real promise on which both the Commission and the industry can spend some money and get some answers to it.

Mr. GIAIMO. Along those lines, in your letter to me of January 27, you stated—and I will put it in the record:

> It should be noted, however, that the part of the spectrum which is useful to the land mobile services, 25–890 mc/s, has been fully allocated and any action which would provide substantial additional spectrum for these services would be at the expense of other established services and users.

Now my question is; in view of that statement you are not precluding the possibility——

Mr. HYDE. I am not.

Mr. GIAIMO (continuing). Of using some of the lower portions of the spectrum, I hope.

Mr. HYDE. I can see now that I might have worded that a little better. What I intended to indicate was that in making a change in the allocation I would have to take into consideration some uses and some adjustments which have to be made, but those adjustments are not precluded.

Mr. GIAIMO. Because then, continuing in that letter you say:

> On December 2, 1966, a First Report and Order was released in Docket 13847 (copies enclosed) in which the Commission adopted technical standards for splitting in half the channels available to the land mobile radio services in the 450–470 Mc/s band. When this decision is finally implemented, the number of assignable frequencies in this band would be approximately double and should result in measurable relief to the land mobile services. The new frequencies to be derived should be made available for use sometime in 1967.

So that this led me to the conclusion that it was the splitting which would bring the relief and, perhaps, some of the assignment of the higher frequencies, and I am told by many people that we should look at the allocation of the lower portion of the spectrum as an immediate solution to comply with the wishes, with the growing wishes, of Congress to do something in this critical field.

Mr. HYDE. We are studying that as a real possibility. It will involve rulemaking, and it will have to be done in a way that won't

solve the problem in one area at the expense of disorganization in another. But this is fully contemplated in the studies that we are pushing.

(The letter referred to follows:)

FEDERAL COMMUNICATIONS COMMISSION,
Washington, D.C., January 27, 1967.

Hon. ROBERT N. GIAIMO,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN GIAIMO: Thank you for your letter of January 13, 1967, where you expressed your views on the frequency shortage problem facing the land mobile radio services.

There is, of course, little doubt that the land mobile radio services need additional frequencies to meet current requirements and to permit their future expansion. There is also no doubt that land mobile radio is indispensible for many operations of state and local government and an important tool for the safer and more efficient conduct of the Nation's land transportation, industrial, and commercial activities.

You may be assured, therefore, that this problem is being considered thoroughly and with high priority. The staff has been directed to explore a number of posible sources for relief for the land mobile services and the Commission has considered a number of these at special meetings. Some of the avenues being explored are described in the report I forwarded to you with my letter of November 14, 1966. A copy of that report is enclosed. It should be noted, however, that the part of the spectrum which is useful to the land mobile services, 25–890 Mc/s, has been fully allocated and any action which would provide substantial additional spectrum for these services would be at the expense of other established services and users.

I am pleased to report, however, that we are making some progress.

On December 2, 1966, a First Report and Order was released in Docket 13847 (copies enclosed) in which the Commission adopted technical standards for splitting in half the channels available to the land mobile radio services in the 450–470 Mc/s band. When this decision is finally implemented, the number of assignable frequencies in this band would be approximately double and should result in measurable relief to the land mobile services. The new frequencies to be derived should be made available for use sometime in 1967.

Our plans for the conduct of field tests to examine the possibility of sharing of VHF television frequencies by the land mobile services are progressing reasonably well and I hope to have more definite information on this matter during the appropriations hearings.

If you need further information, please let me know.

Sincerely yours,

ROSEL H. HYDE, *Chairman.*

Mr. GIAIMO. Of course, I do not want to be repetitious but, of course, you see the problem we find ourselves in is the proper balancing and allocation of spectrum space——

Mr. HYDE. Of spectrum space.

Mr. GIAIMO (continuing). Which was done 20 years ago and, at that time, I do not think anyone could have foreseen the tremendous industrial, commercial, local government, health, safety, crime, police and all other needs, including the new ones that we are foreseeing and reading about now. So that this 4.7 or whatever the percentage was of the spectrum which was allocated to the land mobile use at that time may have been sufficient, but I seriously question whether it is now.

Mr. HYDE. So do I.

Mr. GIAIMO. So it seems to me you have to take a look at the spectrum.

Mr. HYDE. We do.

Mr. GIAIMO. Let me ask you another question. When you look at the spectrum, and I know you are concerned with the civil aspects of this, and the DTM is concerned with the governmental aspects, how do we get a look at the governmental usages of the spectrum which, I suspect, were siezed and grabbed at an earlier day, and may or may not be all needed now?

Mr. HYDE. Now we do have a continuing liaison with the executive department of the Government. Usually these discussions take place in the Interdepartment Radio Advisory Committee (IRAC), and I think that our assistant chief engineer for frequency allocation who lives with this from day to day can give a better exposition on that, if that would be satisfactory, than my generalization.

Mr. WATKINS. We do have access to information on the Government's operations, and we know what they have, we know what their weak points are, and the consultation is mutual. They know where ours are and they take great delight in pointing to some of the unused UHF TV channels, for example, and I think the simple answer is that we know what the situation over there is.

Mr. GIAIMO. But are you in a position to let us know what it is? What the situation over there is?

Mr. SPRING. No, sir; it is a classified position.

Mr. GIAIMO. I thought it was.

Mr. LEE. They are the worst kind.

Mr. EVINS. The Chairman has indicated that the prospects for relief are promising.

Mr. GIAIMO. Will your long-term study involve looking into the governmental aspects also?

Mr. HYDE. Yes, sir; it will. We have to do it through these interagency meetings.

Mr. GIAIMO. You are tied in with DTM on this study?

Mr. HYDE. We are.

Mr. GIAIMO. You will be?

Mr. HYDE. We will be, even to a greater degree than we have been in the past, although it is a continuing liaison we have there.

This allocation that you referred to of 1949, while it had quite a good deal of significance, there were big allocations in 1945. At that time the Communications Commission, and the executive arm of the Government took a new look at the spectrum in light of the tremendous developments which had taken place during the war. We were in a position of actually moving into, pushing the frontier back and, at that time, there was sort of a general division made between Government and nongovernment. We are the nongovernment for purposes of this discussion.

The Government has need of frequencies of different characteristics all down the spectrum, as we do. We made a balanced judgment and got an agreement on what seemed to be a sensible division at the time. But ever since then there have been changes back and forth to accommodate new developments in both areas of interest.

ADDITIONAL FREQUENCY SPACE FOR LAND MOBILE OPERATIONS

Mr. GIAIMO. Then do I understand in addition to what you are proposing to do in your long-term study that your Commission is getting close to some temporary or immediate meaningful partial solution?

Mr. HYDE. I think, sir, the immediate——

Mr. GIAIMO. To some of the problems?

Mr. HYDE. Yes, sir. I think the immediate part of the solution will be the additional channels derived from channel splitting. But to be moving along—the study of the UHF so that interested parties and you, Mr. Congressman, I hope, will be able to see something tangible.

Mr. GIAIMO. You mean the study in the usages of the lower portions of the UHF band?

Mr. HYDE. Yes.

Mr. GIAIMO. So that we can expect to——

Mr. HYDE. You are going to——

Mr. GIAIMO (continuing). Hear something?

Mr. HYDE. You can, sir.

Mr. GIAIMO. So that you will then be complying to some degree with the committee's and Congress' desires.

Mr. EVINS. The Commission is expert, and we have confidence and faith that they are going to take action.

Mr. GIAIMO. I certainly want to commend you, Commissioner, because I know you have been trying to do a good job; also the members of the Commission. But speaking for myself, and for some of my colleagues in Congress, for many years we have felt that the only answers that we would get to these problems were, "Well, we are studying the problem" or "We are going to study it again." Fine, I am all for studies. But I also think we have to do something quickly.

Mr. EVINS. Mr. Giaimo and some others want to update the Commission.

Mr. HYDE. Very good. I appreciate his interest, I do.

Mr. EVINS. Any further questions, Mr. Giaimo?

Mr. GIAIMO. No, sir.

Mr. EVINS. Mr. Wyman.

CATV JURISDICTION

Mr. WYMAN. Mr. Chairman, do you feel you have enough control legislativewise over CATV now?

Mr. HYDE. We have recommended some legislation to Congress which was, in fact, approved by the House Committee on Interstate Commerce. Actually this recommended legislation would confirm the jurisdiction which we have asserted in the rules which we have issued.

However, this is not our sole interest. I personally, and I think a majority of the Commissioners would agree with me on this, I would hope that this problem of distribution of programs would be handled in the copyright area.

What really got us into this business, you know, was the networking by cable of these programs from one place to another without regard to the conventional program market. If this could be solved by copyright law, I would welcome it very, very greatly.

Mr. COX. I think it is still desirable, of course, if possible, to have the legislation approved by the House committee passed because not

only would it confirm our finding that we had authority, as the chairman indicated, but it undertook to deal with some areas where we were not sure we had authority.

CONTROL OVER EDUCATIONAL TV

Mr. WYMAN. Referring for a moment to the discussion about centralized control or the dangers of it in terms of thought control, how much control do you presently have over educational TV?

Mr. HYDE. Educational TV stations are licensed at the local level. There are about 125 of them. In some instances they will be operated by a State, and at other times by an educational institution.

Those are the two general categories. They are charged with the duty of exercising local licensing responsibility and are responsible for everything they put out. They cannot delegate this to some—well, to the National Educational Network, for instance.

Mr. WYMAN. How much does this have to do with program content?

Mr. HYDE. This is really what I was addressing my remarks to. This is the important part of the operation of the TV station, the selection of program material. There is a good deal of jealousy about it in this field.

For instance, in this airborne experiment that was being conducted in the Midwest, some arguments developed among educators about the tendency of this wide area concept to intrude upon local autonomy. The educators are quite as sensitive about having outside control as I think we are.

Mr. WYMAN. Referring to public TV and the subject of control, the establishment of policy at the Federal level, do you have any thoughts as to legislative proposals?

Mr. HYDE. I would certainly endorse the condition that the President put in his message that the Government must be kept out of the control. I think that is fundamental.

Mr. EVINS. Any further questions, Mr. Wyman?

Mr. WYMAN. No, Mr. Chairman.

CONTROL OF NETWORKS

Mr. TALCOTT. May I ask a further question regarding this equality thing and fairness? Do you exercise any oversight over the networks, the three networks?

Mr. HYDE. Yes; we do. When we get a complaint we immediately take it up with the networks, and while networks are not licensed as such, they are licensees of stations, in every instance except the Mutual Network. They do respond to inquiries on our part, and it has been our experience that they undertake to satisfy the complaints.

Mr. TALCOTT. For instance, just in "Today's Show" on NBC, they can do a lot of advertising and promoting of particular candidates and particular isues without any balance really. It is simply up to them.

Mr. HYDE. They operate under these amendments that Congress made to section 315.

Mr. TALCOTT. Do you oversee that also?

Mr. HYDE. We would entertain any complaints about it, yes.

Those shows would be—what my colleague is saying is that certain types of shows as news shows are exempt from the equal-time provi-

sion, but not from fairness, and it says so in so many words in the amended section 315.

SLANTING OF NEWS PROGRAMS

Mr. TALCOTT. Do you do anything about the time periods of news programs, for instance? One day we will have a lot of news. I think everybody would recognize——

Mr. HYDE. News is pretty well exempted.

Mr. TALCOTT. Even if there is an effort to color or slant the news?

Mr. HYDE. This is very difficult to—Commissioner Cox has told me and, as I was about to say—news is pretty much in a category of its own, but there was an instance, as he reminds me, where a licensee was found giving directions to his newsmen to slant the news. This is a very unusual case.

Mr. TALCOTT. Unusual?

Mr. HYDE. I said it was unusual in the sense that there was actual evidence which was brought to the attention of the Commission showing directions to actually slant the news.

The application for renewal of license was designated for hearing. Before the case was finally ended the owner of the station had died, the principal owner, new management had been engaged, and the trustees had been set up to assure the integrity of its news service.

Mr. TALCOTT. Ofttimes on various days the amount of news will be great, but many of the stations have just a regular slot, say a 5-minute time for news, and sometimes this appears to be grossly inadequate. Then on another day, the station will broadcast little news in the same 5-minute news slot. There may be little news, but they fill up the preprogramed slot, even repeating news of the day or two before. Do you exercise anything—oversight—on that?

Mr. HYDE. No, we do not get into that business. But if we had evidence of a concerted effort to slant the news, I suppose we would get into it. But we would be very cautious about this because we get into the area of freedom of the press.

Mr. TALCOTT. Some stations and networks, particularly in the news programs, broadcast the same item over and over again three or four times one day and the next day three or four times again.

Mr. HYDE. You know, every time the news is critical of me I feel it is slanted. I do not mean to be facetious about this. I am just indicating the problem that is involved.

Mr. TALCOTT. I am suggesting a method for managing news without slanting the content. I do not have a personal problem with this either. But I think——

Mr. HYDE. I was not suggesting it.

Mr. TALCOTT. But I think it is a terrible imposition upon the public—you are concerned with the public—and one of many techniques available to the networks to manage, as well as, publish or disseminate the news.

Mr. HYDE. But we have put our faith in the principle that the public will choose as between different voices as far as the press is concerned.

TIME LIMITS ON ADVERTISING

Mr. TALCOTT. You are concerned about the amount of time of advertising as compared with the time of——

Mr. HYDE. We are concerned with advertising if it seems it is so excessive the licensee appears to be converting the privilege of operating a station to his own financial interests rather than to also serve the public.

Mr. EVINS. You recently issued some orders in which you limited the amount of time which stations could utilize for advertising. You set a standard.

Mr. HYDE. Well, no. It may seem like that. It probably seems like that. But when the Commission did undertake to issue rules which would have codified the code or the NAB——

Mr. EVINS. You set a ceiling by stating, "don't go over this amount per hour."

Mr. HYDE. We undertook at one time to do that, and the House disapproved of the measure. But the House indicated that we should continue to look at operations on a case-by-case basis.

Now, very recently, and I think this is what you have in mind, Mr. Chairman, we indicated to the industry if the amount of commercial time in an hour exceeded 18 minutes, which is the code limit of the NAB, they ought to have a valid, reasonable explanation as to why this is in the public interest.

Mr. EVINS. It sounds very good.

Go ahead, Mr. Talcott, proceed.

PROGRAM REGULATIION

Mr. TALCOTT. You are concerned about the amount of profit the station makes—but you are not concerned with the balance between news and entertainment and between kid shows and adult shows and this sort of thing?

Mr. HYDE. May I answer that in terms of just a little bit of broadcast history. At one time the Communications Commission and the Radio Commission before it, thought that each licensee should have a balanced program, and they should have something in it for every type of interest that you would find in a cross section of society, and application forms tended to require that they have so much for education, so much for religion—some of my colleagues would dispute the legality of that—so much for entertainment, so much for news. This was the balanced programing concept.

However, the law contemplated that broadcasting should operate in the field of free competition, and there were always problems as to how can the forces of competition operate, how can stations adjust to meet the forces of competition if they must also program according to some pattern established in an FCC form or regulation. This problem was never solved on a philosophical basis within the Commission itself.

They continued to push the balanced programing concept. But as time progressed we had more and and more stations and you had the development of specialized stations.

A station would develop as a good music station; one would put all the emphasis on news; another would become an outlet for sporting events; another would be called a so-called ethnical station. It would

devote its attention to the Italian audience or the Polish or what have you. In other words, you had specialization.

There were further developments. The Commission held en banc hearings to develop, well, what should be our policy, what should the application form require? Current policy is simply to require of the applicant that he make some assessment of his community and that he design some kind of a format that, based on his investigations would make sense, and propose that to us. A policy statement was issued in July 1960—I had some differences with it myself—the statement lists 14 categories as illustrations, but these are not designed, as far as I am concerned, to tell a broadcaster what to carry. We expect him to determine how much news, how much entertainment, how much good music, or how much hillbilly.

So there is no fixed requirement as to categories of program material.

FAIRNESS DOCTRINE

Mr. TALCOTT. Now, back to the fairness doctrine again, but in another area—not in the political thicket. When an advertiser advertises liquor or tobacco, is it possible for the WCTU to purchase equal time to argue against the advertisement?

Mr. HYDE. There has been one instance where we have held the fairness doctrine does that—does apply to advertising content.

Mr. TALCOTT. Is that a general rule now?

Mr. HYDE. We do have a complaint under consideration right now which raises this precise question. Our answer is in the process of being developed. I will advise you as soon as we can.

Mr. TALCOTT. I am not interested in preventing any advertising. They can advertise all they want to.

Mr. HYDE. Actually there are provisions in the industry code as to the manner in which they advertise liquor, beer. But this, of course, is not what we are doing at all.

Mr. TALCOTT. But if somebody does want to refute the advertising claims, they can obtain time—they can purchase comparable time close to the advertisement?

Mr. HYDE. There is a precedent which would say that fairness applies to the advertising message in some—in a certain category. Now, this is a pretty technical question you have asked of me, and whether it would apply would probably relate to the question as to whether the advertising touched upon some issue of public importance, and as to whether or not there was a difference of opinion about it, and so forth.

Mr. JONAS. Would you yield? Isn't there some legislation pending dealing with editorializing?

Mr. LOEVINGER. A number of bills have been offered. I am not sure whether they have been set for hearing.

May I make a brief statement?

Mr. EVINS. Yes.

PROGRAM REGULATION

Mr. LOEVINGER. I think the questions Congressman Talcott has asked are among the most sensitive in which the Commission deals, and there are wide differences among the Commission as to the precise answers to these questions.

I think there are two points I would like to make, however. First, legal and constitutional questions aside, if the Commission were to undertake any kind of effective supervision or inspection of programing by broadcasting stations we would not be asking for 1,500 or 1,600 employees or whatever the number is, but 2 or 3 or 4 times that, and we would not be able to worry about land mobile or satellites. All of these employees would be engaged in supervising programing, and we could not, probably, do an effective job even then.

But aside from the practical issues, I think there are the gravest constitutional questions.

I think any question, either as to requiring or prohibiting religious broadcasting, runs head on into the first amendment. I think it would be wholly unconstitutional. I think that an attempt to deal with the substantive content of news or programing is possibly, probably, beyond the constitutional power of the Commission and certainly beyond the statutory power and, as far as objectivity is concerned, and this is purely a subjective personal observation, I am sure there are biased news programs, and there are partial news programs, and there are bad news programs. There are biased Congressmen, there are biased newspapers, there are biased Commissioners, we all know this. But overall my observation is that the news reporting by broadcasters is probably at least as objectives and, perhaps, more objective, than the news reporting by newspapers, and I think that, on the whole, a darned good job is being done; that individual cases of abuse should not blind us to the fact that overall broadcasting is doing a magnificent job of objective news reporting in this country, and I think there is no real call for concern.

Mr. TALCOTT. The newspapers have very few regulatory agencies breathing down their necks.

Mr. LOEVINGER. Yes.

Mr. TALCOTT. Then maybe we should eliminate the regulatory agency for the electronic media, and they would get along better?

Mr. LOEVINGER. Insofar as programing and news reporting are concerned I agree with you completely, sir, and my vote has been to keep the FCC out of that area.

Mr. TALCOTT. Especially now when everything is going so well for certain elements of this society; now nonregulation is great. But maybe we won't all be so satisfied 10 years from now, or in less time, if the electronic media change the social, political or economic philosophies and attitudes.

Mr. LOEVINGER. I am sure it will change.

Mr. EVINS. Gentlemen, are there any further questions?

Mr. COX. I think some of us do not think the constitutional problems are so great and, perhaps, we could do something more than we now do in this area without a great increase in our staff.

Mr. EVINS. Gentlemen, this has been very interesting and informative. Suppose we take a break to go to the floor, and we will come back at 1:30.

AFTERNOON SESSION

The committee will come to order. We will resume our discussions with the officials of the FCC this afternoon. This morning we had a good exchange of general information which highlighted some of the problems confronting the Commission. They are always with you, and I am sure we could discuss at length others.

ABC–ITT MERGER

I do think, Mr. Chairman, in view of the interest in the ABC–ITT merger that we should ask the status of that case.

Mr. HYDE. May I answer in terms of just giving you the posture of it.

We have a response to an order which the Commission issued requesting the Department of Justice to submit the information which they had indicated they had, and the Commission must now take another look at the case in the light of this filing.

We must also take a look at a petition filed by another interest which has filed a petition to intervene, American Civil Liberties Union.

Mr. EVINS. Is there a possibility that there may be further hearings on the matter?

Mr. HYDE. A further hearing is requested. We must make a determination upon that request.

SUBSCRIPTION TV

Mr. EVINS. What is the situation regarding subscription television?

Mr. HYDE. We have a Commission Committee which is handling this project. The Chairman of it is Commissioner Wadsworth who I expect will be back this coming week.

It is my information that the staffwork which is being prepared under the direction of the Committee is just about completed. The Committee will at least have a draft report considered, and probably referred to the full Commission within a couple of weeks.

Commissioner Cox is a member of that Committee.

Mr. COX. We had one meeting of the Committee just before Commissioner Wadsworth went to Mexico. We gave the staff some direction at that time, and they will be reporting back.

Mr. EVINS. How does the Commission reconcile proposals to establish public TV with the objectives of subscription TV?

Mr. HYDE. I do not think that there is an inherent conflict there.

The subscription TV, under the concepts that we developed earlier, would envisage some use of this in competition with other types of TV rather than something that would be substituted for the present TV. The Committee may have some different ideas about it, but at all times up to now this has been thought of as a possible form of television but not one to supersede others or displace others.

COSTS RECOVERED BY FEES

Mr. EVINS. The Commission does not cover all costs of regulating, licensing, and enforcing. In view of the valued rights granted, and in view of the extensive costs for enforcement which are imposed by reason of their violations after granting them this right——

Mr. HYDE. No, we do not. Actually we recover about $4 million and, of course, we are asking here for $19,100,000. It does not go very far toward recovering all full costs.

However, all the licenses issued carry with them an obligation to serve the public interest. Licensees have actually argued that they should not have to pay for this privilege since they are required to serve the public interest.

We have taken the position that there are certain benefits to them as well as the obligation to serve the public, and that a reasonable filing fee is appropriate.

We have put this on the basis of a filing fee rather than an assessment designed to recover full costs.

Mr. EVINS. Well, you charge them a minimum filing fee for a great right, and then you say they disregard the Commission's rules.

Mr. HYDE. This certainly is the case in the one particular service I mentioned—we have given them privileges for which a very minimal fee is charged, and they are abusing the privilege. If we could just have the amount of money that we collect on fees to police that service, it would give a better result than we are getting now.

We find it necessary actually to increase the fee for citizens band in view of the problems that it has created for us and in view of the problem it has created for other frequency users.

Mr. EVINS. This disregard of the Commission's rules has created problems with other frequency users.

Mr. HYDE. That is right.

Mr. TALCOTT. Mr. Chairman, may I ask a question about the citizens band and the fees?

Mr. EVINS. Mr. Talcott.

Mr. TALCOTT. Is it possible for you to charge a different fee for the big cities than for the little cities where you do not have so many problems or so great a workload?

Mr. HYDE. In my opinion, it might be possible to differentiate. You suggest something to me——

Mr. TALCOTT. All of these people who move into New York City and Chicago or Philadelphia, they know they are going to get water and streets and highways and everything else, and radio communication is another great benefit, but, if they cause you more problems, I do not see why they should not have to pay more of a fee.

Mr. HYDE. Frankly, I think you have suggested something that might be worth some further study before I would give an answer. Up to now we have thought in terms of a standard fee for an entire service. But operations under different conditions—perhaps it would be a justification.

Mr. TALCOTT. Well, people in my area cannot get licenses and service and everything else because you spend all the time on the big cities, and so it is a detriment to them, too.

Mr. EVINS. Would you supply for the record your schedule of fees?

Mr. HYDE. Yes.

Mr. EVINS. Would that be a proper matter for public domain?

Mr. HYDE. Yes. I think you ought to be advised of it. I happen to have a schedule right here and I will supply it to the reporter.

Mr. EVINS. If it is not too lengthy give us a copy of it and put it in the record.

Mr. HYDE. Yes.

(The information referred to follows:)

Schedule of Fees for Applications Filed With the Commission

Authority: §§ 1.1101–1.1119 issued under sec. 501, 65 Stat. 290; 5 U.S.C. 140.

General Information

§ 1.1101 Authority.

Authority for this Subpart is contained in Title V of the Independent Offices Appropriation Act of 1952 (5 U.S.C. 140) which provides that any service rendered by a Federal agency to or for any person shall be performed on a self-sustaining basis to the fullest extent possible. Title V further provides that the head of each Federal agency is authorized by regulation to prescribe such fees as he shall determine to be fair and equitable.

§ 1.1103 Payment of fees.

(a) Each application, filed on or after January 1, 1964, for which a fee is prescribed in this subpart, must be accompanied by a remittance in the full amount of the fee. In no case will an application be accepted for filing or process prior to payment of the full amount specified. Applications for which no remittance is received, or for which an insufficient amount is received, may be returned to the applicant.

(b) Fee payments accompanying applications received in the Commission's Offices in Washington, D.C., or in any of the Commission's field offices, should be in the form of a check or money order payable to the Federal Communications Commission. The Commission will not be responsible for cash sent through the mails. All fees collected will be paid into the United States Treasury as miscellaneous receipts in accordance with the provisions of Title V of the Independent Offices Appropriations Act of 1952 (5 U.S.C. 140).

(c) Receipts will be furnished upon request in the case of payments made in person, but no receipts will be issued for payments sent through the mails.

(d) Except as provided in §§ 1.1104 and 1.1105, all fees will be charged irrespective of the Commission's disposition of the application. Applications returned to applicants for additional information or corrections will not require an additional fee when resubmitted.

[*§ 1.1103(d) amended eff. 1–3–66; I(63)–10*]

§ 1.1104 Return or refund of fees.

(a) The full amount of any fee submitted will be returned or refunded, as appropriate, in the following instances:

(1) Where no fee is required for the application filed.

(2) Where the application is filed by an applicant who cannot fulfill a prescribed age requirement.

(3) Where the application is filed for renewal without reexamination of an amateur or commercial radio operator license after the grace period has expired.

(4) Where the applicant is precluded from obtaining a license by the provisions of section 303(l) or 310(a) of the Communications Act.

(5) Where circumstances beyond the control of the applicant, arising after the application is filed, would render a grant useless.

(b) Payments in excess of an applicable fee will be refunded only if the overpayment exceeds $2.

[*§ 1.1104 as adopted eff. 1–3–66; I(63)–10*]

§ 1.1105 General exceptions.

(a) No fee is required for an application filed for the sole purpose of amending an authorization or pending application (if a fee is otherwise required) so as to comply with new or additional requirements of the Commission's rules or the rules of another Federal government agency affecting the authorization or pending application; however, if the applicant also requests an additional modification or the renewal of his authorization, the appropriate modification or renewal fee must accompany the application. Fee exemptions arising out of this general exception will be announced to the public in the orders amending the rules or in other appropriate Commission notices.

(b) No fee is required for an application filed by an alien pursuant to a reciprocal radio licensing agreement.

(c) No fee is required for any application or request for an STA or waiver.

[§ 1.1105 as amended eff. 1–3–66; I(63)–10]

SCHEDULE OF FEES

§ 1.1111 Schedule of fees for Radio Broadcast Services.

(a) Except as provided in paragraph (b) of this section, applications filed in the Radio Broadcast Services shall be accompanied by the fees prescribed below:

	AM	FM	TV	Translator	Auxiliary
Application for construction permit for new station	$75	$75	$150	$10	[1] $30
Application for major change	75	75	150	[2] 10	[1] 10
Application for renewal or assignment of license or transfer of control, exclusive of FCC form 316 applications (where more than 1 broadcast station license is involved, the application must be accompanied by the total amount of the fees prescribed for each license so involved)	75	75	150	10	[1] 30
Applications filed on FCC form 316 (where more than 1 broadcast station license is involved, the application must be accompanied by the total amount of the fees prescribed for each license so involved)	30	30	30	[3]	[3]
Application for construction permit to replace expired permit, FCC form 321	30	30	30	10	[1] 30
Application for modification other than a major change	30	30	30	[3]	[1] 10
Application for change of call sign for broadcast station	$30 in all services.				
All other applications in the broadcast services (excluding television translator applications not specified above)	[1] $30 for each application.				

[1] With respect to applications for remote pickup broadcast stations authorized under subpart D of pt. 74 of this chapter, 1 fee will cover the base station (if any) and all the remote pickup mobile stations of a main station, provided the applications therefor are filed at the same time.

[2] For determining when a translator application is required to be accompanied by a fee under this section (though not for other purposes in the translator or other broadcast services), "major change" is defined to include only a change in the output frequency of the translator.

[3] No fee.

(b) Fees are not required in the following instances:

(1) Applications filed by tax exempt organizations for the operation of stations providing noncommercial educational broadcast services, whether or not such stations operate on frequencies allocated for noncommercial educational use.

(2) Applications in the AM service requesting only authority to determine antenna power by direct measurement.

(3) Applications filed for covering licenses in the Auxiliary Broadcast Services.

[§ 1.1111 as amended eff. 1–3–66; I(63)–10]

§ 1.1113 Schedule of fees for Common Carrier Services.

Applications filed for Common Carrier Services shall be accompanied by the fees prescribed below:

DOMESTIC PUBLIC LAND MOBILE RADIO SERVICE [1]

Application for initial construction permit or for relocation of a base station (including authority for mobile units, blanket dispatch station authority,[2] and standby transmitters without independent radiating systems [2 4])	$75
Application for initial construction permit or for relocation of a dispatch station,[5] control station or repeater station [4]	25
Application for modification of construction permit or license for base station, dispatch station, control station or repeater station at an existing station location	10
Application for renewal of license for base station	25
Application for renewal of license for dispatch station, control station or repeater station	10
Application for license, modification of license, or renewal of license for individual mobile stations	5

See footnotes at end of table, p. 1204.

RURAL RADIO SERVICE

Application for an initial construction permit or for relocation of facilities [4]	10
Application for modification of construction permit or license	10
Application for license for operation of a rural subscriber station at temporary-fixed locations	10
Application for license or modification of license for individual subscriber stations	5
Application for renewal of license	5

POINT TO POINT MICROWAVE RADIO SERVICES

Application for construction permit or for modification of construction permit to add or change point(s) of communication or to increase service to existing points of communication or for relocation of faciilties [4]	30
All other applications for construction permits or modification of construction permits (no fee required when filed as part of a modification application requiring a $30 fee)	10
Application for license for operation of a station at temporary-fixed locations	30
Application for modification of license	10
Application for renewal of license	5

LOCAL TELEVISION TRANSMISSION SERVICE

Application for construction permit or for modification of construction permit to add or change point(s) of communication or to increase service to an existing station location or for relocation of facilities [4]	30
All other applications for construction permits or modification of construction permits (no fee required when filed as part of a modification application requiring a $30 fee)	10
Application for license for operation of an STL station at temporary-fixed locations	30
Application for license for operation of a mobile television pickup station	30
Application for modification of license	10
Application for renewal of license	5

INTERNATIONAL FIXED PUBLIC RADIOCOMMUNICATION SERVICES

International Fixed Public Station:	
Application for an initial construction permit for a new station or an additional transmitter(s) at an authorized station [4]	100
Application for construction permit for a replacement transmitter(s) at an authorized station (no fee will be charged for application for modification of license to delete transmitter(s) being replaced if both applications are filed simultaneously)	50
Application for change of location of an authorized station	100
Application for modification of license	10
Application for renewal of license	75
International Control Station:	
Application for an initial construction permit for a new station or an additional transmitter(s) at an authorized station [4]	30
Application for construction permit for a replacement transmitter(s) at an authorized station (no fee will be charged for application for modification of license to delete transmitter being replaced if both applications are filed simultaneously)	10
Application for change of location of an authorized station	30
Application for modification of license	10
Application for renewal of license	10

OTHER RADIO APPLICATIONS

Application for assignment of an authorization or transfer of control (a separate $10 fee is required for each call sign covered by the Application)	10
All other Common Carrier Radio applications	10

See footnotes at end of table, p. 1204.

Applications by Communications Common Carriers for Authorization to Own Stock in the Communications Satellite Corp	10
Section 214 Applications by Telephone Co	50
Section 214 Applications by Telegraph Co	10
Cable Landing License Applications	100
Section 221 Applications	50
Interlocking Directorate Applications	10
Tariff applications to change charges or regulations on less than statutory notice	10
All other Common Carrier nonradio Applications	10

[1] In this service each transmitter at a fixed location is a separate station notwithstanding the inclusion of more than one such station on a single authorization or under a single call sign.

[2] When included as part of a base station application, a request for blanket dispatch station authority made pursuant to the provisions of § 21.519(a) of this chapter does not require an individual application or fee. A request for such dispatch station authority filed separately from a base station construction permit application requires an application for modification of license and an appropriate fee.

[3] An application for a standby transmitter having its own independent radiating system requires the same fee as a base station application.

[4] No additional fee will be charged for applications for license to cover a construction permit unless there is a modification or variation of outstanding authority involved. In that event the appropriate fee for modification is applicable.

[5] This fee applies to any request for dispatch station authority not made pursuant to § 21.519(a) of this chapter.

[§ *1.1113 as amended eff. 1–3–66; I(63)–10*]

§ 1.1115 Schedule of fees for Safety and Special Radio Services.

(a) Except as provided in paragraph (b) of this section, all formal applications filed in the Safety and Special Radio Services shall be accompanied by the fees prescribed below:

Applications in the Amateur Radio Service:	
For initial license, including new class of operator license, and for renewal of license	$4
For modification of license	2
Request for special call sign pursuant to § 97.51	20
Applications in the Citizens Radio Service:	
For Class A station authorization	10
For all other classes of stations in the Citizens Radio Service	8
Applications for Radio Station Authorizations for Operational Fixed Radio Stations for which frequencies above 952 Mc/s are requested:	
For construction permit	30
For modification of authorization	10
Applications for Common Carrier Public Coast Stations in the Maritime Radio Services:	
For initial construction permit	50
For modification of authorization	10
Applications for renewal only for which FCC Form 405–A or 405–B is prescribed	4
All other applications filed in the Safety and Special Radio Services	10

(b) Fees are not required in the following instances:

(1) Applications filed in the Police, Fire, Forestry-Conservation, Highway Maintenance, Local Government, and State Guard Radio Services.

(2) Applications filed by governmental entities in any of the Safety and Special Radio Services.

(3) Applications filed by the following in the Special Emergency Radio Service: Hospitals, Disaster Relief Organizations, Beach Patrols, and School Buses, and non-profit Ambulance Operators and Rescue Organizations.

(4) Applications filed in the Disaster Communications Service.

(5) Applications for ship inspections pursuant to the Great Lakes Agreement, the Safety of Life at Sea Convention, and Parts II and III, Title III, of the Communications Act of 1934, as amended.

(6) Applications for Novice Class license in the Amateur Radio Service, applications for amateur stations under military auspices, and applications filed in the Radio Amateur Civil Emergency Service (RACES).

(7) Operational Fixed Microwave Applications filed for Closed Circuit Educational Television Service.

(8) Applications for Civil Air Patrol Stations, Aeronautical Radionavigation Stations and for Aeronautical Search and Rescue Stations.
(9) Applications for license to cover construction permit.

[§ *1.1115 amended in I(63)–10; (a) amended eff. 8–1–66, I(63)–12*]

§ 1.1117 Schedule of fees for commercial radio operator examinations and licensing.

(a) Except as provided in paragraphs (b) and (c) of this section, applications filed for commercial radio operator examinations and licensing shall be accompanied by the fees prescribed below:

Applications for new operator license:	
First-class license, either radiotelephone or radiotelegraph	$5
Second-class license, either radiotelephone or radiotelegraph	4
Third-class permit, either radiotelephone or radiotelegraph	3
Restricted radiotelephone permit	2
Application for renewal of operator license	2
Application for endorsement of operator license	2
Application for duplicate license or for replacement license	2

(b) No fee need accompany an application for a verification card (FCC Form 758–F) or for a verified statement (FCC Form 759).
(c) Whenever an application requests both an operator license and an endorsement the required fee will be the fee prescribed for the license document involvd.

[§ *1.1117 as amended eff. 1–3–66; I(63)–10*]

§ 1.1119 Experimental Radio Services (other than Broadcast).

Fees are not required in the case of applications filed in the Experimental Radio Services (other than Broadcast).

SUMMARY OF 1968 BUDGET

Mr. EVINS. Let us place in the record pages 1 through 11, which are a summary statement which covers the highlights of the budget.
(Pages 1 through 11 follow:)

SUMMARY STATEMENT

The Federal Communications Commission submits herewith its budget estimates for Fiscal Year 1968.
The following table shows the staff and dollar amounts requested for 1968 compared with actual figures for 1966 and estimates for 1967.

	1966 actual	1967 estimate	1968 estimate	Increase
Positions	1,556.0	1,556.0	1,609	53.0
Average employment	1,458.7	1,472.9	1,518	45.1
Personnel compensation	$14,192,179	$14,940,700	$15,465,000	$524,300
Personnel benefits	1,022,974	1,094,200	1,149,000	54,800
Other obligations	2,122,822	1,777,600	2,486,000	708,400
Total	17,337,975	17,812,500	19,100,000	1,287,500

This Commission was authorized no increase in appropriation for FY–1967 over FY–1966 except to cover the cost of pay increase legislation. By administrative actions, such as drastically curtailing our technical equipment replacement and modernization program, we have increased our total employment very slightly for the current year.
By FY–1968 we will feel a greater impact from the Community Antenna Television program. The Commission's regulatory program with respect to CATV is designed to integrate CATV into the national television structure so as to promote maximum television service while insuring that CATV performs its supplementary role without unduly impeding standard television broad-

casting services. Although we have absorbed the initial workloads in this area out of our currently available staff resources we expect greater workloads in FY–1968 and are requesting an increase of 17 man-years of employment for this program.

In the Citizens Radio Service we are faced with what the Commission considers an extremely serious situation. The rapid growth of this service has generated many regulatory problems and the Commission now is confronted with a serious challenge to its authority. Disregard for the Commission's rules with respect to Class D stations has become widespread. Rule violations by licensees have reached the point at which the usefulness of this service to the public has been gravely impaired. This service must be restored to the point where there is a reasonable level of compliance with the rules.

The Commission is proposing in this budget that 10 additional man-years of effort be authorized for a pilot study of the effect of increased enforcement activity by our field staff. At the same time, we are proposing that $150,000 be made available, for the most part by outside contract studies, for additional and alternative methods of remedying this intolerable situation. It is hoped that the results of these two programs will provide us with a satisfactory solution to the problem and avoid the need for suspending the issuance of additional licenses or the complete closing down of the service.

The social, political, and economic demands on the radio spectrum are continuing to mount. There is increasingly urgent and immediate need for sound research over and above the Commission's limited ability to undertake such research with its existing staff. This budget proposes an increase of only 7 man-years of effort to the Commission's staff but it also requests $480,000 for contractual studies.

Of the aforementioned $480,000 for contractural studies, $300,000 will be used for part of a comprehensive study of the utilization and management of the radio spectrum. The continuing and growing demand for frequencies, coupled with new technological developments, and new uses of radio, make such a study imperative. At this writing negotiations are underway with other agencies having an interest and concern over the situation. The extent of financial involvement of other agencies in this study has not been determined as yet. More specific information should be available at the time of the Commission's hearings before the Congress.

Of the remaining $180,000 of increase proposed for contractural studies, $30,000 is intended for a review of the future role of the Commission's laboratory and the initial planning for the construction of an appropriate facility. The Commission also is requesting $150,000 for other contractural studies. Some may be technical in nature, others will assist in long-range forecasting and evaluation of the economic and social impact of Commission rules and regulations.

The distribution of other smaller increases is reflected in the table on the following page.

Under its User Charges Program, the Commission collected $3,917,000 in application filing fees in FY–1966 which was deposited into the miscellaneous receipts account of the Treasury. We estimate that collections will amount to $4,000,000 in FY–1967 and the same amount in FY–1968.

The following table shows the distribution of manpower proposed for FY–1968 compared with FY–1967. (Complete activity costs are shown in the Activity Table.)

	Fiscal year 1967		Fiscal year 1968		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment
I. Commissioners	49	46.2	49	47.7		1.5
II. Broadcast	349	332.4	350	329.9	1	−2.5
III. Common carrier	192	181.2	204	189.1	12	7.9
IV. Safety and special	168	159.6	169	161.2	1	1.6
V. Field engineering	387	368.0	388	368.5	1	.5
VI. Engineering studies	101	93.5	107	100.3	6	6.8
VII. Citizens radio	72	69.5	85	80.4	13	10.9
VIII. Community antenna	26	20.5	42	37.7	16	17.2
IX. Legal services	50	46.2	50	46.2		
X. Administrative service	162	155.8	165	157.0	3	1.2
Total	1,556	1,472.9	1,609	1,518.0	53	45.1

Broadcast activity

The proposals in this budget reflect a decrease of 2.5 man-years in the Broadcast Activity. This decrease results from the diversion of manpower to the CATV program.

Efforts will be intensified during the current year and the budget year to continue to reduce backlogs of pending applications by increasing production and by streamlining procedures. Total disposals of applications without hearing are estimated at 19,450 in FY-1968 compared with 18,404 in FY-1967.

In addition to the increasing workload in application processing, it is anticipated that applications designated for hearing will increase in FY-1967 and FY-1968 based on the need for in-depth examination of applications filed in suburban localities adjacent to large cities and more stringent financial qualifications now required by the Commission. In addition, the declining number of channels available for new stations is expected to result in greater numbers of applications filed in competition with applications for renewal of license.

Rule making will continue to be an active area in the Broadcast Bureau's operations although no increase in staff has been requested for this function in FY-1968. AM allocation rules adopted in 1964 will be reviewed to determine if further modifications would result in greater simplicity and effectiveness. The declining supply of available FM channels will necessitate more comprehensive engineering studies by the Commission concerning the Table of FM Assignments. The demand for TV channels is expected to continue to increase, and regulation in this area will become more complex due to petitions from non-broadcast services to share TV channels. Other developing areas include subscription television and the TV Translator service.

In the international field the workload is steadily increasing due to expanding use of radio in our neighboring countries. A new standard broadcast agreement is expected to be completed with Mexico during the first half of FY-1968 which will require a considerable amount of manpower by our existing personnel. Another problem which is developing is the interference being received from new high-power stations in Central and South America, which countries are not party to the North American Regional Broadcast Agreement or the U.S./Mexico Agreement concerning Standard Broadcast. This problem must be analyzed and steps taken to correct it.

Common carrier activity

The accelerated and dynamic growth in the demand for new and improved common carrier services and the rapid pace of technological advancement are presenting the Commission with an ever increasing number of regulatory problems requiring prompt and informed resolutions. One example is the growing interdependence of computer services and communication facilities and the resulting establishment of a new industry of data communication and information utilities. This marriage of computers and communications raise a number of issues as to the status of these new operations under the Communications Act and the type of regulation, if any, that may be required to promote the most effective development in the public interest. Another example is represented by the various proposals that are now under consideration for the use of communication satellites for common carrier purposes and for private or specialized purposes. Timely and informed resolutions of technical, economic and policy issues involved in all of these matters are of critical importance to all classes of users, present and future. It is therefore essential that the Commission's staff include highly trained specialists who are capable of anticipating developments and planning regulatory action to avoid governmetnal decision by default; and who are capable of dealing effectively with problems as they arise.

With respect to domestic common carrier activity, the broad investigation into the rate structure and rate levels of the Bell System commenced in Fiscal Year 1966 will continue at a very high level of Commission effort in terms of personnel through Fiscal Year 1968. Obviously, the implications of that proceeding are significant, not just to competing carriers but also to the public at large. Certainly the decisions that will be made in that investigation seriously affect the respondents, the more than 70 other parties to the proceedings, and the general subscribing public. Therefore, it is incumbent upon the Commission to utilize the best talent available to insure adequate representation of the public interest in the development and analysis of a record which will represent a nearly complete compilation of views, representations, statistics, etc., of the major communications common carriers and numerous governmental and other interests with respect to the broad and inclusive issues in the matter.

In the international and satellite communications field the technological developments and growth of services continue to outstrip earlier estimations. Moreover in the exercise of its functions, within the statutory requirements of the Communications Act of 1934, as amended, and the Communications Satellite Act of 1962, the Commission is faced with urgent and critical conflicts concerning competing claims or applications for opportunities to serve the public demand for additional international circuits. Choices also have to be made with respect to the amount of reliance that is to be placed on satellite facilities, as opposed to cable facilities or high frequency point-to-point radio facilities; on the other hand, significant decisions must also be made with respect to the nature and extent of competition that should prevail in the international communications field, and major proposals plus other arrangements with respect to the division of opportunities to serve the public will have to be considered in depth commencing in Fiscal Year 1968.

As greater reliance is placed upon radio facilities for the transmission and/or relay of communications by the domestic carriers, the licensing activitites associated therewith call for substantial increases in manpower. Although the rate of increase in the number of applications filed for new or modified domestic common carrier radio licenses or permits is not dramatic, the most significant factor requiring several additional positions is the necessity to resolve conflicts relating to potential electrical interference and economic competition. Furthermore, of particular concern to the Commission in this area are the sizeable backlogs of applications that have developed and continue to grow and which result in distressing delays in the Commission's ability to approve and foster the provision of new and improved services being demanded by the public.

Accordingly, the requests herein for additional manpower for common carrier regulation stress needs that have developed or are certain to develop in international, satellite and domestic radio regulation, all of which are the product of external demands for improved services which, under its statutory obligations, require prompt and informed judgments and actions by the Commission.

Safety and Special Radio Services Activity

During the past decade, there has been a steady and substantial increase in applications filed by Safety and Special applicants and it is expected that this trend will continue through FY–1968. Mechanized operations for expeditiously handling these applications have been successfully employed and will continue to be used and improved upon, including possible utilization in other radio services. This mechanized processing program enables the Bureau to assign more of its professional personnel to the critical areas of policy and rule-making projects, as well as studies and analyses of spectrum usage.

There is a demonstrated and acute need for frequency space by users in these services. The joint Government-Industry Land Mobile Advisory Committee, which has been studying all aspects of the mobile radio problems, is expected to conclude its activities in late FY–1967. This will necessitate the utilization of qualified engineering and legal Bureau personnel to make an in-depth review and analysis of the Committee's recommendations. While some progress has been made in resolving the large number of rules and standards projects which have been pending in the Bureau, there are still a substantial number which will require handling in FY–1968. To meet these urgent needs, qualified engineering and legal personnel have been and are being recruited.

In the area of enforcement and compliance, it is essential to minimize the time lag between the occurrence of a violation and the imposition of the sanction. New and improved techniques have been developed, consistent with due process, to accomplish this objective. There is expected to be an increase in the number of cases referred for enforcement action in FY–1968, generally in the same ratio as the increase in radio station licensees. The increased efficiency of professional personnel and use of legal clerks will enable the Bureau to maintain a program of general currency in enforcement sanctions so that, in the great majority of cases, the time between the violations and the imposition of the sanctions will not exceed six months.

Field Engineering Activity

The radio monitoring and direction finding network consists of eighteen stations strategically located throughout the contiguous forty-eight states, Hawaii, Alaska, and Puerto Rico. The network is in continuous operation 24 hours a day although some stations must close down watches because of lack of manpower. The monitoring stations in the network singly and collectively observe

and analyze radio signals to: identify and locate illegal, unlicensed, subversive, or interfering signals; measure technical characteristics including frequency, bandwidth, harmonic content, and modulation of authorized stations for prevention of interference and assurance of maximum use of the spectrum; determine actual frequency usage and propagation characteristics as a basis for allocation of services and frequencies; make fact-finding engineering studies as a basis for proposed rule changes to keep FCC regulations current with the advances in the art and to encourage technical and operational progress by licensees.

Monitoring stations also participate in Search and Rescue operations to promote safety of life at sea and in the air by furnishing direction finder net service and by location and clearance of signals interfering with such operations; furnish direction finding, telemetering intercept and field intensity recording assistance, on a transfer of funds basis, to the Department of Defense in its high-altitude balloon, atomic powered buoy, and other research projects. As required, monitoring stations develop and modify special electronic equipment to meet field monitoring, investigative and enforcement requirements of the Commission; and determine all the facts on interference complaints resulting from long-distance transmission so that interference between the various radio services and to the general public may be kept at an acceptable level; assure that the maritime and aeronautical distress frequencies are free from interference and that efficient and effective use is made of the limited and valuable frequencies in the high frequency spectrum. The stations in the network are in constant communication with each other and with Monitoring Control at Washington Headquarters around the clock, utilizing private-line teletype, radioteletype, and manual radiotelegraph, as the situation at the moment demands.

Demands by the public, many of which have been reinforced by Congressional requests, for increased radio monitoring enforcement have resulted in a mounting workload. The continually increasing work requirements, coupled with previous and continuing economy line-holding, have created a situation where the personnel staffing structure cannot support an additional load. Not only has the amount of enforcement work increased drastically over the past several years, but the volume of violations-processing has multiplied many times.

The total number of violation notices issued in services other than Citizens and Amateur for on-the-air violations has increased an average of more than eighty per cent each year for the past four years, from a total of 758 in Fiscal 1962 to more than 10,500 in the fiscal year just ended (1966).

The rapid expansion of radio operations in recent years, particularly in the VHF and UHF portions of the spectrum, has been accompanied by sharply increased congestion. Industry and the user public are demanding greatly increased monitoring enforcement necessary to maintain order on the crowded communications channels thereby making it possible for them to derive the benefits they feel they have a right to expect from their investment in radio equipment.

The continuing growth in the number of stations in the land mobile services has generated a requirement for more inspections of other-than-broadcast stations. In some instances stations are not being operated in the service for which licensed. This results in interference to authorized services which are operating properly.

Inspections of CATV stations must be made in order to determine compliance with the new carriage and coverage rules and the inspection of stations employing stereophonic transmissions must be increased.

Commercial radio operator examinations must be more frequently revised to provide for a more effective evaluation of the applicant's qualifications and to reduce the likelihood that the examination material will become compromised.

The issuance of alien restricted permits has increased fifty-six per cent over the previous year.

Investigative requirements are governed by the immediate needs of the public, the communications industry, the military services and other government agencies. The demand for interference-free communications and operation of electronic devices undistorted by stray electromagnetic fields add to an ever increasing investigative workload.

The utilization of radio frequency energy as a source of heat for industrial, medical and scientific purposes is expanding.

Radiation from garage door opener receivers causing interference to VHF air navigation frequencies is an explosive problem. In 1966 five hundred and two garage door opener receivers, radiating excessively on air navigation and com-

munications frequencies, were located through investigative techniques of field engineers and the operation of the receivers terminated.

Technological advances in low power communications devices have made walkie-talkies sufficiently efficient to attract great numbers of young Americans to this source of amusement. Juvenile broadcasters interfere with radio and television reception, high fidelity equipment, tape recorders and telephones; they attempt to communicate with stations in the aeronautical and Citizens Radio Services. Complaints of hoax distress call, indecent language, false dispatching of taxis, delivery service vehicles and even police patrol cars and ambulances are received. The low power, high mobility, nonscheduled operation and prolific number of such devices in operation makes this one of the most demanding and frustrating investigative duties.

As the public relies more and more on radio communications to maintain contact with mobile units, operators of the equipment frequently punctuate transmissions with profane, indecent or obscene remarks, in violation of Section 1464, Title 18, U.S.C. Frequently, immature operators of radio communications equipment deliberately engage in the transmission of profane, indecent and obscene language, apparently deriving pleasure from the shock effects on startled listeners.

It would appear that the full impact of the recently adopted rules to prohibit the use of nonlicensed radio frequency devices for eavesdropping, except by law enforcement agencies, has not yet been felt. In the past all complaints of this nature, after evaluation, were referred to another agency if the circumstances appeared to warrant an investigation. Investigations by field engineers are now standard procedrue to determine whether the new rules are being violated as reports of eavesdropping are received.

Engineering Studies and Frequency Allocation Activity

This work consists of planning and directing broad programs to develop information and data in the theoretical and experimental areas for long range and immediate use regarding new and improved communication techniques and equipment, advanced phases of terrestrial and space communications, and radio wave propagation; advising and representing the Commission in frequency allocation and usage matters both natioanlly and internationally; collaborating and advising in the formulation of technical requirements of the rules and regulations of the Commission. Also included in this activity are type-approval and type-acceptance of equipment, administration of the rules relating to the operation of miscellaneous nonlicensed radio frequency devices, and performance of rule-making functions relative to the Experimental Radio Service.

An increase is being requested for analysis of proper procedures for applying electronic data processing techniques to engineering problems; to provide for a study of methods of taking field strength measurements; to study sharing of channels between land-basd and satellite services; to continue work regarding the adoption of automated monitoring procedures and spectrum occupancy recording in an area of high density stations; and for making a fundamental study of interference criteria for microwave systems.

Technical specifications and standards for the radio services regulated by the Commission must be compatible with those used by other countries and agreed upon internationally. Consequently, the Commission must actively participate in international conferences of such organizations as the International Radio Consultative Committee (CCIR) and the International Electrotechnical Commission (IEC) to assist in formulating such international agreements. One objective of such participation is to obtain international agreement on specifications already in use domestically, in order to avoid the disruptive impact of having to change domestic standards to fit differing international requirements. Such participation is, in effect, an extension of the Commission's domestic technical policies to world-wide acceptance and use.

A small increase is also requested for the frequency allocation and international treaties activity to coordinate frequency allocations and use nationally and internationally. This includes efforts directed toward obtaining the most equitable allocation of frequency bands to meet the critical frequency requirements of the Commission's various radio services, such as broadcasting, public safety, aviation, etc. Participation in international conferences and meetings is essential to develop international agreed frequency allocations and other regulations. Nationally, extensive coordination with other Government users of radio and with the Director of Telecommunications Management (DTM) is conducted on a continuing basis to achieve the best unified frequency management policies.

Class D Citizens Radio Service Activity

The growth of the Class D Citizens Radio Service has been spectacular. Since 1958 when rules were approved authorizing the licensing of Class D stations, the number of licensees has grown to approximately 750,000. This service is the largest radio service licensed by the Commission.

Despite the incredible growth, the enforcement staff assigned to the Citizens Radio Service has not kept pace. Grave concern was expressed by the field staff over the growing number of rule violations which included obscene and vulgar language, failure to make the proper identification, and more recently, using frequencies assigned to other services. Not only are the rules being violated, but there appears to be a growing disrespect for the basic regulatory responsibilities of the Commission.

During a preliminary study of the problems encountered in administering this service, it became evident that the ease of obtaining a Citizen Radio license coupled with the increasing economic affluence of our society and the low cost of Class D equipment provided the stimulus for the phenomenal growth of the service. It was concluded, nevertheless, that the objective of providing the public and small businesses with a low cost 2-way radio service are still valid.

The Commission evaluated a number of corrective measures and plans to move ahead in several areas during FY–1967. Two new steps are proposed for FY–1968. (1) An aggressive, highly selective pilot enforcement program concentrated in one geographical area to evaluate the desirability of engaging in an intensified nationwide program. (2) An in-depth study of the entire Citizens Radio Service to further define the nature of the problem and determine the most effective means for restoring control. The basic objective of the Commission's activities in this area is to attain an acceptable level of compliance in order to provide the public with a useful and usable radio communications service.

An increase of 10 man-years is requested for the pilot enforcement program and $150,000 for the study.

Community Antenna Television (CATV) Activity

The CATV industry has been growing at a very rapid rate. Its penetration into the established TV markets present serious economic and policy questions concerning the relationship between the continued expansion of CATV systems and existing and future VHF and UHF television stations. As a result, when the Commission, after considerable study and discussion, issued on March 8, 1966, its Second Report and Order on CATV, it became imperative that it establish an organization to administer this program.

The dynamic growth of the CATV industry makes its essential that the work be processed expeditiously. Delays will work a serious financial hardship upon the CATV entities which are in the process of expansion. At the same time, economic problems which TV stations may face particularly in the large markets if new or expansions of CATV systems are authorized require the immediate attention of qualified staff.

A task force was established to examine the workload implications of this Order, determine the resources required and recommend an appropriate organizational arrangement.

The analytical approach inherent in the Planning, Programming, Budgeting System was used to study the program. The various activities involved in the CATV program were identified, environmental factors affecting the program were developed, and the assumptions upon which the program was to be based were stated. Lastly, the various uncertainties affecting the conduct of the program were carefully analyzed and an estimate was made as to their probabilities of occurring. Estimated workloads were developed and converted to manpower requirements.

The results of the study indicated that the staff requirements for the CATV program would be somewhat in the order of 40 man-years. Since the program arose after the FY–1967 appropriations had been submitted, the Commission has endeavored to staff this high priority operation by borrowing from other organizational units within FCC. However, the Commission has found it difficult to staff this function as well as some of the other high priority programs and continue adequate operations. As a result, it has become necessary to request an increase of 17.2 man-years for this program for FY–1968.

EMPLOYMENT

Mr. EVINS. You had a total of 1,556 positions in 1966, and 1,556 in 1967, and you are asking for 1,609 for 1968, an increase of 53, and you point out in your summary statement that there was no increase in

appropriation for fiscal year 1967 over fiscal year 1966 except to cover the cost of pay-increase legislation.

You did not or were unable to take care of the pay-cost increases?

Mr. HYDE. That is right.

INCREASE FOR CATV

Mr. EVINS. In 1968 you feel there will be a greater impact on the community antenna television program. Your regulatory program is designed to integrate CATV into the national television structure, while insuring that CATV performs its supplementary role.

Mr. HYDE. Actually community antenna service is in some respects attempting to become more than a supplementary role. They are now discussing the possibility of program origination, and I have no doubt that this problem is going to become more complex, not less. While we have made a tremendous effort to catch up with the filings under our present regulatory scheme, we are not over the hill on that by a long shot. We are making real progress. But the service itself is tending to change right while we are in the process of trying to catch up with its present state.

INCREASE IN BUDGET, 1966–68

Mr. EVINS. Appropriationwise the Commission in 1966 had a total appropriation of $17,337,975 and in 1967 it was $17,812,500. You are asking for an appropriation of $19,100,000, an increase of $1,287,500, which is broken down in personnel benefits, $54,800; personnel compensation, $524,300; and other costs, $708,400. You request $480,000 for contractual studies which the chairman discussed earlier this morning.

The chairman has discussed the user charges.

SUMMARY OF STAFF INCREASES

On page 3 is a breakdown of the personnel by various bureaus. An increase of 12 is requested in the Common Carrier Bureau; one in safety and special services. This is one in which there has been a great deal of discussion regarding workload. But you ask for one increase there.

Citizens radio, you are requesting 13 additional positions. These have been divided, have they not?

Mr. HYDE. Yes.

Mr. EVINS. Where they were at one time safety and special service and citizens radio?

Mr. HYDE. No, the staff is in two units organizationally but presented as one program in our budget here. They are still within the Safety and Special Services Bureau and the Field Engineering Bureau but the entire activity is treated as one program for budget submission.

Mr. EVINS. Community Antenna, 16 new jobs. Why do you need 16 new jobs there?

Mr. HYDE. The reason why we have to have them is for the processing or the enforcement of the Community Antenna rules which was not anticipated in our present budget. The task force we have is just such as we were able to organize by taking people from the Broadcast

Bureau, from the General Counsel's Office, from the Common Carrier Bureau, where we could find them. It is not an adequate staff to begin with, but it is the best we could do——

APPLICATION DISPOSALS IN BROADCASTING SERVICES

Mr. EVINS. Mr. Chairman, you state here that total disposals of applications without hearing are estimated to be 19,450. Are you disposing of a high percentage of them without hearings?

Mr. HYDE. Oh, indeed we are. As a matter of fact, the percentage of applications to go to hearing is a relatively small part of our workload. In certain services a higher percentage of them will go to hearing because of congestion on the frequencies; a large percentage of applications for new or changes in facilities of broadcasting will go to hearing. Also contests having to do with economic issues are becoming more common.

But in another bureau, such as Safety and Special Services we will process 30,000, 40,000 applications in a month, and we will process without hearing. They do not get exclusive use of the channels, they are generally shared services. This is where we need to put more emphasis, once the rules are established, then nontechnical people can process the applications.

In fact, we can use computers in a good part of them.

COMPUTERS

Mr. EVINS. You state here that there is a growing interdependence of computer services and communication facilities resulting in the establishment of a new industry of data communication and information utilities. This marriage of computers and communications raises a number of issues as to the status of these new openings.

Mr. HYDE. This is really a very proper statement.

Mr. EVINS. Let the computers do the job for you and you won't require the personnel.

Mr. HYDE. The statement you read refers to computers in industry not to the Commission's computer. Sometimes you get a computer and it is suggested that this is going to take the place of the Commissioners, perhaps.

Mr. EVINS. We would not want that to happen.

Mr. HYDE. I appreciate that interest.

But actually a computer can do a lot of things much faster than could be done by old methods, but its usefulness is dependent on the skill with which it is used. You have got to have programers who know their business.

Mr. EVINS. One has to have the manpower to run a computer. Someone has to supply the input.

Mr. HYDE. You do, and, of course, the usefulness that you get out of them will be dependent upon the skills with which you can make use of their potentials.

Mr. EVINS. We had one witness who testified, Mr. Chairman, that they ran the computers 23 hours a day. They stopped 1 hour for a coffee break and oiling the machine.

You let the Navy use yours part time?

Mr. HYDE. That is right, during the morning hours, and they are paying the Government but not us for the use.

Mr. EVINS. Could you use it during the other morning hours and not have to increase personnel as much?

Mr. HYDE. It is an interesting suggestion but——

A.T. & T. INVESTIGATION

Mr. EVINS. You say with respect to domestic common carrier activity, the broad investigation into the rate structure and rate levels of the Bell System commenced in fiscal year 1966 and will continue at a very high level.

We asked earlier when will it be completed, and I think you answered that, in part.

You say that the decisions that will be made in that investigation seriously affect the respondents, the more than 70 other parties to the proceedings, and the general subscribing public.

Mr. HYDE. Yes, sir. This will be one of the most important decisions of the Commission, although the decisions we make in every area have implications, important implications for our society, our economy. But this one does concern a tremendous industry, the largest corporation, I am told, that we have; the millions of users, and—

Mr. EVINS. Seventy other parties. Who are they?

Mr. HYDE. Many of the States are interested; many of the other carriers are intervenors. I can give you a list of them if you want. But most of the States, the National Association of Railroad & Public Utilities Commissioners, the record carriers, telegraph companies, and the Independent Telephone Association.

Mr. EVINS. It will be a historic landmark decision, and probably will be quoted for years to come as a great precedent.

Mr. HYDE. It will.

INTERNATIONAL AND SATELLITE COMMUNICATIONS

Mr. EVINS. You say that in the international and satellite communications field the technological developments and growth will continue. Within the statutory requirements of the Communications Act and the Communications Satellite Act, public demand for additional international circuits will need to be served.

Mr. HYDE. This is true. It has been for our experience——

Mr. EVINS. What is the situation with the international circuits?

Mr. HYDE. We have had an increasing demand for more adequate facilities and this has been the pattern.

COMSAT

Mr. EVINS. Now, the Communications Satellite Corp. was set up as a result of a special act of Congress. The Government controls part and there are private stock subscriptions. Tell us how it is operating, if you will.

Mr. HYDE. I will be very glad to.

The Satellite Corp. was organized, as you mentioned, pursuant to an act of Congress.

Its board of directors is composed of six directors elected by the stockholders at large, you might call them, six by the communications

carriers who own the stock, and—is it three—three appointed by the President, and that is the extent of the Government's real participation. The President appoints three directors.

Now, Comsat is the U.S. vehicle for space communication, and the act specified that it should establish a world system at the earliest practicable date—I am sure those are not the exact words, but as promptly and as expeditiously as possible by itself or in cooperation with other nations.

Now, as it has been developed, it was necessary for Comsat to secure the cooperation of other nations. Obviously, you cannot have circuits in foreign countries without the cooperation of the operators at the other end of the circuit.

So what has been established is an international consortium. It now numbers 56 nations. This consortium actually owns the satellites which are in operation.

U.S. participation in the consortium is a little more than 50 percent, and this consortium of countries has appointed or elected the Comsat, U.S. participant, as the manager.

Now, the law authorizes Comsat to use satellite technology, but denies this right for the terrestrial carriers, the old-line conventional carries. It does provide it does contemplate, that Comsat would, for most purposes, be a carriers' carrier.

USERS OF COMSAT

One of the policy questions that was left actually to be defined with more specificity was the meaning of "authorized users" using the terms of the act. The Commission had a rulemaking proceeding that received comment, briefs, and has issued a policy statement as to authorized users, which is, which will be, a landmark in the development of satellite communications.

It establishes Comsat as a carriers' carrier but does recognize that under unique conditions the Government may get service directly from Comsat.

OWNERSHIP OF EARTH STATIONS

Now, there is still another question that has been a challenging one, and that is who should be the owners of the earth stations.

Initially the Commission authorized Comsat to build and own the first three earth stations, one in Andover, Maine, which they are authorized to acquire from the telephone company which built it; one in Brewster Flats in the State of Washington; and one in Hawaii, this to provide immediate activity in space communications.

But we have had a rulemaking or a study going on to determine what would be the ownership of additional stations. This first was, in fact, an interim policy.

Now, there has been some concern that delay of the Commission would delay the establishment of a world system, and there have been statements made that lack of decision of the Commission was likely to hamper this development.

I am very pleased to tell you that as a result of conferences with the carriers and Comsat, reexamination of the arguments each way, we have issued a policy statement which looks toward a 50–50 division

of the ownership of earth stations as between Comsat and the other carriers.

It has taken some doing to get the mechanics of this thing set up. There have been many conferences. It appears that the consortium of U.S. carriers, if I may use that term now, will soon be able to file applications for earth stations, additional earth stations, which are urgently needed.

We are actually getting satellite capacity faster than we are getting earth station capacity.

I believe the conference procedure has worked very well. They will be able to perfect their applications for earth stations, one on the east coast, central east coast, and one in the Southwest, and one in Puerto Rico, all of which are needed to really get the world system going. We have urged the group to get their application on file, to get their specifications for equipment out, and get the design and the construction underway even before the final administrative steps are taken.

I think the Commission really has done remarkably well in pushing this program.

Mr. EVINS. The Commission has provided real leadership in this field.

Mr. HYDE. We have. Maybe you would like me to explain why there needs to be this division of ownership.

The reason is this: Under the Satellite Act, Comsat sets the rate base for space use. But by design it is supposed to be a carrier's carrier. But it is Western Union International, A.T. & T., ITT, the other carriers who have established international services now, they are the ones that can render the pickup service both to deliver the message to the customer and receive the message.

They urge, and I think that this is sound business on their part, that they should have some participation in the space communications plant. Since they cannot have it in the satellites, one place where they can have is in the earth stations.

Mr. EVINS. NASA launches the satellites, do they not?

Mr. HYDE. They do.

NUMBER OF COMMUNICATIONS SATELLITES IN OPERATION

Mr. EVINS. How many do we have in operation? They are relay stations, in effect, are they not?

Mr. HYDE. They are relay stations.

Mr. EVINS. All right. They are paid for by the Government. They are launched by NASA and the Satellite Communications System gets to use them as relay devices; is that a fair statement?

Mr. HYDE. There are three operating in commercial service now, one under limited service, but even so tremendous changes are taking place in both the quality of the service, the kind of services that can be offered, and also in the costs.

For instance, when we got out our authorized user statement saying that Comsat must furnish service to the terrestrial carriers, and only under special conditions to the Government we requested the carriers to file lower rates, taking into consideration the economies available through the use of satellite techniques. They have responded with lower rates such as this: Where the cost per month for a telephone

quality channel, that is from the United States to the satellite, was $12,500, under new schedules they will be of the order of $7,100. That is a tremendous reduction.

CHANNELS FOR INTERNATIONAL TELECASTS

Mr. EVINS. I was thinking in terms of international telecasts. Say that we want to send a program to Europe and Paris, France, wants simultaneously to relay something to the United States, and you have only one satellite that can relay it. Who decides which one can utilize the relay station, Uncle Sam or France?

Mr. HYDE. Well, we hope soon to have enough facilities so there will be no problem. Up to now there really has not been any serious problem on this. But we hope to have sufficient capacity so we won't have to set priorities.

Mr. EVINS. Can the relay station simultaneously send two broadcasts?

Mr. STRASSBURG. It does not broadcast; it relays.

Mr. HYDE. What we want to know is how many TV channels simultaneously can be sent.

Mr. STRASSBURG. I think there is just one up to now.

Mr. HYDE. But they do contemplate greater capacity.

Mr. STRASSBURG. Yes. They are working on multiple.

Mr. EVINS. This is the point I am arriving at. In case there is a conflict who decides who shall have the priority in utilization?

Mr. HYDE. Comsat. But this could become a nice international question, a very nice one.

Mr. EVINS. Difficult.

Mr. HYDE. A very nice one.

When we had this problem of inadequate transmission facilities for the domestic system, the Commission had to referee the allocation of facilities to networks and stations.

But when you get into the international field, well, we would hope that there can be—this can be done by a conference within the consortium where it involves the interests of other countries.

By the way, we do have to carry on a continuing liaison with the State Department, with the Director of Telecommunications Management in connection with our own regulation authority.

Mr. EVINS. New responsibilities have been imposed upon the Commission by the Satellite Communications Act.

Mr. HYDE. Tremendous responsibilities and tremendous transformations in what we hope will be an enlightened policy for the successful development of the system.

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

Mr. EVINS. Mr. Giaimo.

CONTRACT FOR COMSAT SERVICE

Mr. GIAIMO. A little earlier you commented on the fact that some of the domestic companies were unhappy with the role they were playing in the Comsat.

Mr. HYDE. Yes, there was a dispute about this.

Mr. GIAIMO. I wish you would enlighten me on that.

Mr. HYDE. I think it has been resolved, so you won't want me to have more than a bare outline of it.

Early last summer the Defense Department contracted to acquire some 30 channels for service in the Pacific, 10 to the Philippines, 10 to Japan, 10 to Thailand without regard, as I would put it, to the interests or effect on the other carriers.

They had asked, they did at one stage of the proceeding ask, for bids and, of course, Comsat, which must provide the service whether it goes through the carriers or goes directly to them, offered the lower cost.

Our concern was that the Satellite Act provides for a competitive system in the international field. It charges the Commission with the duty of administering it in such a way as to maintain the present competitive system for international communications.

It is obvious to us that if the carriers' carrier, and the only one authorized to put up satellites, could underprice its customers, the terrestrial carriers, that the whole cable investment could be jeopardized and also the competitive system.

We tried to work this out by conference with the interested agencies.

Mr. EVINS. Actually the satellite communications system injected a little competition into the cable communications, did it not?

Mr. HYDE. We were concerned that what Comsat would do would displace the cables, and we think we need both.

Mr. EVINS. Both are functioning today?

Mr. HYDE. Yes.

Mr. EVINS. If this is a competitive situation, has there been any cable rate reduction?

Mr. HYDE. Yes, yes. The reductions which I gave you are a composite. They apply whether the message goes by cable or by satellite.

INTERNATIONAL RATES

I want to get back to this other question. We were fearful, and I think the reasons for it must be apparent, that if the bulk of the communications in the Pacific went directly to Comsat without regard to the effect on the cables that their usefulness, their investment, could become impaired, and also that their rates would have to remain high because their charges to the user would have to be, based upon their cables.

But what we undertook to do was to require that the terrestrial carriers have access to space technology. The only way they can get it is by getting their channels from Comsat, and that having secured these channels they would reduce their rates, as they should, taking into consideration the lower costs through the use of satellites.

Mr. Chairman, we computed that the Government, using both cable and satellite communications, with the reduced rates that have become available, would save $5 million a year. I am happy to tell you that the Defense Department has indicated that they are going to assign the contracts which they had made with Comsat to the other carriers. They are working out an assignment to the other carriers.

This will make it possible for the carriers to have a low composite rate across the Pacific, and it will make it possible for us to maintain a competitive system.

I am not undertaking to state that our policy should forever be one of competition between the carriers as it now exists. We are studying

legislation. In fact, there has been a rather comprehensive study by interested Government agencies, and we expect very soon there will be some recommendations made to Congress looking toward possible merger of international carriers.

Mr. EVINS. Very interesting observations.

MONITORING ACTIVITIES

Field engineering, you say that radio monitoring and direction finding network consists of 18 stations strategically located throughout the contiguous 48 States, Hawaii, Alaska, and Puerto Rico.

The monitoring stations in the network singly and collectively observe and analyze radio signals to identify and locate illegal, unlicensed, subversive, or interfering signals. You tell us that you are doing this, and you told us earlier that you were not doing it adequately or sufficiently. You do have 18 stations, don't you?

Mr. HYDE. We do have 18 stations. But the entire electromagnetic spectrum is a vast area to police.

Mr. EVINS. How many more stations do you propose to establish?

Mr. HYDE. We are not proposing any more than this. But we could very well make use of those we have.

Mr. EVINS. You say that monitoring stations also participate in search and rescue operations to promote safety of life at sea and in the air.

Mr. HYDE. We have a long history of that.

Mr. EVINS. You say the total number of violation notices issued in services other than citizens and amateur for on-the-air violations has increased an average of more than 80 percent each year for the past 4 years.

Mr. HYDE. That reflects the increasing number of licenses issued and also, I think——

Mr. EVINS. You have given this great privilege but you have a lot of bad operators in the field. Can't you assess a little fine?

Mr. HYDE. Yes.

Mr. EVINS. Charge a little more when you license them?

Mr. HYDE. Yes. This technique is being used pursuant to congressional authorization. We do have a small fines enforcement method, and we use it. Some of the fines are not so small.

REVISION OF OPERATOR EXAMINATIONS

Mr. EVINS. You talk about maintaining order here. You say inspections of commercial radio operator examinations must be more frequently revised. How often do you revise them?

Mr. HYDE. May I ask Mr. Plummer to respond to that?

Mr. EVINS. Surely.

Mr. COX. How often do you revise the tests?

Mr. PLUMMER. Well, the tests are revised about once every 4 or 5 years. We keep getting out a new element, perhaps one element, a year.

One of our difficulties now is that certain people are breaking the code, as you might say, in the tests and they are getting some of the examinations by memory rather than by knowledge of content.

Mr. COX. You can learn which multiple-choice answer—you learn from the first, second, or third questions.

In other instances they have mixed the tests up with very drastic results to the applicants.

Mr. HYDE. Very embarrassing.

ALIEN OPERATOR RESTRICTED PERMITS

Mr. EVINS. You say that the issuance of alien restricted permits has increased 56 percent over the previous year. What is the nature of these?

Mr. PLUMMER. That is for flying an airplane. The act allows us to issue a special permit to an alien for flying a U.S. airplane, use the radio on a U.S. airplane.

Mr. COX. It is mostly in taking delivery, is it not, or unscheduled flights.

Mr. PLUMMER. A lot of it is schools training foreign nationals here in the United States, and we have reciprocal arrangements with Canada, for instance, their pilots.

INTEFERENCE CASES

Mr. EVINS. You say that the demand for interference-free communications and operation of electronic devices undistorted by stray electromagnetic fields add to an ever-increasing investigative workload. How much work do you do in this?

Mr. PLUMMER. This is interference. It is a nice way to say it, and we get as much as 50,000 complaints a year from television viewers about various kinds of interference.

Mr. EVINS. This is the garage door opening receivers?

Mr. PLUMMER. Yes.

Mr. EVINS. Some airplane is flying over and somebody is trying to drive in a garage. Which is more important, safety in the air or getting into the garage?

Mr. PLUMMER. Yes. These garage door openers are not always made on the correct frequencies we set up for them. Some manufacturer just picks a frequency and makes it, and it turns out to be an air safety frequency, and the FAA gets rather perturbed about it, and we have to go out and chase them down fast.

Mr. COX. That is what Commissioner Lee was talking about this morning.

Mr. LEE. Yes; S. 1015.

Mr. EVINS. This is the one which will give the Commission power at the manufacturing level——

Mr. HYDE. Right.

Mr. EVINS (continuing). To set the devices.

Mr. HYDE. Yes.

Mr. EVINS. With respect to class D citizens' radio service activity, you say that the number of licensees has grown to approximately 750,000. This service is the largest radio service licensed by the Commission?

Mr. HYDE. Right.

Mr. TALCOTT. What do we do with our class A citizens?

Mr. LEE. Give them a TV station.

BREAKDOWN OF BUDGET BY ACTIVITIES, 1966–68

Mr. EVINS. We will place in the record pages 12 through 15, which are the personnel and appropriations for the Commission by divisions.

(Pages 12 through 15 follow:)

Activity table

	1966 actual			1967 estimate			1968 estimate		
	Positions	Amount employment	Amount	Positions	Amount employment	Amount	Positions	Amount employment	Amount
I. Commissioners:									
A. Total personnel compensation	49	47.1	$667,303	49	46.2	$660,405	49	47.7	$687,545
B. Total personnel benefits			48,045			48,341			49,000
C. Total other obligations			54,811			57,060			64,455
Total obligations			770,159			765,806			801,000
II. Broadcast:									
1. Application processing	157	146.4	1,430,563	154	144.3	1,477,063	160	146.7	1,587,473
2. Hearing	115	110.4	1,267,673	100	97.6	1,179,183	97	93.6	1,012,658
3. Rules	25	21.2	205,922	24	22.8	234,738	24	22.8	246,673
4. Complaints and compliance	49	42.7	422,427	45	42.6	443,040	44	42.6	460,889
5. Research and education	13	12.2	120,377	13	12.8	130,738	13	12.8	138,483
6. Network	7	7.0	69,554	7	6.7	69,084	7	6.7	72,487
7. International	5	4.2	40,752	6	5.6	53,774	5	4.7	50,849
A. Total personnel compensation	371	344.1	3,557,268	349	332.4	3,587,620	350	329.9	3,569,512
B. Total personnel benefits			257,275			262,613			264,000
C. Total other obligations			275,165			245,156			247,000
Total obligations			4,089,708			4,095,389			4,080,512
III. Common carrier:									
1. Domestic rate regulation	60	55.8	627,936	64	60.7	707,557	64	60.9	722,028
2. Domestic service regulation	22	19.4	217,831	22	20.6	235,926	23	21.0	247,273
3. Domestic radio regulation	35	31.4	354,275	35	32.7	376,958	40	36.4	430,757
4. Accounting regulation	24	23.4	262,446	27	25.4	291,819	27	25.9	306,500
5. International communications	19	17.5	196,522	19	18.6	212,948	22	20.0	236,680
6. Space satellite communications	22	20.9	234,406	25	23.2	265,798	28	24.9	294,666
A. Total personnel compensation	182	168.4	1,893,416	192	181.2	2,091,006	204	189.1	2,237,904
B. Total personnel benefits			136,325			153,061			155,096
Total other obligations			126,163			94,000			97,000
Total obligations			2,155,904			2,338,067			2,490,000

IV. Safety and special radio services:									
1. Aviation	24	23.7	220,606	23	21.5	216,209	23	21.8	199,620
2. Marine	33	31.1	289,508	26	24.7	250,222	26	24.9	228,010
3. Public safety	19	17.4	149,989	20	20.4	181,645	21	21.0	192,290
4. Industrial	57	53.4	449,628	58	54.9	483,207	58	54.8	492,700
5. Land transportation	12	10.2	90,085	13	11.6	105,435	13	11.7	107,140
6. Amateur	26	22.9	173,113	23	22.3	178,542	23	22.6	206,940
7. Restricted radio permits	5	4.2	30,906	5	4.2	32,352	5	4.4	40,300
A. Total personnel compensation	176	162.9	1,403,835	168	159.6	1,447,612	169	161.2	1,467,000
B. Total personnel benefits			101,076			105,965			107,000
C. Total other obligations			293,122			221,035			223,000
Total obligations			1,798,033			1,774,612			1,797,000
V. Field engineering:									
1. Application processing	53	51.0	469,796	53	51.3	445,132	54	51.8	466,029
2. Enforcement	173	165.4	1,528,061	172	164.8	1,579,748	172	164.8	1,595,100
3. Monitoring	160	146.6	1,342,935	162	151.9	1,531,709	162	151.9	1,505,675
A. Total personnel compensation	386	363.0	3,340,792	387	368.0	3,556,589	388	368.5	3,566,804
B. Total personnel benefits			240,537			261,042			302,000
C. Other obligations			949,013			764,530			774,196
Total obligations			4,530,342			4,582,161			4,643,000
VI. Engineering studies and frequency allocation:									
1. Technical studies	30	30.8	336,058	30	28.9	324,489	33	31.6	348,358
2. Technical standards and rulemaking	17	16.6	181,122	17	15.8	177,402	18	17.0	187,408
3. Equipment approval	11	10.3	112,383	11	10.3	115,648	11	10.3	117,254
4. Application processing	5	5.0	43,644	5	4.2	47,157	5	4.2	48,220
5. Frequency allocation and international treaties	38	36.2	395,020	38	34.3	385,184	40	37.2	404,556
A. Total personnel compensation	101	97.9	1,068,227	101	93.5	1,049,880	107	100.3	1,105,796
B. Total personnel benefits			76,912			76,851			77,000
C. Total other obligations			122,012			111,204			594,204
Total obligations			1,267,151			1,237,935			1,777,000
VII. Citizens radio service:									
1. Regulatory activities	6	5.3	40,513	6	5.9	47,058	6	5.9	48,577
2. Authorization of service	23	20.3	155,173	20	19.3	153,936	20	19.3	155,000
3. Enforcement	45	44.3	338,659	46	44.3	323,363	59	55.2	407,723
A. Total personnel compensation	74	69.9	534,345	72	69.5	524,357	85	80.4	611,300
B. Total personnel benefits			38,472			38,059			41,000
C. Total other obligations			50,165			38,170			237,700
Total obligations			622,982			600,586			890,000

Activity table—Continued

	1966 actual			1967 estimate			1968 estimate		
	Positions	Amount employment	Amount	Positions	Amount employment	Amount	Positions	Amount employment	Amount
VIII. Community antenna TV:									
1. Task force				21	15.0	$178,428	26	24.0	$281,331
2. Data processing				1	.4	934	3	2.0	8,500
3. Dockets					.1	575	1	1.2	4,869
4. Hearing examiners				1	2.0	32,602	4	4.0	40,000
5. Opinions and review		0.5	$6,158	2	2.0	28,241	6	5.0	38,480
6. Review board				1	1.0	9,370	2	1.5	12,000
A. Total personnel compensation		.5	6,158	26	20.5	250,150	42	37.7	385,180
B. Total personnel benefits			433			18,480			21,808
C. Total other obligations						3,500			3,500
Total obligations			6,601			272,130			410,488
IX. Legal services:									
1. General counsel	7	7.0	96,779	7	7.0	99,092	7	7.0	102,250
2. Litigation	11	9.7	104,030	11	10.3	110,713	11	10.3	119,183
3. Legislation	8	7.4	92,588	8	7.2	94,526	8	7.2	96,291
4. Administrative law and treaties	11	10.3	124,386	11	10.3	114,976	11	10.3	111,942
5. Enforcement and defense	13	11.7	119,170	13	11.4	120,400	13	11.4	115,587
A. Total personnel compensation	50	46.1	536,953	50	46.2	539,707	50	46.2	545,253
B. Total personnel benefits			38,660			39,506			40,347
C. Total other obligations			35,652			30,400			30,400
Total obligations			611,265			609,613			616,000

X. Administrative services:									
1. Executive director	6	6.6	88,473	8	7.0	110,000	8	7.0	110,510
2. Management information	6	4.7	48,198	8	7.0	74,600	9	7.7	97,405
3. Personnel office	18	16.0	173,047	19	17.8	188,794	19	17.8	194,959
4. Budget and fiscal	29	26.9	169,963	29	27.5	175,974	31	29.2	195,730
5. Office services	79	78.5	470,465	73	70.8	452,727	73	70.6	463,880
6. Emergency communications	1	.9	19,415						
7. Reports and information	5	4.9	52,524	5	6.0	62,298	5	5.0	55,875
8. Office of secretary	23	20.3	161,797	20	19.7	168,981	20	19.7	170,000
A. Total personnel compensation	167	158.8	1,183,882	162	155.8	1,233,374	165	157.0	1,288,359
B. Total personnel benefits			85,229			90,282			92,096
C. Total other obligations			216,719			212,545			214,545
Total obligations			1,485,830			1,536,201			1,595,000
Total compensation	1,556	1,458.7	14,192,179	1,556	1,472.9	14,940,700	1,609	1,518.0	15,465,000
Total benefits			1,022,974			1,094,200			1,149,000
Total other obligations			2,122,822			1,777,600			2,486,000
Total obligations			17,337,975			17,812,500			19,100,000

STAFF INCREASES

Mr. EVINS. You have a breakdown of about 10 divisions, the Commissioners' office, the broadcast service, the common carrier, we have discussed that; the safety and special radio services; the field engineering; engineering studies and frequency allocation. This is the area in which you ask for a big increase in personnel and appropriations; in technical studies you have 30 people engaged in the activity, and you need 33.

Other technical studies and rulemaking, 17; and you ask for 18; benefits go up as does personnel compensation.

Community antenna TV task force from 21 to 26. Tell us what again you propose to do here.

Mr. HYDE. We intend to try to catch up with our backlog in that area. As I meant to explain earlier, we had to organize the group we have now by just drafting from other organizational units. It is inadequate to the task. That is the problem.

ORGANIZATION TABLE

Mr. EVINS. We will put in pages 16 through 20.

(Pages 16 through 20 follow:)

Organization table

Personnel compensation	1966 actual			1967 estimate			1968 estimate		
	Positions	Average employment	Amount	Positions	Average employment	Amount	Positions	Average employment	Amount
Office of Commissioners	49	47.1	$667,303	49	46.2	$660,405	49	47.7	$696,734
Broadcast Bureau:									
Office of Chief	12	10.8	133,469	12	10.5	140,359	12	10.5	140,360
Broadcast Facilities Division	73	65.9	680,166	72	67.0	697,000	74	67.0	703,843
Rules and Standards Division	19	17.3	227,594	19	17.5	245,000	19	17.5	245,000
Renewal and Transfer Division	54	49.8	454,081	51	48.5	476,000	51	48.5	489,385
Hearing Division	31	28.6	360,885	30	29.5	380,000	30	29.5	383,050
Research and Education Division	13	12.9	122,020	13	12.5	125,000	13	12.5	135,680
License Division	36	33.6	202,454	36	35.0	219,000	39	37.5	234,375
Complaints and Compliance Division	29	25.8	251,948	27	26.0	262,000	27	26.0	264,030
Office of Network Study	7	6.9	86,015	7	6.5	87,000	7	6.5	87,000
Total, Broadcast Bureau	274	251.6	2,518,632	267	253.0	2,631,359	272	255.5	2,682,723
CATV Task Force				21	15.0	178,428	26	24.0	287,258
Safety and Special Radio Services:									
Office of Chief	8	7.5	100,622	8	7.9	107,082	8	7.9	107,890
Legal, Advisory and enforcement	19	17.8	145,978	19	18.0	162,036	19	18.0	168,678
Industrial and Public Safety Rules	12	12.0	152,050	16	14.7	180,028	16	14.7	188,276
Industrial and Public Safety Facilities	63	59.6	443,722	59	57.0	449,831	60	58.0	456,003
Aviation and Marine Division	40	33.2	323,213	30	28.0	293,029	30	28.0	299,722
Amateur and Citizens Division	38	34.6	252,372	41	39.4	311,793	42	40.4	316,012
Total, Safety and Special	180	164.7	1,417,957	173	165.0	1,503,799	175	167.0	1,536,581
Field Engineering Bureau:									
Office of Chief	17	16.8	168,088	15	14.7	158,361	15	14.7	159,625
Field Offices Division	217	201.4	1,757,380	255	219.6	1,938,832	349	296.8	2,488,006
Monitoring Systems Division	169	161.7	1,461,452	193	165.4	1,631,127	261	224.0	2,206,057
Engineering and Facilities Division	17	16.4	160,086	17	16.3	162,302	18	17.3	172,076
Total, Field Engineering	420	396.3	3,547,006	420	401.0	3,760,100	433	411.0	3,846,304

Organization table—Continued

Personnel compensation	1966 actual			1967 estimate			1968 estimate		
	Positions	Average employment	Amount	Positions	Average employment	Amount	Positions	Average employment	Amount
Common Carrier Bureau:									
Office of Chief	13	14.1	$159,070	13	12.8	$158,198	13	12.9	$158,558
Economic Study Division	11	9.2	98,890	12	10.5	121,089	12	10.5	117,271
Field Operations Division	29	27.2	300,076	29	27.2	308,258	29	27.2	309,954
International Satellite Commission	35	34.2	410,754	40	38.0	481,270	46	41.8	502,098
Domestic Rates Division	43	39.4	456,970	47	44.9	533,226	48	45.7	559,673
Domestic Service and Facilities	10	9.1	111,680	10	8.7	106,757	11	9.7	111,023
Domestic Radio Division	31	26.4	252,574	33	31.2	282,233	38	34.8	306,010
Total, Common Carrier Bureau	172	159.6	1,790,014	184	173.3	1,991,031	197	182.3	2,064,587
Office of Chief Engineer:									
Immediate Office	7	7.1	90,520	7	6.8	90,090	7	7.0	92,175
Technical Division	21	20.2	225,325	21	19.5	217,559	22	20.7	230,144
Research Division	15	14.8	188,102	15	13.5	186,526	18	16.5	215,242
Frequency Allocation and Treaty Division	34	32.5	313,783	32	30.0	304,109	33	31.7	315,276
Laboratory	19	18.0	211,112	19	17.2	203,346	20	18.0	218,052
Total, Office of Chief Engineer	96	92.6	1,028,842	94	87.0	1,001,630	100	93.9	1,070,889
Office of General Counsel:									
Immediate Office	7	7.0	96,779	7	7.0	99,092	7	7.0	102,250
Litigation Division	11	9.7	104,030	11	10.3	110,713	11	10.3	119,183
Legislation Division	8	7.4	92,588	8	7.2	94,526	8	7.2	96,291
Administration of Law and Treaties Division	11	10.3	124,386	11	10.3	114,976	11	10.3	111,942
Enforcement and Defense Division	13	11.7	119,170	13	11.4	120,400	13	11.4	115,587
Total, Office of General Counsel	50	46.1	536,953	50	46.2	539,707	50	46.2	545,253
Office of Hearing Examiners	33	32.6	465,417	24	25.8	420,574	24	24.0	401,900
Review Board	31	30.5	384,126	30	28.5	377,514	30	28.5	382,435
Office of Opinions and Review	16	15.6	192,140	15	14.6	187,759	19	17.6	223,507
Office of Executive Director:									
Immediate Office	6	6.6	88,473	8	7.0	110,000	8	7.0	115,000
Budget and Fiscal Division	26	24.1	169,963	25	24.1	175,974	26	24.8	182,000
Management Information Division	6	4.7	48,198	8	7.0	74,600	9	7.7	89,856
Personnel Division	18	16.0	173,047	19	17.8	188,794	19	17.8	190,000
Data Processing Division	54	50.6	376,032	54	49.4	366,140	56	51.0	372,000

Office Services Division	79	78.5	470,465	73	70.8	452,727	73	70.8	456,443
Emergency Communications Division	1	.9	16,514						
Total, Office of Executive Director	190	181.4	1,342,692	187	176.1	1,368,235	191	179.1	1,405,295
Office of the Secretary:									
Immediate Office	5	5.0	44,798	2	2.0	28,896	2	2.0	26,460
Dockets Division	17	15.4	86,776	17	15.5	88,880	18	16.5	96,652
Minute and Rules Division	12	10.0	73,745	12	11.7	87,104	12	11.7	91,382
Library Division	6	5.3	43,254	6	6.0	52,981	6	6.0	53,094
Total, Office of the Secretary	40	35.7	248,573	37	35.2	257,861	38	36.2	267,588
Office of Reports and Information	5	4.9	52,524	5	6.0	62,298	5	5.0	53,946
Grand total	1,556	1,458.7	14,192,179	1,556	1,472.9	14,940,700	1,609	1,518.0	15,465,030

Office of Commissioners

Mr. Evins. Next is the Office of Commissioners. Insert pages 19 and 20 of the justifications.

(The pages follow:)

I. Commissioners

This section of the budget justification deals with the requirements of the offices of the Commissioners. It covers the seven commissioners, their engineering and legal assistants, and the clerical assistance necessary to assist them in carrying out their numerous and varied assignments.

In capsule form the Commission is charged with final responsibility in the following general areas:

1. Development of national non-government communications policy in implementation of the broader policy set forth by Congress.
2. Long-range planning for effective regulation of communications to implement national policy.
3. Recommendation of new legislation to Congress.
4. Approval of rules and standards to achieve policy objectives.
5. Decision making in adjudicatory matters.
6. Supervision and direction of activities of the various bureaus and offices.

Financial requirements

	1966 actual	1967 estimate	1968 estimate	Increase
Personnel compensation	$667,303	$660,405	$687,545	$27,140
Personnel benefits	48,045	48,341	49,000	659
Other obligations	54,811	57,060	64,455	7,395
Total	770,159	765,806	801,000	35,194

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
Office of Commissioners	49	47.1	49	46.2	49	47.7	.....	1.5

No additional fulltime positions are proposed although an increase of 1.5 man-years is estimated to keep all positions filled for a greater portion of the year.

In addition to the permanent fulltime positions shown above, funds are requested for the hiring, on a consultant or when actually employed basis, of a scientific adviser to the Commission. This adviser will, in all probability, come from the academic world on leave from a leading university. Depending on the Commission's need, the incumbent may change from time to time as expertise is required in one specialized field or another. This expertise may be required in the satellite area, frequency spectrum utilization, radio wave propagation, development of more sophisticated modulation systems, land mobile radio problems, or similar matters.

Mr. Evins. We will not ask any questions. We will just read what the seven Commissioners do:

1. Development of national non-Government communications policy;

2. Long-range planning for effective regulation of communications to implement national policy. That is a big order.

Mr. Hyde. It certainly is.

Mr. Evins. Third, Recommendation of new legislation to Congress, and we just had some of that.

4. Approval of rules and standards to achieve policy objectives.
5. Decisionmaking in adjudicatory matters.
6. Supervision and direction of activities of the various bureaus and offices.

Broadcast Activity

Turn over to "Broadcasts." Your table at the bottom of page 21 shows the positions. In application processing you increase from 157 to 160. Hearings go down from 115 to 97. You are not having as many hearings? Your hearing examiners have time on their hands?

Mr. Hyde. No. They do not have time on their hands, but we have had a retirement, and we did draft the chief of our task force for CATV from the examiner corps.

Mr. Evins. There is a decrease in total financial requirement for this activity. We will place in the record pages 21 and 22, and the chart on page 26, AM applications, workload.

(The pages referred to follow:)

II. Broadcast Activity

INTRODUCTION

Broadcasting is a medium of radio transmission intended for reception by the general public.

Broadcasting includes both Aural Services (Standard, or AM Broadcasting, and Frequency Modulation, or FM Broadcasting) and Visual Service (Television). Within these categories are contained several related auxiliary services.

The Broadcast activity of the Commission, in very general terms, consists of the licensing and regulatory functions of broadcasting and associated auxiliary services.

The major portion of this work is handled by the Broadcast Bureau. In addition, the Broadcast activity makes up the major workload of the Office of Hearing Examiners, Review Board, Office of Opinions and Review, and the Dockets Division of the Office of the Secretary. The Data Processing Division also performs certain engineering and broadcast ownership work and statistical compilations.

Total financial requirements

	Actual, 1966	Estimate, 1967	Estimate, 1968	Increase (+) or decrease (−)
Personnel compensation	$3,557,268	$3,587,620	$3,569,512	−$18,108
Personnel benefits	257,275	262,613	264,000	+1,387
Other obligations	275,165	245,156	247,000	+1,844
Total	4,089,708	4,095,389	4,080,512	−14,877

Total manpower requirements (positions and average employment

	Actual, 1966		Estimate, 1967		Estimate, 1968		Increase or decrease	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
1. Application processing	157	146.4	154	144.3	160	146.7	+6	+2.4
2. Hearings	115	110.4	100	97.6	97	93.6	−3	−4.0
3. Rules	25	21.2	24	22.8	24	22.8	------	------
4. Complaints and compliance	49	42.7	45	42.6	44	42.6	−1	------
5. Research and education	13	12.2	13	12.8	13	12.8	------	------
6. Network study	7	7.0	7	6.7	7	6.7	------	------
7. International	5	4.2	6	5.6	5	4.7	−1	−0.9
Total	371	344.1	349	332.4	350	329.9	+1	−2.5

Manpower requirements for Bureau and offices

	Actual, 1966		Estimate, 1967		Estimate, 1968		Increase or decrease	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
Broadcast Bureau	274	251.6	267	253.0	272	255.5	+5	+2.5
Hearing examiners	28	27.8	19	19.7	17	16.6	−2	−3.1
Review board	29	28.3	27	25.3	26	24.9	−1	−.4
Opinions and review	14	13.5	12	11.6	12	11.6		
Dockets Division	13	11.5	12	11.5	12	11.0		−.5
Data processing	13	11.4	12	11.3	11	10.3	−1	−1.0
Total	371	344.1	349	332.4	350	329.9	+1	−2.5

AM applications workload

	1966 actual	1967 estimate	1968 estimate
New and major changes:			
Pending beginning of year	446	502	542
Received for processing	379	400	400
Designated for hearing	53	75	80
Disposed of without hearing	270	285	315
Pending end of year	502	542	547
Supplemental and continuing: [1]			
Pending beginning of year	340	254	201
Received for processing	1,516	1,650	1,700
Designated for hearing	1	3	3
Disposed of without hearing	1,601	1,700	1,700
Pending end of year	254	201	198
Renewal applications:			
Pending beginning of year	571	629	593
Received for processing	1,596	1,578	1,303
Designated for hearing	12	14	14
Disposed of without hearing	1,526	1,600	1,675
Pending end of year	629	593	207
Assignment and transfer:			
Pending beginning of year	134	123	116
Received for processing	592	625	635
Designated for hearing	3	2	2
Disposed of without hearing	600	630	640
Pending end of year	123	116	109

[1] These applications include, for example, those for minor modification of permits, approval of transmitter site, extensions of time to construct, and license upon completion of construction, as well as applications for replacement or renewal of equipment, readjustment of antenna systems and minor change in transmitter locations, etc.—in essence, all those applications necessary to permit a station to go on the air following a grant of an application for permit to construct, and to maintain a station on the air on a continuing basis.

The following table shows the actual and estimated authorized AM stations for the years 1958 to 1968:

1958 — 3,353	1962 — 3,886	1966 — 4,153
1959 — 3,500	1963 — 3,997	1967 — 4,213
1960 — 3,581	1964 — 4,061	1968 — 4,273
1961 — 3,757	1965 — 4,097	

APPLICATIONS WORKLOAD

Mr. EVINS. Beginning of the year 1966 the actual was 446. And the end of the year it was 502. You had more at the end of the year than you started out with.

Mr. HYDE. Yes, that is correct.

Mr. EVINS. And your estimates for 1968 are 542 and 547, about the same level. There was no appreciable diminution. You have taken care of the current ones.

The following table shows the actual and the estimated authorized AM stations for the years 1958 to 1968. These increase from 4,213 in 1967 to 4,273 in 1968.

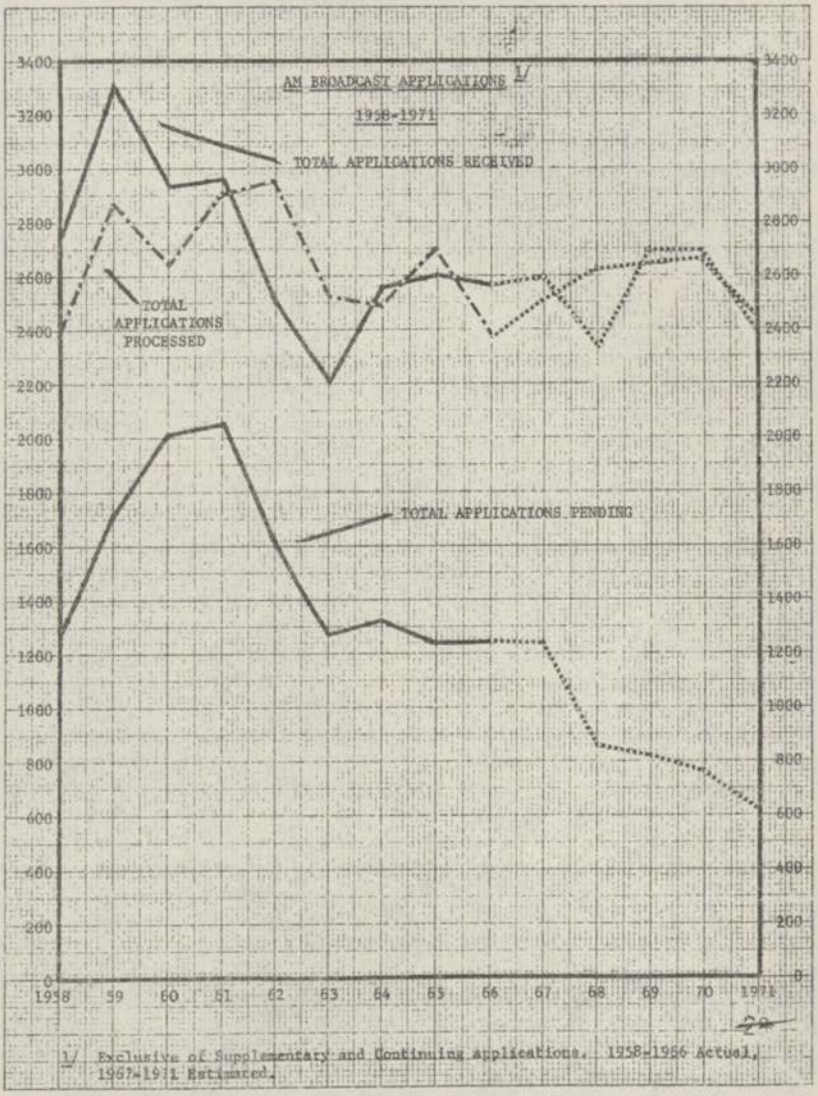
Mr. HYDE. Right.

Mr. EVINS. The chart on the following page, page 28, shows a marked decline in applications pending. This is AM?

Mr. HYDE. Yes.

Mr. EVINS. We will include this chart in the record.

(The chart referred to follows:)



Mr. EVINS. Applications workload on VHF and UHF, page 37. You estimated that at the beginning of 1968 you will have 260 in your workload, and 245 at the end of the year.

Mr. HYDE. You can appreciate these figures can change a lot if there should be Federal assistance on a big scale in educational TV, for instance.

Mr. WYMAN. Mr. Chairman.

Mr. EVINS. Mr. Wyman.

OPERATION OF TRANSLATOR STATION

Mr. WYMAN. On the table with regard to page 37, how does a translator work?

Mr. HYDE. A translator picks up a signal, usually at some high point. Let us say you put in a translator on top of a hill or a mountain where a better signal is available, and then it reradiates it, translates it, to a different channel at relatively low power to a limited area. It is really a relay of a service from a central station.

Mr. WYMAN. Thank you.

Mr. GIAIMO. Is that used in connection with microwave?

Mr. HYDE. There are some instances where instead of picking up the signal off the air they have used microwave, yes.

Mr. GIAIMO. I mean you take the microwave signal which is a high frequency——

Mr. HYDE. No. A typical installation, just a typical one, will be they will take the signal off the air from the master antenna and then they will reradiate it amplifying the signal.

Mr. GIAIMO. Then I am wrong. My question was the translation, would it be a situation where you would take a microwave signal and translate it to a smaller frequency signal?

Mr. COX. Not a personal microwave signal. We have authorized them to use a heterodyne microwave which would permit them to transmit it at 2,000 megacycles over a longer hop than they can get otherwise. But since this is an unattended repeater and is not a—it is really a transmitter, we had to confine it into that kind of operation. They have said this essentially really is not as helpful as they would like. They would like to be able to take the commercial microwave service which is transmitted by FM techniques, and be able to use that. This is technically possible. But it would require an additional change in our rules which we have not yet made.

Mr. LOEVINGER. Typically a translator is a service to a television receiver which is not receiving it because it is beyond the range or in a shadow area and it simply picks up a television signal and puts it in a valley or behind a hill.

The reason it changes frequency is, the engineers tell me, if they reradiate it on the same frequency there is likely to be a very slight phase difference which would likely cause interference with the original signal. The original signal and the new signal would interfere with each other, so they translate it into a different frequency and then give television service to an area that would not otherwise get it.

Mr. EVINS. You make that to me, as a layman, very clear. But I am interested in a device which will enable you to hear a radio in your car when you go under a bridge?

Mr. BARTLEY. FM.

Mr. LEE. Get yourself an FM set and you are all set.

Mr. HYDE. Don't go under the tunnel, but under the bridge.

Mr. EVINS. You go under a tunnel and it goes off.

Mr. HYDE. I have an FM set in my car, but when we go under bridges I do lose it. You go under the Massachusetts Avenue Bridge, for instance.

REVOCATION OF BROADCASTING LICENSES

Mr. EVINS. Gentlemen, this is all interesting on the Broadcast Bureau. You talk about forfeiture proceedings involving revocations of licenses.

Mr. Chairman, do you have a total of the number of licenses that have been revoked?

Mr. HYDE. I am not sure that I do have a tabulation.

Mr. EVINS. Do you have anything for the last 5 years?

Mr. HYDE. Oh, yes.

Mr. EVINS. How many?

Mr. COX. I will look at the last annual report.

Mr. EVINS. I am sure you have these figures available.

Mr. HYDE. We have them. We have many instances where the operation has been changed as a result of an inquiry or——

Mr. EVINS. Some have merged with another or have had new management takeover, but how many station licenses have been revoked?

Mr. HYDE. Can we supply a figure? There has been one in St. Louis, a big one; one in Los Angeles.

Mr. COX. Last year three AM stations were ordered to show cause why their licenses should not be revoked, and we revoked in the year the license of a station where had started proceedings before.

We also revoked the license of an FM station. We have set for hearing on their renewals five stations.

Mr. EVINS. If a renewal comes up do you have hearings?

Mr. COX. Not many.

Mr. HYDE. No.

Mr. EVINS. Only those which are——

Mr. COX. Serious problems.

Mr. HYDE. Challenges by another station, an applicant.

Mr. EVINS. Or information called to the attention of the Commission during the life of the franchise?

Mr. COX. Yes.

Mr. HYDE. That is right.

Mr. EVINS. These matters would be available to the Commission during this consideration of the renewal?

Mr. HYDE. In this highly competitive business if anybody is going wrong notice soon comes to us. They are watching each other.

Mr. EVINS. Well, you are the regulating agency.

Mr. HYDE. Yes, sir.

Mr. EVINS. And I had the impression there were not too many denials.

Mr. HYDE. Mr. Chairman, I want to assure you that there are many instances where allegations of wrongdoing or, where complaints of some infractions come to our attention, and we get corrective action.

Mr. LEE. We have had a lot of sanctions less than revocation.

Mr. COX. We had 22 short-term renewals.

Mr. LEE. We also had forfeiture proceedings in seven instances.

Mr. EVINS. It is a great power of the Commission and it has a great effect in bringing about correction.

Mr. HYDE. It is.

Mr. EVINS. You say although the Commission has delegated its authority to render final decisions involving new and changed TV facilities to the Review Board, a heavy workload for this office exists. How do you operate this, the Office of Opinions and Review? Have you delegated your opinionmaking?

Mr. HYDE. We have a Review Board which within policies set by the Commission can decide many hearing cases. This has proved a tremendous assist to the Commission.

ROLE OF OFFICE OF OPINIONS AND REVIEW

Mr. EVINS. This office is charged with the responsibilities for handling all TV renewals and revocation proceedings?

Mr. LEE. You are mixed up with the Review Board and Opinions and Review.

Mr. EVINS. This is page 49, Office of Opinions and Review.

Mr. HYDE. Opinions and Review is really a staff working directly with the Commission.

Mr. EVINS. It says this Office is charged with the responsibility of handling all TV renewals and revocations proceedings.

Mr. COX. It handles the appeal of those rather than sending them to the Review Board for what we consider less important cases. They normally go from an examiner to this five-member Review Board, and then we review only a limited percentage of the cases they decide.

HANDLING RENEWAL OR REVOCATION CASES

But in a renewal or revocation matter those, as I recall it, those come directly to us from the examiner without going through the Review Board. The Office of Opinions and Review is our opinion-writing staff which proposes decisions and presents them to the Commission.

Mr. EVINS. That is the third sentence from the bottom.

Mr. LOEVINGER. I think the difficulty arises from the context. It is not a clearly written sentence. This refers only to hearing cases.

Mr. HYDE. Yes.

Mr. LOEVINGER. Actually we process several thousand renewal proceedings a year. Of those several thousands there may be a dozen, maybe 20, I do not know the exact number, but it is something on that order of magnitude that are sent to hearing, those go through the Office of Opinions and Review. There are thousands that are handled without this proceeding. It is ambiguity of context there.

Mr. HYDE. Commissioner Loevinger has given you the clarification that is required.

Mr. EVINS. If it is a TV renewal, that is a pretty important right.

Mr. HYDE. Yes.

Mr. EVINS. I imagine even if your Review Board passed on it before final action was taken it would be reported to the Commission.

Mr. HYDE. What we are concerned with here are only cases in a hearing status where the staff work is done by this Office of Opinions and Review for the Commission. There are many instances of renewal of TV stations which will be handled by the Broadcast Bureau. If there are questions, any serious questions, about the qualifications of

the applicant or the past record, that would raise doubts as to whether the public interest would be served by renewal, they must bring it to our attention.

If, however, the operation is consistent with the policy that has heretofore been set they can issue the renewal.

Mr. EVINS. Very good.

INVESTIGATIONS IN BROADCASTING SERVICE

Under complaints and compliance, you state that this activity involves the investigation and enforcement functions of the Broadcast Bureau. The complaints are investigated and recommendations are made to the Commission for the imposition of appropriate sanctions, which may include revocation or refusal of renewal of license which you have discussed, monetary forfeitures or grant of a short-term license renewal. What about monetary forfeitures?

Mr. HYDE. We are authorized by Congress to issue a notice of apparent liability when there has been a violation of regulation or the statute.

Mr. EVINS. Do you use this device?

Mr. HYDE. We do. As a matter of fact, we have been pushing this pretty hard. This is something that we have long needed, and by amendment to the act we were given this authority.

BROADCAST COMPLAINTS

Mr. EVINS. You say that during 1966 the Broadcast Bureau received more than 52,000 expressions of opinion on broadcast matters compared to 35,000 in 1965. Some 13,000 of these could be classified as complaints against broadcasters, their programs and practices, the remainder consisting mainly of inquiries and comments. Field investigations ranging in duration from a few days to more than a month each were made of 42 broadcast stations during the year.

Mr. HYDE. We receive a substantial amount of mail. Some of it is, oh, just, you might say, reporting a dislike or dislike for a program. Sometimes the complaint will indicate a possible violation of the law or the regulations.

Mr. EVINS. Well, you say you had 42 broadcast stations investigated. What was the nature of some of these and what resulted?

Mr. HYDE. In one instance an alleged lottery; another time a gift project which seemed to involved fraud. Sometimes it will be the possibility of an unauthorized transfer of control.

Mr. EVINS. You keep an accumulation of these in your records when renewal applications come up again?

Mr. HYDE. Yes, we do. Each application is examined against the complaints filed, right.

NETWORK STUDY

Mr. EVINS. I was interested in your network study on page 58, where you say: "Following the adoption by the Commission of its notice of proposed rulemaking in docket No. 12782, comments, special reports in support of comments, and reply comments from interested persons were filed in response to the notice. Because the record in docket No. 12782 comprehends a vast amount of information, data,

and evidence concerning the policies and practices of the three national television network organizations, it is anticipated that the bulk of the manpower needs of this Office will be utilized in the study," and so forth. Tell us what you are finding out about the three major far-reaching networks.

Mr. HYDE. One matter of particular interest has been the extent to which networks would own the programs which they exhibit. The inquiry was designed to find out whether or not ownership of the program as such, a copyright interest, and so forth, would influence the program judgments, and what changes in rules, if any, the Commission should make to improve the quality of service or the competitive situation.

Mr. EVINS. Well, you made the study. What resulted?

Mr. HYDE. We issued a notice of proposed rulemaking proposing to put some limitations as to the extent to which they may own the programs which they exhibit. Comments have been filed on that. A report is being prepared for the Commission. It is still to be resolved.

Mr. EVINS. We know that the networks each are trying to gain public favor.

Mr. HYDE. Right.

Mr. EVINS. And recognition of their programs on top listings. This is competition.

Mr. HYDE. Right. There is considerable difference of opinion in the industry, in the public and even on the Commission about this matter. It is a challenging question.

BROADCAST ACTIVITY JUSTIFICATION

Mr. EVINS. We will place in the record pages 43 through 60.

(The pages referred to follow:)

BROADCAST ACTIVITY

HEARINGS

This activity comprises the following operating units with functions as follows:

Broadcast Bureau.—The Broadcast Bureau, represented by the Hearing Division, participates in adjudicatory proceedings (before the Hearing Examiners, Review Board and the Commission) involving applications for new and changed facilities, applications for renewals of licenses, revocation proceedings, and other matters pertaining to broadcast services.

Office of Hearing Examiners.—Hearing Examiners preside at adjudicatory proceedings and independently prepare and issue Initial Decisions which look toward the disposition of such proceedings.

Review Board.—The functions of the Review Board, an autonomous office in the Federal Communications Commission, are essentially judicial. It decides all appeals from Hearing Examiners' Initial Decisions except in those few cases in which the Commission decides to hear the appeal itself. The Review Board also acts for the Commission in ruling upon petitions to amend, modify, enlarge, or delete issues upon which the hearing was ordered, and upon joint request for approval of agreements between parties to a proceeding looking toward the dismissal of one of the parties. Through its actions, the Review Board implements policy, determines the rights of individuals and business entities, and sets up guidelines and precedents.

Office of Opinions and Reviews—The Office of Opinions and Review assists the Commission and individual Commissioners in the disposition of matters arising in cases, or adjudication, which have been designated for hearing and brought before the Commission for action. In addition, the Office assists the Commission and individual Commissioners in appeals from Review Board actions and in Broadcast matters before the Commission as the Commission directs.

Dockets Division.—The Dockets Division maintains docket records on all pending hearing cases.

Manpower requirements (positions and average employment)

	Actual, 1966		Estimate, 1967		Estimate, 1968		Increase or decrease	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
Broadcast Bureau	31	29.3	30	29.5	30	29.5	.....	.....
Hearing examiners	28	27.8	19	19.7	17	16.6	−2	−3.1
Review board	29	28.3	27	25.3	26	24.9	−1	−.4
Opinions and review	14	13.5	12	11.6	12	11.6	.....	.....
Dockets Division	13	11.5	12	11.5	12	11.0	.....	−.5
Total	115	110.4	100	97.6	97	93.6	−3	−4.0

(*a*) *AM services*

Manpower requirements (average employment)

	1966 actual	1967 estimate	1968 estimate
Broadcast Bureau	19.0	19.3	19.3
Hearing examiners	14.8	10.1	9.2
Review board	17.2	15.3	15.3
Opinions and review	8.0	7.1	6.4
Dockets Division	5.4	5.4	5.2
Total	64.4	57.2	55.4

AM applications designated for hearing

	1966 actual	1967 estimate	1968 estimate
New and major changes	53	75	80
Supplementing and continuing	1	3	3
Renewals	12	14	14
Assignment and transfer	3	2	2
Total	69	94	99

Broadcast Bureau.—Only a slight increase is estimated in the total number of adjudicatory proceedings involving standard broadcast matters. Of significance is the fact that a larger percentage of the total number will involve revocation and license renewals. In proceedings involving revocation and renewals, as in forfeiture proceedings, the burden of establishing the facts relative to whether continued operation by broadcast licensees would serve the public interest rests upon the Bureau's trial attorneys. This not only requires extensive pretrial interrogation of witnesses, but also involves extended absences from Washington. As a consequence, the attorneys who are assigned to these cases are not available, while out of Washington, for trial of other cases.

In cases other than renewal and revocation proceedings, there have been three developments which materially increase the workload of the Bureau's staff. The first of these relates to applications for facilities which, though ostensibly designed to be stations in suburban communities, would also serve the central city; in such cases, the Commission now requires an in-depth examination of such proposals to determine whether they are suburban proposals or whether they are in fact central city proposals. The second development relates to the financial qualifications of applicants for new facilities; the Commission has adopted more stringent requirements relating to financial qualifications, and as a result the hearings relate not only to the funds available to an applicant but also require a determination of the accuracy of the applicant's estimate as to the station's first year income. The third development is the increasing number of instances

in which applications are filed in competition with applications for renewals of license. This is an outgrowth of the declining number of frequencies and channels that are available for the establishment of new stations. Proceedings involving applications for existing facilities are highly competitive, and as a consequence they impose great demands upon the Broadcast Bureau's staff.

Another development which is increasing the Bureau's workload is the increase in the number of cases in which the Commission is granting applications for review of decisions of the Review Board. In every such case, except cases in which only a comparison of two or more applications for the same communities is involved, and which the Commission schedules for oral argument, the Bureau participates by way of briefs and oral argument.

Office of Hearing Examiners.—It is estimated that in FY–1968 there will be 80 new AM applications designated for hearing relating to new and major changes. Additionally, it is expected there will be designated for hearing 14 renewal applications, besides 3 supplemental and continued applications. Renewal proceedings require substantial manpower requirements and with only few exceptions these hearings are conducted in the field. Therefore, the estimate for FY–1968 at this juncture would be a sheer guess. It is estimated that there will be approximately 75 applications carried forward from the present year. The total workload for AM proceedings for FY–1968 is estimated to be approximately 70, which will require 9.2 man-years assigned to AM functins.

Review Board.—The 15.3 man-year figure estimated for FY–1968 is based on the actual man-years required by the Board's standard broadcast workload for fiscal 1966 (17.2 man-years); the increase in hearing proceedings on hand before the Hearing Examiners (271 on hand 8/31/66 as against 255 on hand 8/31/65); and the Broadcast Bureau's estimate of an increase in the number of standard broadcast applications that will be designated for hearing in fiscal 1968. The Board is continuing to shorten the time interval between the receipt of Initial Decisions and release of the Review Board Decision despite the increasing complexity of the proceedings.

Office of Opinions and Review.—Although the Commission has delegated its authority to render final decisions involving new and changed AM facilities to the Review Board, this office continues to receive a substantial flow of AM cases resulting from remands necessitated by court decisions, in addition to the renewals and revocations designated for hearing with which it is charged. A substantially larger number of appeals from Review Board actions have been granted in whole or in part during FY–1966 than during the preceding fiscal year. This has prompted the filing of a larger number of applications for review than in previous years, which filings have increased the workload of this office. The Commission's most recent modification of its AM rules, such as the go-no-go and clear channel rules, has resulted in increased appeal activity. These same rule changes have also increased the flow of petitions for reconsideration of hearing designation orders seeking grants without hearing, which are reviewed and presented to the Commission through this office. In addition, the Commission has directed oral hearing, in lieu of evidentiary formal hearing in certain AM cases, requiring extensive preparations, and it is anticipated that such oral arguments in lieu of evidentiary hearings will continue to be used wherever there is no substantial factual issue requiring formal evidentiary hearings.

Dockets Division.—The 5.2 man-year figure is a minimal request based upon the number of cases estimated to be designated for hearing.

(b) FM services

Manpower requirements by organization (average employment)

	1966 actual	1967 estimate	1968 estimate
Broadcast Bureau	3.9	4.1	4.1
Hearing Examiners	3.8	2.0	2.1
Review Board	5.4	5.0	4.8
Opinions & Review	2.0	2.2	2.3
Dockets Division	2.5	2.5	2.4
Total	17.6	15.8	15.7

FM applications designated for hearing

	1966 actual	1967 estimate	1968 estimate
New and major changes	51	75	75
Supplemental and continuing	0	2	2
Renewals	1	1	1
Assignment and transfer	2	1	1
Total	54	79	79

The increased number of FM "New and Major" applications to be designated in FY–1967 is due to the continued increase in FM activity. As FM interest increases, more applications will be filed than the number of channels available for assignment. This should result in an increased number of mutually exclusive applications being filed and designated for hearing.

Broadcast Bureau.—The 4.1 man-years represents the minimal requirement for this workload and is predicated upon the selective process being employed in comparative proceedings as noted in TV section.

Office of Hearing Examiners.—Assigned to the FM functions is 2.1 man-years and is approximately the number assigned for FY–1967 and less than the actual man-years required in FY–1966. The workload in this area is expected to reflect the experience over the past few years.

Review Board.—Considered in light of the actual 5.4 man-year requirement for fiscal 1966 when 54 FM applications actually were designated for hearing, and the Bureau's estimate that 79 FM applications will be designated in fiscal 1967 and 79 more in fiscal 1968, the Board's 4.8 man-year estimate for fiscal 1968 is conservative.

Office of Opinions and Reviews.—Although the Commission has delegated its authority to render final decisions involving new and changed FM service to the Review Board, until all novel questions relating to the interpretations of the recently revised FM Rules utilizing tabular assignments have been determined by the Commission, it is anticipated that appeals will be taken by unsuccessful applicants to the full Commission from Review Board decisions. There was a marked increase in the filing of such applications for review and in their disposition by this office during fiscal 1966. Thus, while this office devoted only 0.7 man-years to FM cases during FY–1965, it devoted 2.0 man-years to such cases during FY–1966. This trend is expected to continue. The office estimates that 2.2 man-years will be devoted to FM during FY–1967 and 2.3 man-years during FY–1968. Under the delegations this office continues to handle renewal and revocation proceedings. The revised FM rules have resulted in some increase in the number of petitions to the Commission requesting reconsideration of its hearing designation orders and grants without hearing, which are presented to the Commission by this office. In addition, the usual flow of appeals from Review Board actions in interlocutory matters is expected to continue.

(c) *TV Services (including Translators)*

Manpower requirements (average employment)

	1966 actual	1967 estimate	1968 estimate
Broadcast Bureau	6.4	6.1	6.1
Hearing Examiners	9.2	7.6	5.3
Review Board	5.7	5.0	4.8
Opinions and Review	3.5	2.3	2.9
Dockets Division	3.6	3.6	3.4
Total	28.4	24.6	22.5

TV applications (including translators) designated for hearing

	1966 actual	1967 estimate	1968 estimate
New and major changes	41	55	65
Supplemental and continuing	2	4	4
Renewals	2	5	5
Assignment and transfer	1	1	1
Total	46	65	75

Television hearings will continue to include comparative proceedings involving competing applicants for the new channels being added to additional major markets, competing applicants for new UHF channels in several large metropolitan areas and other comparative proceedings generated by renewals under scrutiny.

Broadcast Bureau.—The Broadcast Bureau follows the policy of being selective in determining where staff participants will be required in comparative hearings. Under this policy, Bureau counsel do not participate in those aspects of comparative evalution where no public interest question is presented. However, television hearings are more highly contested than hearings involving AM and FM applications, and as a result numerous interlocutory pleadings (requesting the enlargement of issues, etc.) are filed. As a consequence of the enactment of the All-Channel receiver legislation, the interest in and competition for UFH channels in large cities and elsewhere has become more intense, with a resulting increase in the number of applications for a given facility and a consequent increase in interlocutory pleadings. Bureau counsel, in order to assist the Commission's Review Board and Examiners, file responsive pleadings in all instances.

Although Bureau counsel do not participate in the comparative aspects of television proceedings, the Commission's more stringent requirements as to financial qualifications have resulted in the inclusion of financial issues in many television proceedings. These issues require a determination, among other things, of the accuracy of an applicant's estimate of first year's revenues; the factual basis for such a determination is, of necessity, detailed and complex. The impact of VHF change in facilities applications on existing UHF stations is providing the basis of UHF challenges to the grant of such VHF applications, and a resolution of these problems involves the addition and analysis of detailed income and cost factors involved in operating a UHF station and the economic effect of the intrusion of the VHF signal in the UHF service area.

Office of Hearing Examiners.—It is anticipated that there will be 50 applications designated for hearing in FY–1968 in TV proceedings. This compares to an actual 34 proceedings in FY–1966. For FY–1968, it is estimated that there will be about 30 TV hearings in progress which will include approximately 50 applications in hearing status remaining over from FY–1967. Additionally, it is anticipated there will be about 15 applications designated involving translators as against an actual number of 7 in FY–1966. To handle this workload a minimum of 5.3 man-years is anticipated, which is a reduction of 2.3 man-years over the estimated man-years for FY–1967.

Review Board.—The 4.8 man-year figure is conservative in view of the actually expended 5.7 man-years in fiscal 1966 when fewer TV proceedings were on hand and in view of the considerable increase in TV applications to be designated for hearing—39 actually designated in fiscal 1966, 50 estimated to be designated in fiscal 1967, and 60 estimated to be designated in fiscal 1968. An additional consideration is the increase expected in translator applications to be designated for hearing in fiscal 1966 and 1967.

Office of Opinions and Review.—Although the Commission has delegated its authority to render final decisions involving new and changed TV facilities to the Review Board, a heavy workload for this office in such TV matters has occurred during FY–1966 and should continue at substantially the same rate during 1968. In general, comparable TV cases turn upon such narrow determinations that it must be anticipated that almost without fail, Review Board decisions will be appealed to the Commission, requiring presentations through this office. An increased number of TV comparative hearings for new UHF facilities are now under way, and decisions in these cases should be issued by the Review Board during the latter half of FY–1967 and during FY–1968. In

all probability, applications for review will be filed from virtually all of these Review Board decisions. Appeals which will be granted by the Commission will require the preparation by this office of summaries for oral argument as well as the drafting of Commission final decisions thereafter. The flow of appeals from Review Board actions in interlocutory matters is expected to continue. This office is charged with the responsibility for handling all TV renewal and revocation proceedings. It is also called upon to handle cases where reopening of the records has been necessitated by court decisions. This office must also present to the Commission petitions seeking reconsideration of hearing designation orders and grants without hearing, and must prepare referenced material for such oral arguments as may be held at the Commission's direction.

RULES

This section covers the manpower required to handle all phases of rule making for the AM, FM, and TV services. It involves the original planning, both short and long range, and subsequent development of rule proposals, detailed analysis of numerous comments, both pro and con, submitted with respect to proposals, and finally the promulgation of the new rules. It also involves the study and analysis of various petitions for rule changes submitted by the industry and the public.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate	
	Positions	Average employment	Positions	Average employment	Positions	Average employment
AM: Broadcast Bureau	7	5.6	7	6.5	7	6.5
FM: Broadcast Bureau	6	6.0	5	6.3	6	6.3
TV: Broadcast Bureau	10	8.3	10	9.2	10	9.2
CATV: Broadcast Bureau	1	.8				
Data processing	1	.5	1	.8	1	.8
Total	25	21.2	24	22.8	24	22.8

a. AM services

The simplified AM allocation rules adopted in 1964 are continuing to pay benefits in the form of reduced application processing time and less confusion by the industry. During the next two years these rules will continue under scrutiny for further simplification and effectiveness. Also as the demand for stations continues for the limited spectrum space available, rule refinements which increase the efficiency of allocation will be continuously under consideration. Typical of this type of situation is a petition filed only recently to revise the complex requirements for new nighttime stations where the proposed operation must be fitted into an area congested with interference.

One of the most far reaching of all AM rule proposals—authorization of super power (500 or 750 kw) on selected clear channels—has been delayed, but may be considered within the next year or two. In the meantime studies looking toward additional duplication of stations on existing clear channels are being undertaken. These studies will look toward rule making proceedings dealing with such highly sensitive issues as the interference and corresponding reduction in coverage acceptable to clear channel stations.

b. FM services

The demand for FM channels is exceeding the supply in more and more areas of the country. The result is progressively more complex proposals to rearrange the Table of FM Assignments necessitating in turn more comprehensive engineering studies by the Commission.

In line with our policy of promoting simplification of station operating requirements as the state of the art progresses, we intend in the next two years to explore the possibility of a completely automated FM transmitter. If adopted, such a proposal would be the final step of a program which began with the fully manned transmitter and advanced last year with the authorization of remote control and automatic logging.

A table of assignments has not been prepared for that portion of the FM band reserved for education. Negotiations with educators and representatives of the Canadian government will begin next year and are expected to lead to an agreement and the preparation of an assignment plan. The Mexicans have also expressed an interest in a common border assignment plan and activity in this area should begin in the coming fiscal year.

The FM assignment plan unlike TV has never been programmed to the computer. The programming difficulties in FM are more complicated because of the additional parameters involved, but these problems are expected to be solved in the coming year and the plan completely computerized with resultant savings in manpower.

c. TV services

The demand for additional TV channels is expected to continue to increase. The situation in this service has been complicated by recent petitions from nonbroadcast services to share the TV channels. As a first step in exploring this possibility, joint Commission-Industry field tests are being proposed. If such tests indicate sharing is feasible, extensive hearings on standards for joint use will be in order.

The rule making proceeding begun last year to investigate the possibility of reserving all channels between 70 and 83 for use by low power community type stations has not been resolved. Serious questions have arisen over the economic feasibility of such low powered stations. Also additional proposals have been made to use the band for other purposes, e.g., translators and earth circling satellites. The proceeding is expected to require more study than originally forecast.

Subscription television until now has been authorized only on a limited trial basis. In March of this year the Commission issued a further notice of rule making looking toward adoption of rules authorizing pay TV on a permanent and more extensive basis. The notice raised questions such as whether only one technical system should be authorized and whether the Commission should assert jurisdiction over wire pay TV as well as over-the-air pay TV. These matters, and other policy issues, are now under consideration and will involve considerable time and effort on the part of the Commission and the staff.

The extent to which the TV translator service could be expanded and upgraded continues to draw attention. Originally translators were intended for and limited to low power devices for use in repeating into isolated areas the signal from the parent station. Last year power increases were permitted under certain circumstances. Recently the rules were changed to permit translators to bring in their signals by microwave relay. New petitions are on file to further liberalize the power requirements. Also under study are suggestions that the rules be revised to permit local program origination and elimination of station identification requirements. Another petition would reserve the top 13 UHF TV channels for exclusive use of translators. The problem becomes further complicated due to the rising competition with the CATV service and the impact on regular TV service.

The proposal to permit stereo broadcasting on the TV sound channel has been postponed from time to time in order to permit the industry to conduct additional field tests. It is expected that the matter will be disposed of within the next year or two.

D. Miscellaneous

With the industry expanding rapidly from year to year the number and variety of rule making proposals has been steadily increasing. In the matter of multiple ownership a number of proceedings are expected to continue into next year. Examples of these are the Commission's proposal to limit common ownership of TV stations in the top 50 markets and to limit the extent to which networks may acquire proprietary rights in programs produced by others.

A program to liberalize the use of studio-transmitter, intercity and pickup relay stations has begun and will continue. Matters under consideration include elimination of station identification, use of TV relays for aural relaying when not occupied, duplicate channels for frequency diversity and expansion of low powered auxiliaries into other areas of the spectrum.

Because of the changing nature of International Broadcasting and also as a result of changes adopted at a recent international conference, work has begun on a complete revision of the International Broadcast Rules.

Two bulky rule making matters which hopefully will be largely disposed of before the beginning of the fiscal year are the "Plugola" and "Presunrise" pro-

ceedings. However, because of the complexity and scope of these matters, provision should be allowed for some carryover into next year. At issue in the pre-sunrise proceeding is the delicate question of balance between the interference caused by daytime facilities operating pre-sunrise as against the local service to their communities during these hours. The Plugola proceeding concerns the propriety of "plugging" products in which the station or its employees or performers have a financial interest. Actually this proceeding has been considerably broadened over the years into other questionable practices as a result of inquiries, hearings and investigations.

E. Data Processing Service

As indicated above, it is expected that the FM Table of Assignments will be programmed to the computer in the near future. Although computerizing the VHF television table of assignments will be of considerably less benefit than the UHF (computerized last year), the effort is believed to be worthwhile and steps will be taken in this direction shortly. No additional staff requirements will be needed.

COMPLAINTS AND COMPLIANCE

Although this activity is customarily classified as involving only the investigative and enforcement functions of the Broadcast Bureau, it also encompasses a large measure of the Commission's public relations activity in the broadcast field, in that it involves processing and responding to thousands of letters from the public and Members of Congress each year. These letters include inquiries and comments as well as complaints against broadcast licensees and their programs.

Appropriate response is made to the inquiries and comments. The complaints are investigated and, when indicated, recommendations are made to the Commission for imposition of appropriate sanctions, which may include revocation or refusal of renewal of license, monetary forfeiture or grant of a short-term license renewal. Based upon information obtained by the staff in investigating complaints, recommendations also are made to the Commission from time to time for adoption of new rules. Most of the enforcement (as well as public relations) activity of the Bureau is centered in the Complaints and Compliance Division. The actual average manpower of that Division in FY–1966 was 25.8 of the 42.9 man years listed below. The other major participant in the enforcement activity was the Renewal and Transfer Division which devoted 13.2 man years to this activity in FY 1966. The remaining 3.9 man years were divided among the Broadcast Facilities and Hearing Divisions and the Office of the Bureau Chief.

Manpower requirements (positions and average employment)

	1965 actual		1967 estimate		1968 estimate	
	Positions	Average employment	Positions	Average employment	Positions	Average employment
AM	30	26.2	28	26.2	27	26.2
FM	6	5.0	5	4.7	5	4.7
TV	13	11.7	12	11.7	12	11.7
Total	49	42.9	45	42.6	44	42.6

During FY 1966 the Broadcast Bureau received more than 52,000 expressions of opinion on broadcast matters compared to 35,000 in FY 1965. Some 13,000 of these could be classified as complaints against broadcasters, their programs and practices, the remainder consisting mainly of inquiries and comments. Field investigations ranging in duration from a few days to more than a month each were made of 42 broadcast stations during the year. A substantial part of the investigative effort was concerned with payola pursuant to the Commission's Order of November 25, 1964, instituting an inquiry into violations of Sections 317 and 508 of the Communications Act. Non-public evidentiary proceedings were held in two major cities during FY 1966 in furtherance of this investigation. As the result of the staff's other investigative and enforcement activities, 78 Notices of Apparent Liability were issued during FY 1966 compared to 38 the previous year and 13 in FY 1964. Short-term (probationary license renewals were granted to 22 stations.

Five license renewal applications were designated for hearing because of alleged violation of statute or rule, revocation proceedings were instituted against three other licensees and one application for original license to cover construction permit was denied because of derelictions of the permittee.

During the year the Commission directed the Broadcast Bureau to issue by delegated authority Notices of Apparent Liability in amounts up to $250 for violation of technical rules which in the past had usually resulted only in issuance of citations by the Field Engineering Bureau to the licensees. The Commission also announced that a graduated schedule of forfeitures would be assessed against licensees who did not file renewal applications 90 days before expiration of license as required by the Rules. Thereafter, up until the end of FY 1966, 30 Notices of Apparent Liability were issued by delegated authority for this violation.

RESEARCH AND EDUCATION

This activity, centered in the Research and Education Division, is concerned with the compilation of data on the condition and status of the broadcast industry and the study of social and economic factors affecting broadcast communications. The development and promotion of both educational and commercial broadcast services is also of concern in this area.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate	
	Positions	Average employment	Positions	Average employment	Positions	Average employment
AM: Broadcast Bureau	5	4.7	5	5.0	5	5.0
FM: Broadcast Bureau	3	3.0	3	3.0	3	3.0
TV: Broadcast Bureau	4	4.0	4	4.0	4	4.0
Data processing	1	.5	1	.8	1	.8
Total	13	12.2	13	12.8	13	12.8

During the past several years the Commission has been engaged in a growing number of proceedings requiring expert economic and statistical assistance. These include Congressional hearings (e.g., proposed use of communications satellites for broadcasting, copyright law revision for CATV, political broadcasting, audience ratings, and the newspaper ownership rule); rulemaking proceedings (CATV, subscription television, multiple ownership, network control, UHF and FM allocations, AM–FM program duplication); processing of AM–FM and TV applications (standards for determining financial qualification questions and economic impact on existing stations); and processing of requests for waiver under the CATV rules (impact of CATV expansion on UHF in specific areas).

The Commission is faced with major policy decisions in a number of areas requiring detailed study and analyses of critical economic and social factors. In reaching decisions in such matters as superpower in AM, Community Antenna Television, Subscription Television, and use of communications satellites for broadcasting, the Commission is concerned with the ability of local radio and television stations to continue to provide certain vital services to the public. It is therefore necessary that studies be made of the possible effect of such developments on the economic viability of local stations.

Another matter of vital concern to the Commission is the probable course of UHF development in the light of the All Channel legislation. It is through UHF that the Commission's goal of providing as much television service as is technically feasible can be effectuated. The Commission needs to be kept informed of the progress of new UHF stations in such matters as obtaining programming and advertiser support so that it may take such measures as may be necessary to facilitate the growth of UHF.

Some matters such as multiple ownership, newspaper ownership of broadcast facilities and political broadcasting require large-scale surveys of broadcasting stations or very extensive research into Commission and trade sources as the basis for further study and analysis. It should be noted that as some of these surveys are repeated periodically, the detailed information requested increases. Thus, the 1964 political broadcasting questionnaire was of a size comparable to both the 1960 and 1962 questionnaires combined.

The Educational Broadcasting Branch's responsibilities and work have increased with the growth of educational television and radio facilities throughout the country. The 115 educational television stations and 326 educational radio stations on the air at the beginning of FY 1967 represent 100% and 45% increases, respectively, in these two services since the branch was established in FY 1962. In addition, the Commission established in FY 1964 the Instructional TV Fixed Service for in-school instruction. At the beginning of FY 1967 applications have been received for 217 channels in this service. The branch has administrative responsibilities for the activities of the Committee For The Full Development of the Instructional TV Fixed Service (an advisory body composed of educators throughout the country). This includes arranging for meetings of the national body and coordinating its activities with those of various subcommittees at the regional, state, and local level. The branch also provides coordinating services for the Federal Inter-Agency Broadcast Media Group composed of representatives of various government agencies. To develop recommendations for new rules and regulations in the rapidly growing field of educational broadcasting, the branch needs to increase its research activity and consultation with additional groups and liaison with other government agencies.

(d) Data processing services

The Data Processing Division participates in the design of questionnaries, performs card punch operations and prepares numerous statistical tabulations from station financial reports and political broadcast questionnaires. Requirements of the Data Processing staff should continue in FY 1968 at the FY 1967 level.

NETWORK STUDY

Network Study, as an office of the Broadcast Bureau under Commission jurisdiction, is responsible for the execution of the staff mission to keep the Commission currently informed of the policies and practices engaged in by radio and television network organizations to the extent necessary for the Commission to develop and maintain an adequate regulatory program. This responsibility encompasses study, review, analysis, advice and recommendation regarding relevant information and data on policies and practices engaged in by television and radio network organizations insofar as such policies and practices affect or impinge upon the ability of station licensees to operate in the public interest.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate	
	Positions	Average employment	Positions	Average employment	Positions	Average employment
AM: Broadcast Bureau	1	0.9	1	0.8	1	0.8
FM: Broadcast Bureau		.3		.3		.3
TV: Broadcast Bureau	6	5.6	6	5.4	6	5.4
Data processing		.2		.2		.2
Total	7	7.0	7	6.7	7	6.7

Following the adoption by the Commission of its Notice of Proposed Rule Making in Docket No. 12782, Comments, Special Reports in support of Comments, and Reply Comments from interested persons were filed in response to the Notice. Because the record in Docket No. 12782 comprehends a vast amount of information, data and evidence concerning the policies and practices of the three national television network organizations, it is anticipated that the bulk of the manpower needs of this Office will be utilized in the study, review and analysis of the various positions and arguments contained in the Comments and other documents filed in responses to the Notice of Proposed Rule Making. Though it is to be expected that the appropriate steps preliminary to formal Commission consideration of its Proposed Rule Making in Docket No. 12782 will be completed early in 1967, it is also anticipated, because of the far reaching importance on network broadcasting of the Commission's Proposed Rules, alternate remedial measures may be required. While the Commission's Notice comprehends alternate solutions to the conditions it found as a result of its long inquiry in Docket

No. 12782, other action beyond or different from the Proposed Rules may be appropriate to achieve the same objectives. Should methods different than the Proposed Rules be adopted by the Commission on the basis of the various suggestions and recommendations of the interested persons and respondents, new procedures will have to be devised and effectuated to meet the chosen direction of the Commission.

INTERNATIONAL

This activity is concerned with international commitments and treaty obligations, such as the North American Regional Broadcasting Agreement (NARBA) and the United States-Mexico bilateral agreement in AM, U.S./Mexican and U.S./Canadian agreements in TV, and the bilateral agreement with Canada regarding FM. Notification of new and changed assignments are made for U.S. assignments, foreign notifications are studied for conformity with applicable agreements, conflicting assignments are resolved, and new or modified agreements are negotiated as necessary.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate	
	Positions	Average employment	Positions	Average employment	Positions	Average employment
AM, Broadcast Bureau	4	3.1	4	3.5	4	3.5
FM, Broadcast Bureau		.3		.3		.4
TV, Broadcast Bureau		.2		.2		.2
All others, Broadcast Bureau		.1		.1		.1
Data processing	1	.5	2	1.5	1	.5
Total	5	4.2	6	5.6	5	4.7

The day-to-day workload related to international commitments under existing agreements continues to increase as the various broadcasting services continue to expand, and as neighboring countries continue to expand their broadcasting services. In addition, formal negotiations are taking place between delegations representing the United States and Mexico looking toward an agreement to replace one which expired on June 9, 1966, but extended until the end of 1967 by a Protocol. The first formal session was held in Washington, D. C. September 6 through the 13th, 1966. Additional formal sessions will be held in February, 1967. If agreement cannot be reached in February, additional sessions will be held until an agreement is reached. A considerable amount of manpower will be expended during the first half of FY 1968 to assure completion of a new agreement before December 31, 1967.

Most significant, however, are developing problems in the standard broadcast field. The North American Regional Broadcasting Agreement (NARBA), together with the U.S./Mexico bilateral agreement, covers all of the countries (Canada, Cuba, Mexico, Dominican Republic, Haiti, Jamaica and Bahamas) with which problems of interference were anticipated at the time they were negotiated in 1950 and 1957, respectively. Since the NARBA entered into force in 1960 (with ratification by Cuba, Canada and the U. S.), only the Dominican Republic and the Bahamas have also ratified. In addition, Cuba and the Dominican Republic, as well as Jamaica and Haiti have made numerous station notifications and/or station assignments which are contrary to the NARBA and which have an adverse impact on the broadcasting service in the U. S. Moreover, the numbers and powers of standard broadcasting stations in South and Central American countries, with which the U. S. has no regional agreements, continue to the point where they pose serious problems of interference to U. S. service. As a result, the manpower allocation for this activity must be sufficient to provide for analysis of interfering assignments, negotiation of correction actions, and development of plans for effective action to insure adequate protection for standard broadcasting service in this country in the future.

(*e*) *Data processing services*

The Data Processing Division has this past year produced radiation studies, station-to-station distances and azimuths for channel study analysis for foreign

and domestic stations. They also produced overlays of .5 millivolts per meter contours of selected stations for use in studying interference from foreign applications to domestic stations.

Common Carrier Activity

Mr. Evins. Turn over to the common carrier activity. This is another of the big bureaus. This activity covers the regulations of rates, services, and practices of communications common carriers, and licensing of all radio used in common carrier communications.

The appropriations increased request is to $151,933 over last year, with a 12 position increase. The Chairman and others have discussed the study.

You state that almost 50 percent of the staffing requirements for this activity will relate to the comprehensive investigation and hearings of the *Bell System* case, docket No. 16258.

You discuss the three phases. We will place all this in the record, pages 61 through 78.

Mr. Hyde. Thank you.

(The pages referred to follow:)

Common Carrier Activity

A. JUSTIFICATION BY ACTIVITY

1. Domestic Rate Regulation—This activity relates to the regulation of tariff charges, regulations, practices and classifications applicable to domestic interstate telephone and telegraph service. The allocated manpower requirements for Commission hearings related to this activity is included herein.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
Telephone	35	33.9	28	27.5	28	27.6	------	0.1
Telegraph	8	6.8	6	5.2	6	5.2	------	----------
Docket 16258	17	15.1	30	28.0	30	28.1	------	.1
Total	60	55.8	64	60.7	64	60.9	------	.2

JUSTIFICATION

Almost 50% of the Commission's staffing requirements for this activity in F.Y. 1968 will relate to the comprehensive investigation and hearings instituted October 27, 1965 into the rate levels and rate structure of the Bell System (Docket No. 16258). The remaining requirements involve activities not subsumed by the investigation. These include the review of new and revised tariffs, tariff hearings and decisions and the rate making and policy questions generated by new developments, particularly in the important burgeoning field of data communications and information utilities. They also include the prescription and revision of depreciation rates and the administration and enforcement of the Uniform System of Accounts.

The Rate Hearings: In order to focus sharply upon the several complex and important questions to be resolved in this proceeding and to make its consideration thereof more expeditious and efficient, the Commission has divided the proceeding into two principal stages. Phase I concerns the total revenue requirements of the Bell System for all of its interstate and foreign communications services, including the fair rate of return, and the relevant rate-making principles and factors that should apply in the distribution of such revenue require-

ments among the principal rate classifications. The taking of testimony and evidence on Phase I, which commenced on June 7, 1966, is expected to be completed in current F.Y. 1967. The decisional process in Phase I may commence in F.Y. 1967 and will continue well into F.Y. 1968. Proceedings in Phase II, which concern all of the other matters relating to a just and reasonable level of earnings for the Bell System's interstate operations and the principal classes of service, is expected to commence late in F.Y. 1967 but the bulk of the Commission's efforts in this phase will take place in F.Y. 1968. Thus, the 25–30 employees devoting all or a substantial portion of their time to this proceeding in F.Y. 1967 will be required to continue in such assignments throughout F.Y. 1968.

1. *Domestic Rate Regulation.*—This activity relates to the regulation of tariff charges, regulations, practices and classifications applicable to domestic interstate telephone and telegraph service. The allocated manpower requirements for Commission hearings related to this activity is included herein.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
Telephone	35	33.9	28	27.5	28	27.6	------	0.1
Telegraph	8	6.8	6	5.2	6	5.2	------	----------
Docket 16258	17	15.1	30	28.0	30	28.1	------	.1
Total	60	55.8	64	60.7	64	60.9	------	.2

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TELPAK: The Commission's decisions in this proceeding were affirmed by the United States Court of Appeals for the District of Columbia Circuit on September 15, 1966. The delay in reaching a final court decision has also delayed the elimination of the discrimination between TELPAK A and B rates and the Private Line rates and the submission of revised tariffs together with cost and operating data in support thereof. Similarly delayed are the additional cost studies ordered by the Commission relating to the C and D offering under

TELPAK which will require thorough review and analysis. Although the revised tariffs and supporting data are expected to be filed in F.Y. 1967, the main workload relating to TELPAK rates and classification will occur in F.Y. 1968.

TWX Case (Docket 15011): A recommended decision of the Chief, Common Carrier Bureau, was issued in this case in F.Y. 1966. The Commission issued a memorandum opinion and order in F.Y. 1967 in which the Commission concluded that it would not make definitive rulings on the level of earnings proper in this case or on the numerous exceptions to the recommended decision until it makes certain determinations respecting rate of return and other matters in the general rate investigation of the Bell System in Docket 16258. The Commission further ordered that the TWX proceedings in Docket 15011 be consolidated with the proceedings in Docket 16258. Thus, the formulation of a final decision in the TWX case and rulings upon the numerous exceptions to the recommended decision are expected to be made in F.Y. 1968.

CATV–Channel Distributing System: The Commission on April 6, 1966, issued an order requesting communication's common carriers to file tariffs with the Commission for local distribution channels furnished for use in CATV systems. These have now been filed with the Commission for the first time. It is expected that these CATV channel tariffs will be the subject of numerous complaints, some of which have already been filed, raising complex issues of law and fact that will require resolution on the basis of public hearings. As a result, a considerable portion of the existing staff will be required to handle these complaints.

Foreign Attachments: In August 1966, the U.S. Court of Appeals for the 5th Circuit ruled definitively in the Carterphone case that any equipment manufacturing company desiring to sell equipment to be used by telephone subscribers in conjunction with the facilities of the telephone companies in contravention of tariffs filed with the Commission cannot sue the telephone company under the anti-trust provisions prohibiting such use. (*Thomas F. Carter and Carter Electronic Corp.* v. *AT & T* (Civil Action CA–3–1294, United States Court of Appeals, 5th Circuit, August 17, 1966).) As a result of this court action, the Commission expects a number of formal complaints from equipment manufacturers and others requesting the Commission to find such tariff provisions unlawful. One such complaint (Western States Telephone Co.) has already been filed. The processing of such complaints are expected to require public hearings and the services of a substantial portion of the staff.

In addition to the above-mentioned telephone problems, the following formal cases relating to telephone rate matters have already been designated for hearing and will be processed during F.Y. 1968.

Docket 16043.—Sports Network formal complaint challenging lawfulness of basic rate structure of AT&T for video private line services.

Docket 16690.—Daily Express formal complaint challenging the lawfulness of certain charges for interstate private line telephone service used to provide complainant with "foreign exchange service".

Several other formal telephone rate cases are in various stages of completion and may, depending upon other priorities run into F.Y. 1968.

Western Union's first public computer service was opened in mid-F.Y. 1966. Three new services are being provided through the center—a Telex-to-TWX message service; relay service to Telex subscribers when their correspondents' machines are busy, and a multiple address service permitting a subscriber to send a single common message to as many as 100 Telex or TWX subscribers, or any combination of both. Western Union plans further expansion into various types of computer information services. These plans, and similar competitive programs contemplated by non-regulated computer manufacturers, suppliers and services, raise policy and regulatory questions of basic significance to this rapidly growing industry. The Commission's jurisdiction over such information services and whether new or additional legislation may be required to protect the public interest in this new field are some of the questions that should be resolved in the near future. The Commission may be required to initiate formal inquiry proceedings in F.Y. 1968 or sooner to deal with the problems involved. However, our ability to do so, will depend upon the availability of adequate staff, and it is expected that substantial staff efforts will be required in F.Y. 1968 to perform these duties.

Western Union and AT&T are in the process of negotiation for the purchase by Western Union of TWX and certain other record communications services now offered by the Bell System. It is premature to attempt to forecast when the matter of the purchase will come before the Commission. Such a major trans-

action will require detailed review and analysis of rate base claims and any changes in rate structure. Early F.Y. 1968 appears the earliest date when this increase in workload may materialize.

ARX: Western Union's initial system of the General Services Administration's Advanced Record System is scheduled for completion in mid-F.Y. 1967. It will serve a number of government departments, in addition to GSA itself. The Advanced Record System is a computer-oriented system using broadband transmission facilities capable of accommodating teleprinter, facsimile, high-speed data devices, and voice. The results of cost studies to support the rates for the finalized system are expected in F.Y. 1968 and these studies will require detailed analysis to enable the Commission to evaluate the justness and reasonableness of the rates.

1. Depreciation.—The Commission's current program calls for a review of depreciation rates prescribed for each of 24 Bell companies once every three years. In addition, reviews are made of the Western Union depreciation rates approximately every five years. For the past four years, it has been planned to inaugurate a program for the prescription of depreciation rates for the 11 largest non-Bell telephone companies, but due to a shortage of technical personnel and due to the increased workload resulting from the rapid expansion of the plant of the Bell System, it has not been possible to commence this program. During F.Y. 1968, the expansion of the Bell company plant will have a definite impact upon the staff's workload because of a proposed split by Southern Bell of a single depreciation study covering the plant in nine Southern states, which would normally be considered in F.Y. 1969, into three studies, one in F.Y. 1968 for two states, one in F.Y. 1969 covering four states, and one in F.Y. 1970 for three states. They have made this request because of their increasing inability to handle the study of all of their plant at one time. Thus, in F.Y. 1968, the staff will have one extra study to review that they didn't have in prior years. Because of this, and because of the difficulty of recruiting and holding a basic professional group, it is not intended to start any studies of non-Bell telephone company plant until some time after F.Y. 1968.

During F.Y. 1966, revised depreciation rates were ordered for six Bell companies and for Western Union. Three of the Bell companies are multi-state companies with plant in 20 states. In addition, a depreciation manual, which had been in preparation for five years, was completed in F.Y. 1966. This work was done in cooperation with the Depreciation Subcommittee of the National Association of Railroad and Utilities Commissioners. Although the manual may require substantial revision after comments are received on the initial printing, it is anticipated that the staff's workload will be decreased by F.Y. 1968 as a result of the completion of the manual. Because of this factor, and due to the cooperation of the Bell companies in summarizing and presenting statistics in such form as to facilitate rapid reviews, it is expected that the additional workload created by plant expansion can be managed with no additional technical personnel over and above those already approved for F.Y. 1967.

Comments on Position Requested: An increase of 1 position for the Common Carrier Bureau Activity in Domestic Rate Regulation is requested. However, the aforementioned manpower requirements do not reflect this as a position increase due to an offsetting reduction in this activity by the Office of Hearing Examiners. The 1 position increase is requested for the following reasons. Telephone rates are based, primarily, on estimates of the plant facilities and maintenance and operating costs which are required to perform the various services and the estimated markets for such services. Because we lack skilled personnel experienced in the telephone plant layouts and operations, the existing staff must accept in large measure the carrier's claims as to engineering estimates of the facilities needed to furnish specific services. The material costs are the base for building up the other related investment and expense data. Thus, the importance of accuracy for these material costs is apparent. The Commission is unable, to a substantial extent, to conduct independent analyses of the engineering data submitted in the degree and depth required to test company claims, or to devise appropriate revisions in separations procedures, rates or rate patterns on our own initiative. For these reasons, the addition of one GS–15 telephone plant engineer is urgently needed for F.Y. 1968 to perform the following functions:

1. To participate in continuing studies of separations procedures used to allocate commonly used plant and common expenses between interstate and intrastate services, and in division of revenue procedures used by the carriers

to implement such separation procedures; and to design a regular program for testing the reasonableness of the separation procedures and the accuracy of results produced in the application of such procedures.

2. To design and conduct comprehensive engineering studies to allocate the costs between and within the various classifications of interstate communications services of telephone companies to the end that there be no undue discrimination in charges, as between individual rate payers, and that the users of each class of service contribute a fair share of the overall revenue requirements of the carriers; to devise procedures for relating the various work, usage and facility requirements to cost in the detail necessary to allocate costs to chargeable service functions; and to design studies of traffic handling of the various telephone and domestic telegraph communications carriers to determine appropriate bases for the allocation of costs within the various message classifications.

2. *Domestic Service Regulation.*—The domestic service regulation responsibilities of the Commission over communication common carriers which furnish interstate or foreign telephone or telegraph service, including taking appropriate action on proposed mergers or acquisitions, and on applications to extend or supplement facilities or to discontinue, reduce or impair service, and developing current information on technological advancements in the communications art and new and changing user requirements for voice and record services. The major program objectives relate to the establishment and maintenance by communications common carriers of adequate services and facilities to meet all reasonable needs and demands for expeditious and efficient communication, and for the purpose of national defense, and the enforcement of compliance with the provisions of the Communications Act, Commission Rules and Orders applicable to operations and services of such carriers.

An increase in staff of one professional employee an electronic engineer, is requested to take care of an anticipated increase in application workload resulting from the continued accelerated growth of the telephone industry and decline in public telegraph message volume, and to carry out a number of projects and studies considered to be essential for adequate regulation but which have been neglected because of limited manpower. These latter projects include intensified review of adequacy of domestic interstate and foreign communication services and facilities and determination of remedial measures which may be required, continuing analyses of contracts and operating managements of telephone and telegraph carriers for effects upon services and facilities, continuing inquiries under Section 218 of the Act into the management of telephone and telegraph carriers, and continuing study of provisions of the Communications Act and the Commission's Rules to determine what, if any, revisions should be proposed with respect to services and facilities of the common carriers. The allocated manpower requirements for Commission hearings related to this activity is included herein.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
Domestic service regulation	22	19.4	22	20.6	23	21.0	1	.4

(a) Telephone: The telephone industry is expected to continue its rapid growth, expansion of facilities and introduction of technological improvements and new services. Long distance calling is increasing at an annual rate of about 12% and requirements for interstate private line services at an even higher rate. No decline is expected in construction expenditures for new interstate telephone facilities, subject to the Commission's regulation, which exceeded $646 million in fiscal 1966, and the accelerated growth of the industry points to an increase in the application processing workload in 1968. In considering applications by communication common carriers to extend or supplement facilities, under statutory requirements the Commission's function is to determine whether the facilities proposed are excessive, deficient or adequate to meet the indicated needs for

expeditious and efficient communication, whether they will result in wasteful duplication of facilities, and whether the costs of such facilities are reasonable and prudent. Service regulation responsibilities of the Commission also include working with the Department of Defense and other government agencies in developing ways and means to insure continuity of communication services at all times, the handling of service complaints from users, and taking appropriate action to assure generally that quality telephone service is made available to all users.

Under Executive Order 11092, the Commission has been delegated certain responsibilities with respect to formulating plans and preparedness programs covering common carriers for use during periods of national emergency. The Bureau is currently engaged in the development of revised priority systems for public correspondence and for the use and resumption of intercity private line service in an emergency. These revised systems are expected to be issued shortly, and increased work requirements are expected in 1968 to administer the plans and to evaluate requests from users for priority assignments.

(b) Telegraph: Continued decline in public telegraph message volume portends no lessening in the number of applications filed by Western Union for authority to discontinue offices, reduce hours of service or otherwise curtail telegraph service. This decline in public message volume, and evident emphasis the company is placing on non-message services (Telex, private line, computer shortage and retrieval services, etc.) are creating serious problems with respect to telegraph speed of service. In spite of continued decline over the years, a substantial public message volume exists, and speed, quality and adequacy of telegraph service remain as important Commission regulatory responsibilities. No increase in staff is being requested for this activity notwithstanding that an intensification of field inspecting of speed and quality of service would be warranted.

Continued steps taken by Western Union as a regulated common carrier to actively enter into the business information field by offering a variety of computer services, and the activities of non-regulated computer manufacturers and service organizations offering similar services involving communications are expected to pose new regulatory problems for the Commission.

The conclusions reached in the investigation into domestic telegraph operations and services (Docket 14650) are also expected to create new service regulation problems for 1968. One such problem involves the possible acquisition by Western Union of the Bell System's TWX service. Discussions, generated by the inquiry, between the two companies regarding such purchase by Western Union are continuing. Should these discussions culminate in an agreement between the parties, consummation of the transaction will require approval by this Commission after a full investigation and public hearing, as required by Section 222 of the Communications Act, to determine that all aspects of the transaction are in the public interest. Such a proceeding will of necessity be protracted and will substantially increase demands upon staff resources.

3. Domestic Radio Regulation.—The Domestic Radio Division is responsible for the licensing and the operational regulation of the domestic common carrier radio services, including the Point-to-Point Microwave Radio Service, Local Television Transmission Service, Domestic Public Land Mobile Radio Service, Rural Radio Service, Developmental Radio Services, and the joint performance of such functions with the Aviation and Marine Division of the Safety and Special Radio Services Bureau in connection with the rendition of public radio services through land, maritime and aeronautical stations. The allocated manpower requirements for Commission hearings related to this activity is included herein.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
Domestic radio regulation	35	31.4	35	32.7	40	36.4	5	3.7

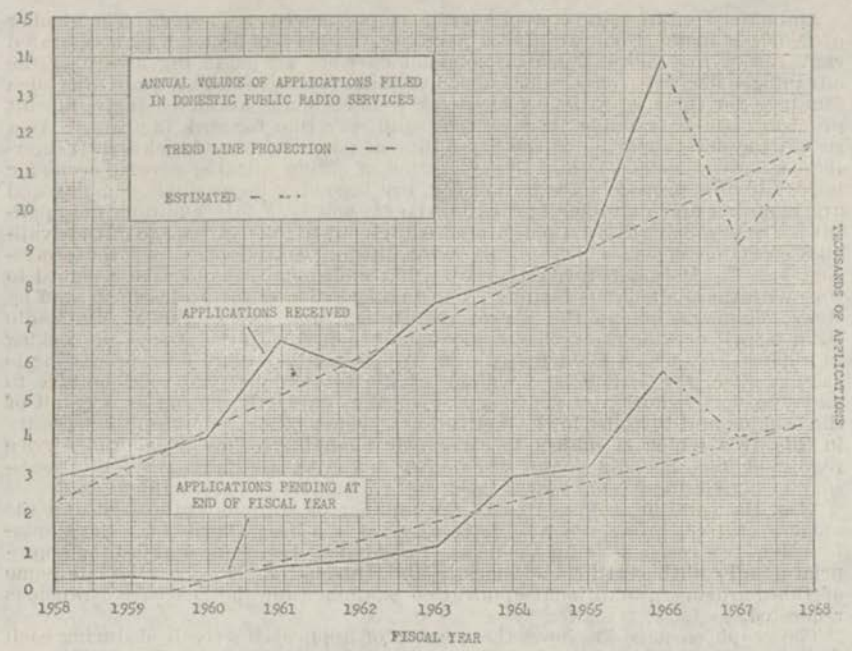
An increase of 3.7 man years of average employment is requested. The number of licensees in the Domestic Radio Services continues to grow at an accelerated rate. More and more, domestic common carriers are becoming aware of the advantages derived from the utilization of radio facilities and are proposing such facilities for their operations. However, it is becoming an increasingly difficult problem to find available space in the radio spectrum for such facilities. As a result, the determination of the possibility of potential harmful electrical interference between stations and the resolution of claims alleging adverse economic impact if new proposals are authorized, are becoming increasingly complex and are imposing an intolerable burden on the present staff. In addition, the applicants are proposing more sophisticated equipment to take advantage of the available spectrum space, which entails more difficult considerations by the professional staff. It is imperative therefore that additional personnel be assigned to cope with these numerous factors. The augmentation of the professional staff by three engineers, one in the Microwave Branch and two in the Mobile Radio Branch, will provide the necessary personnel to deal with the processing backlog in applications which is currently four to five months before final processing is begun. Also, the additional members of the professional staff will be able to assist in the resolution of many of the conflicts currently arising as a result of the backlog and to assist in the institution of rule-making, a continuing necessity in this area which is subject to constantly changing technological and service requirements. The addition of a secretary in the Mobile Radio Branch is necessary to handle increased clerical tasks and to support the professional staff.

Also, the continuing increases in the number of stations authorized and the number of applications received, have resulted in a heavy burden for the administrative staff responsible for the tasks of receiving, classifying and issuing appropriate radio authorizations (Domestic and International). To alleviate some of this burden, an additional application examiner for the Lincense Branch is requested.

The graph on page 71 shows the number of applications received during each fiscal year from 1961 through 1966 together with an estimation for fiscal years 1967 and 1968. By using a standard statistical method of trend line projection, it is estimated that in fiscal 1968 approximately 11,700 applications will be filed, an increase of approximately 2600 over the estimated filings for F.Y. 1967. [As can be seen from the graph, each of the plotted points falls off the line by a certain vertical distance. The projection line is fitted in such a manner that when these vertical distances are squared and then the squares added, the resulting sum is smaller than it would be for any other projection line that could be drawn. The line is accordingly known as the line of least squares.] It should also be noted that at the end of fiscal year 1966, 5,927 applications were pending and it is estimated that 5,415 applications will be pending at the end of fiscal 1967, all of which require disposition.

It must be borne in mind that while the graphical presentation is indicative of the volume of applications received, it does not demonstrate the ever increasing complexity of problems encountered in processing such applications, as herein above described. The situation must be viewed in an over-all manner encompassing the interplay of new applications with other pending proposals and their effect on existing stations. Moreover, the existence of a backlog in fiscal 1966 contributed to the filing of approximately 500 requests for special temporary authority (not shown on the graph) which must be processed on a priority basis. This, of course, disturbs normal processing procedures. By reducing the backlog, it may be assumed that a lessening of such requests will result. Other tasks which occupy the time of the professional staff, such as answering inquiries for information, meeting with the public and disposing of complaints, are similarly affected by the size of the backlogs.

In summary, the additional positions requested are necessary to meet the continued growth factor in the common carrier radio field and to adequately handle the many problems that arise from this growth such as the five month backlog and the resultant continuing increase in conflicting and contested applications.



4. *Accounting Regulation.*—This activity covers the development, amendment and interpretation of accounting and records retention rules; preparation of financial and operations reporting rules and the preparation and publication of statistics therefrom; and enforcement of observance by carriers of the Commission's rules for accounting, records preservation and reporting.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
Systems	4	3.8	5	4.1	4	4.1	−1	
Compliance	15	14.7	16	16.0	17	16.4	1	4
Statistics	5	4.9	6	5.3	6	5.4		
Total	24	23.4	27	25.4	27	25.9		4

General: Effective rate regulation depends upon the tools of accounting and reporting. This involves the promulgation of accounting regulations designed to serve not only the needs of the Commission but those of state regulatory agencies and the subject carriers. Adequate and timely reports are required to provide a continuing flow of data on current operations of carriers. Effective accounting regulation necessitates the policing of the prescribed accounting and reporting requirements in order to assure that they are being adhered to. In addition, continuous research is necessary in order to enable the Commission to keep accounting and reporting requirements abreast of the changes in the expanding communications industry.

Basically, accounting regulation is divided into two fields of endeavor. First, systems work which is concerned with the prescription and interpretation of rules with respect to accounting, reporting and retention of records and second, compliance activities which are designed to give assurance that the prescribed requirements are being followed in actual practice. The compilation and pub-

lication of statistics, quarterly, annual, and special is closely reated to the accounting activity.

The entire accounting program is under the direction of the Washington office. Systems work is performed largely in Washington. Statistics are compiled there. However, although the compliance activity is under the general direction of the Washington staff, a substantial portion of the field examinations is conducted by field personnel in New York, St. Louis and San Francisco. The field staff conducts continuous examinations into the accounts and records of the subject carriers, particularly those located in or within commuting distance of the aforementioned cities where we have accounting personnel.

During F.Y. 1966 limited field reviews were made of the accounting procedures and records of seven domestic telephone carriers and of one domestic telegraph carrier. There are approximately 50 domestic telephone carriers with annual revenues of $1,000,000 or more subject to the Commission's accounting rules. Due to staff limitations, this was the first review for one telephone company and the second in ten years for another. There is a limited amount of continuous review of the accounts of the international telegraph carriers. The Communications Satellite Corporation accounts are maintained in Washington where the staff was able to keep reasonably conversant with necessarily slow progress of that company in developing a system of accounts as the nature of its ultimate operations continued to unfold.

In order to provide for more effective utilization of our limited staff, the Commission's accounting and reporting requirements were amended in F.Y. 1966 so as to reduce the number of filings to be made, particularly with respect to telephone companies with annual revenues of $1,000,000 or less. However, the Commission continues to experience an increasing backlog of work in the accounting area due to numerous changes made and proposed in its systems of accounts in order to keep them abreast of developments in the communications art.

The Commission faces one of the most challenging accounting situations ever encountered by any regulatory body in developing a set of accounts for the Communications Satellite Corporation. The accounts eventually adopted will have to be custom tailored to rate making policies adopted. The difficulties and the far-reaching potential impact of the latter are described in the international communications and space satellite communications sections of this presentation.

5. *International and Satellite Communications.*—This activity encompasses rate making, licensing, and related rule making activities of the Commission in the regulation of all common carrier communication services between the United States and foreign or overseas points. In addition, the activity encompasses regulation of financing and procurement by the Communications Satellite Corporation (Comsat) and the formulation of policy with respect to the provision of communications service via satellite within the conterminous States. The allocated manpower requirements for Commission hearings related to this activity is included herein.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
International communications:								
Rate regulation	11	10.0	11	10.5	12	11.7	1	1.2
Service regulation	8	7.5	8	8.1	10	8.3	2	.2
Space satellite communications:								
Rate regulation	10	10.0	12	11.3	14	12.4	2	1.1
Service regulation	10	9.7	11	10.6	12	11.1	1	.5
International affairs	2	1.2	2	1.3	2	1.4	------	.1
Total	41	38.4	44	41.8	50	44.9	6	3.1

General: International communications in the past decade have been characterized by: explosive growth in demand for services; revolutionary changes in technology; and increasingly complex problems in the relationships with the foreign correspondents of the United States carriers. The tempo of activity and

the complexity of the problems to be resolved will increase in the coming years. International telecommunications has become of vital importance to our national security, foreign policy and commercial activities. It is essential, therefore, that the Commission be in a position to formulate and implement policies in the national interest promptly and effectively. In addition, new concepts must be devised to cope with the problems presented by the growth of satellite communications facilities and high capacity transistorized cables. This in turn requires the staff to make studies in depth and to formulate well rounded and comprehensive programs which will facilitate this country's efforts to maintain its leadership in communications and exploit fully the developing technology. Because present allocations of personnel are inadequate, we are requesting 7.0 additional man years of effort for fiscal 1968.

International Merger: An Intra-Governmetal Committee on International Communications has studied this matter, and in May 1966 submitted a report to the Congress recommending enactment of enabling legislation. This legislation would, subject to suitable conditions, permit the merger of two or more international telegraph carriers and in connection therewith the merger of other carriers including the Communications Satellite Corporation upon a finding by the Commission that such merger would be in the public interest. If merger legislation is enacted promptly, the Commission would be involved in fiscal 1968, in extensive hearings the outcome of which could reshape the structure of the telecommunication industry for many years to come.

Rate Regulation: The development of high capacity transoceanic cables and satellite communications have presented the Commission with fundamental policy problems relating to rate levels and rate structures. Each of these new technological developments require relatively heavy investments but furnish very large capacities. Thus, the industry is rapidly being converted from being facilities limited to one where new and different rate levels and structures may be essential to maximize the economies made possible by the new inventions and one where the objective would be to promote sufficient business to provide an adequate fill of capacity. In addition, the basic concept of Comsat as a carrier's carrier has required the Commission to focus upon charges to be made by Comsat to provide service to the public. Finally the ability to transmit television signals internally has raised problems of proper pricing for the very large volume of facilities required for this service.

In order that a rational and progressive rate structure may be established, it is essential that detailed allocation studies be completed to determine the appropriate contribution to be made by each type of service offered to the overall revenue requirements of Comsat and the terrestrial carriers.

In the interim, pending completion of the studies, certain reductions have already been made by the international carriers in charges for leased services. Additionally, very substantial reductions are proposed if the government uses the facilities of the terrestrial carriers to meet certain defense requirements. Some adjustments have also been made in rates for overseas telephone calls primarily through the introduction of lower rates for Night and Sunday service and the offering of station-to-station service to several points at rates lower than the tranditional persons-to-person international telephone service.

Telex rates over a number of routes have been reduced and in addition, the minimum charge for a call has to many points, been decreased from a 3-minute period to a one-minute period.

In contrast to domestic experience, message telegraph rates have remained relatively stable over the past decade although in the last year slight increases were permitted in order to compensate the international carriers for the increased pay-outs that they were required to make to the United States domestic telegraph carrier for the pick-up and delivery services performed by it.

The charges made by Comsat to the domestic carriers have confronted the Commission with a series of novel problems. It is necessary to establish a rate of return for this new carrier which provides services different from those provided by the terrestrial carriers. Comsat is a member of an international consortium which owns and operates the space segment of the system, (Comsat in turn has a 54% interest in the consortium). Furthermore, the relatively short estimated lives of the early generation of satellites make the depreciation charges a major factor in the total rate picture. Rate making problems are further complicated by the fact that Comsat is in the "start up" phase of its activities and revenues therefore are and will continue to be relatively low in relation to ultimate capacity until such time as demand builds up. The Commission is now engaged in a formal hearing procedure to fix an appropriate rate of return

for Comsat and to review the structure and level of the charges it makes to the terrestrial carriers for service provided to them. It is expected that this proceeding will continue in fiscal 1968 and that during that year a basic decision will be made on all of these items so important to national policy as well as to the future of Comsat.

Service Regulation: Even before the industry had fully adjusted to the use of the new high capacity cables, it was confronted with the even newer and more revolutionary satellite technology. While the quality of service via either of these means is much better than that furnished by high frequency radio, substantially higher investment is required to lay cables or build satellite earth stations. Consequently, in many areas of the world, particularly where traffic requirements are low and local facilities are not fully developed, high frequency radio may be expected to satisfy needs for years to come. Thus, the Commission is confronted with a need to conduct its regulatory program in such a way as to provide for an orderly phasing out of older facilities as well as for the integration of the new facilities into a modern, efficient, reliable and low cost global system.

The two new technologies—satellites and transistorized cable—may each offer different benefits to different areas, depending upon length of haul, availability to frequencies and technological limitations imposed by the fact that two consecutive relays via synchronous satellites are not acceptable for message telephone use. Accordingly, the Commission must formulate policies which, on the one hand, further the expressed national policy to establish a global satellite system as soon as practicable and at the same time provide for the fullest development of other means of serving international communications needs. The Commission presently has before it parallel applications for a transistorized cable between the continental United States and Puerto Rico as well as for a ground station in Puerto Rico. This will provide an opportunity for the first practical expression of policy on the subject.

The Communications Satellite Act provides that the Commission may license either Comsat, one or more carriers, or Comsat and one or more carriers to own and operate ground stations. In 1965 the Commission adopted an interim policy pursuant to which Comsat was licensed to own and operate the first three ground stations for a two-year period. It now appears that additional ground stations are required and the Commission is in receipt of conflicting applications for two different earth stations. Here again it will be necessary to formulate basic policy or follow a more time-consuming route of holding hearings on the mutually exclusive applications.

International Relationships: The increasing tempo of international communications is reflected in the number and frequency of various international meetings, both formal and informal. Because of rapid developments in technology and the need to coordinate developments in all countries to make possible global exploitation of facilities, the Commission participates in the planning and preparation for, as well as attendance at, the meetings. Since these meetings provide the basic data upon which various countries rely in planning their own facilities for international service, the Commission staff must devote increasing amounts of time to this activity.

The Interim International Agreements for the global satellite system will be reviewed and renegotiated in calendar 1969. Preparatory work has already started for the formulation of a United States position in this highly important matter. Increasing amounts of time will be devoted to the subject in fiscal 1968 and 1969. At stake is the United States status, the influence it can exert and its posture as a world leader. Great care must be exercised to develop positions which safeguard vital United States interests but which are acceptable to other nations.

Intragovernmental Coordination: The advent of satellite communications, the creation of an international consortium, the delegation of certain responsibilities to the President and the Secretary of State, the need to give instructions to Comsat as the United States designated entity on the consortium, and the need to accommodate the statutory responsibilities of the Commission in the regulation of Comsat with the international nature of the consortium, all require the closest possible coordination between the Commission and the Executive Branches of Government. Several staff members now devote themselves to the work of the necessary coordinating committees which are concerned with frequency requirements, government-owned satellites, industry structure, government use of privately-owned facilities, government assistance to other nations in satellite technology and preparation of instructions to Comsat.

Domestic Uses of Satellite: Although the initial use of satellites was for international communications, the success of Early Bird and developing technology have led to plans for the use of satellites to meet domestic needs, particularly for long distance communications and television distribution. The Commission has instituted an inquiry into this field to determine whether entities other than Comsat may be authorized to operate satellites for this purpose and, if so, whether any particular entities should be licensed. The initial responses filed in August, 1966, aroused widespread interest and resulted in the submission of novel proposals. These in turn required a broadening of the inquiry. The policy determinations reached in fiscal 1968 will have far reaching effects on the structure of domestic communications and possibly on the social structure of the nation. Careful study and analysis of available alternatives by competent personnel devoting full time to the matter is essential to a decision in the public interest.

Corporate Affairs: The Satellite Act imposes unique responsibilities upon the Commission particularly in the field of procurement and financing. The Commission has adopted rules as required by the Satellite Act to insure competition in procurement for the space and earth segments of the satellite system. Numerous filings are reviewed annually by the Commission in discharging this responsibility. As the system expands and domestic service is provided this work load will expand substantially in fiscal 1968.

Accounting Activities: In addition to the normal accounting activities the division is engaged in drafting a system of accounts for Comsat specifically designed to meet the peculiar problems confronting it as a carrier's carrier and a member of an international consortium. It is expected that these rules will become effective in fiscal 1968 and will require appropriate implementations.

Miscellaneous Activities: Increasing activities in international communications have resulted in an increase in the number and complexity of tariff filings. These require careful analyses and study to determine whether they would be permitted to become effective.

Contracts and reports of negotiations must be increased for compliance with statutory requirements, and establish policy. Particularly in the field of satellite communications care must be taken that restrictive agreements are not made and that Comsat and the carriers each stay within their assigned responsibilities.

Staffing requirements: The complex problems confronting the Commission in the field require largely competent professional personnel who must be trained for considerable periods of time. Build up of staff must be relatively slow and steady to allow for adequate training considerably before they can be relied upon to handle assignments independently. Failure to finance such a program on a lang range basis will have continuing adverse effects. These effects are now being felt because of previous limitations, and such adverse effects will be compounded in the future if the modest requested increase of 2.3 man years for rate activity, .7 man years for services activities and .1 man year for international and coordinating activities are not allowed.

Safety and Special Radio Services

Mr. Evins. Safety and special radio services. This also shows an increase requested of $22,388 in appropriations, and only one new job.

With that new computer can't you do without that new job?

Mr. Hyde. I called attention earlier in my statement that we were making only the smallest increase this year, subject to your approval.

Mr. Evins. Mr. Chairman, on page 86 you show applications at the beginning of fiscal year 1968 of 2,900, applications at the end of the year 2,900. This is the bottom of page 86. Maybe we read these charts wrong. Applications pending in 1968, estimate 2,900; backlog at the end 2,900.

Mr. Hyde. That is not a bad backlog in this area. We do an expeditious processing service in the safety area. Our big problem in that area, as we discussed at length this morning, is making provision for more mobile services.

FIELD ENGINEERING ACTIVITY

Mr. EVINS. We will take a look at your field engineer. Is Mr. Plummer the chief of this?

Mr. HYDE. He is.

Mr. EVINS. Is he a pretty good engineer?

Mr. HYDE. He was one time our chief engineer. He is our administrator. We recommend him.

Mr. EVINS. Mr. Plummer, you need to do more monitoring. Is that what you want to do in the next year that you have not been doing?

CITIZENS BAND ENFORCEMENT

Mr. PLUMMER. We want to get out and see if we can catch some of these citizens that defile it, playing games with us.

Mr. WYMAN. Mr. Chairman, would you yield for a question? It is a fact, is it not, Mr. Plummer, that you just are not equipped as things stand now unless you get some help in this field to keep any kind of control over it?

Mr. PLUMMER. That is correct. There are a lot of them, and there is a lot of area in this country.

Mr. WYMAN. And they just abuse it all over the place. They do not even stay on the same band.

Mr. PLUMMER. They are jumping out of bands and other frequencies for other services.

Mr. EVINS. I believe Mr. Plummer has been answering all the letters, and here is one from Port O'Connor, Tex., which talks about the shrimp boats; Des Moines, Iowa, which says the Federal Communications Commission is doing a good job with the aircrafts that are flying over; here is one from Illinois, on another matter. Don't you answer all these, Mr. Plummer?

Mr. PLUMMER. Yes, we answer them.

Mr. EVINS. You have 18 stations over the country. Are you going to have some personnel listen to the programs?

Mr. PLUMMER. No. This proposal in this budget does not propose to increase the number of personnel in the monitoring stations. It only proposes a special team to work on citizens alone, of about 11 man-years in our district offices.

Mr. COX. They would just be using conventional CB equipment to listen in on the channels.

Mr. PLUMMER. Yes, it would be mobile, all out in cars, except for the clerical people to write up the discrepancies.

Mr. EVINS. Mr. Plummer has a lot of charts.

You have some figures here on page 120 and you say these figures do not include 27 other positions which are in another section of the budget.

Mr. PLUMMER. This citizens is in another section later on, so these figures do not include the citizens band.

NUMBER OF EMPLOYEES IN FIELD BUREAU

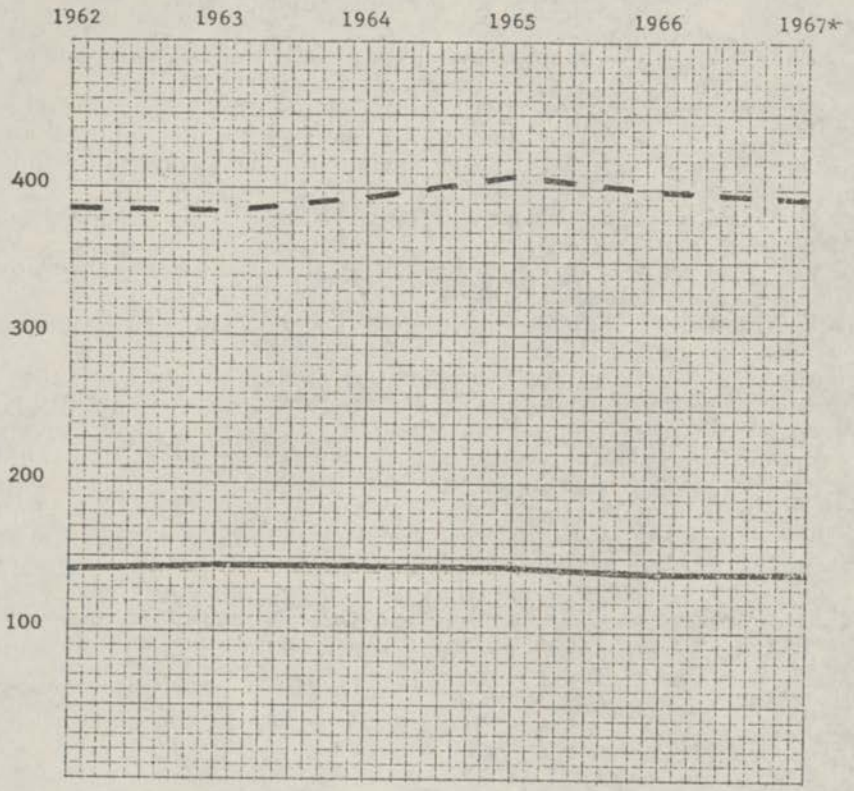
Mr. EVINS. How many persons currently are in your division, Mr. Plummer?

Mr. PLUMMER. 402 right at the moment.

Mr. EVINS. How many did you have 5 years ago?
Mr. PLUMMER. I can get it in a minute.
Mr. EVINS. You have not had any increase for the last 2 years?
Mr. PLUMMER. Correct.
Mr. EVINS. Supply the personnel for the last 5 years for your bureau in a table in the record.
(The table referred to follows:)

Average Employment

Fiscal years:



		Field Engineering Bureau total			
385.9	384.4	394.9	409.4	399.0	392.8
		Monitoring stations			
140.8	144.8	144.4	144.2	139.8	141.0

(*) 1967 figures are as of March 14, 1967

ENGINEERING STUDIES AND FREQUENCY ALLOCATION

Mr. EVINS. Turn to "Engineering studies." I wanted to refer back, to place in the record the fact that the "working tools" of the Commission are its engineering studies, and its reports. The Chairman

said earlier that the largest single increase would be for research studies, and you mentioned these four. Independent analysis of the citizens radio service problem, have you identified what that is?

Mr. HYDE. What we hope to do there is to find the most efficient, effective way of effectively controlling the service. The funds—we have asked for in the pilot program—the amount involved for the pilot enforcement program amounts to about $150,000, but we do want an additional $150,000 to have a contractual study to see if we are going about it in the best way.

We, as I indicated earlier, could spend a couple of million dollars on this in just a mass inspection and enforcement program. Perhaps there is a way we can do it better with less money. We think we should make a study.

Mr. EVINS. Are we talking about the same research, the same studies? Here is one for $30,000 for a study to evaluate the mission of the Commission's laboratory.

LOCATION AND MISSION OF LABORATORY

Mr. HYDE. That is a different project. What we are proposing there is to just take a look at our somewhat critical laboratory which actually can barely keep up at this time.

Mr. EVINS. Where is the laboratory, at the headquarters of the Commission?

Mr. HYDE. At Laurel.

Mr. EVINS. How many people do you have out there?

Mr. HYDE. Seventeen.

Mr. EVINS. What is their mission?

Mr. HYDE. This is something we think ought to be defined better. Their mission in terms of what they are doing now is they study equipment for type approval. They actually help to design equipment for some of our monitoring and testing purposes.

It does not undertake anything like fundamental research, and we think we must resolve the question as to whether we are going to have a real laboratory or whether we are going to contract for the type of experimentation which can be done in the laboratory.

Mr. EVINS. You want $30,000 for a study to reevaluate the mission?

Mr. HYDE. That is right.

Mr. EVINS. You must know of its defects or you must know generally what it is supposed to do?

Mr. HYDE. Well, it is a bigger problem than might seen from this simple statement of it. We want no duplication of Western Electric or the laboratories of some other agencies engaged in fundamental research.

On the other hand, we either ought to get out of the business entirely or do something better.

Mr. EVINS. What does the Bureau of Standards do for the Commission?

Mr. HYDE. We get some help from the Bureau of Standards on propagation studies, and we have in the past. Undoubtedly they will figure in some of this research that we hope to do. But they do not

not do any work on equipment. They do not make any examination of radio or receiving sets or transmitters for us.

I could have Mr. Renton, who is our Chief Engineer, discuss this problem with regard to laboratory further if you wish, Mr. Chairman.

Mr. EVINS. I wish you would, please.

Mr. HYDE. Mr. Renton.

Mr. RENTON. Yes. The main thing is to study the future role of the laboratory, as the Chairman has mentioned, and how far we should go beyond what we are doing now.

As you know, we have type approval work out there. We have calibration of our own equipment out there. We have design of equipment that we use out there. We work on propagation projects in the field, you might say, outside of the laboratory, and we run tests in connection with some of our large projects like the present project of sharing TV channels with land mobile.

A large part of that work is done at our laboratory, but we do not know really how far beyond this we should go.

For instance, should we develop prototype designs for the industry that would help the people of the United States? Should we do things that the industry is not doing but, perhaps, should do? This is the kind of a thing we are thinking about for the future.

There is some place along here where we can stop. We do not want a Bell Laboratory, but we think it should be larger than it is now.

Part of this money would go toward getting information on a real up-to-date laboratory by people who are experts in looking into this. We would envision that they would visit many of the current good laboratories in the country and can come up with something modern for us, give us an idea of how many more square feet we need, and possibly a rough design.

We certainly could not get an architectural design for this money, but we could get pushed in the right direction, we believe.

Mr. EVINS. Don't the television manufacturers do that?

Mr. HYDE. Yes, they do.

Mr. EVINS. Don't General Electric and Western Electric come up with all these devices?

Mr. HYDE. The electronic manufacturers certainly do it, but we think, as the regulating agency, that maybe we should have some resources of our own by which to check them. I cannot envisage the Commission undertaking, to do the kind of work that is done at Bell Laboratories which has been mentioned. But certainly——

Mr. EVINS. Well, NASA has all kinds of testing, the Communications Laboratory.

Mr. HYDE. They do, and we have access to NASA in respect to our duties with the approval of investments in satellites. We get advice from them on that.

JUSTIFICATION MATERIAL

Mr. EVINS. We will place in the record pages 146 through 166, these engineering studies.

(The pages referred to follows:)

Engineering Studies and Frequency Allocation Activity

Introduction

The "working tools"—the engineering standards and methods, the curves, the formulas and frequency allocation information for the Commission and its operating bureaus, as well as for certain requirements of the Industry are provided by this activity.

This activity includes planning and directing broad programs to develop information and data in the theoretical and experimental areas for long range and immediate use regarding new and improved communication techniques and equipment, advanced phases of terrestrial and space communications, and radio wave propagation; advising and representing the Commission in frequency allocation and usage matters, both nationally and internationally; collaborating and advising in the formulation of technical requirements of the Rules and Regulations of the Commission. Also included in this activity are type approval and type acceptance of equipment, administration of the Rules relating to the operation of radio frequency devices, and performance of rule-making functions relative to the Experimental Radio Services.

Financial requirements

	1966 actual	1967 estimate	1968 estimate	Increase
Personnel compensation	$1,068,227	$1,049,880	$1,105,796	$55,916
Personnel benefits	76,912	76,851	77,000	149
Other obligations	122,012	111,204	594,204	483,000
Total	1,267,151	1,237,935	1,777,000	539,065

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
1. Technical studies	30	30.8	30	28.9	33	31.6	3	2.7
2. Technical standards and rule-making	17	16.6	17	15.8	18	17.0	1	1.2
3. Equipment approval	11	10.3	11	10.3	11	10.3		
4. Application processing	5	4.0	5	4.2	5	4.2		
5. Frequency allocation and international treaties	38	36.2	38	34.3	40	37.2	2	2.9
Total	101	97.9	101	93.5	107	100.3	6	6.8

A. Justification by Activity

1. Technical studies

This activity relates to studies of radio wave propagation, transmission, and service and interference areas in radio broadcasting and communication systems; space communications; development of new and improved uses of radio; specifications for equipment design and performance; reduction of interference effects; development of computer programs and automatic data processing techniques; and procedures for acquiring, storing and retrieving scientific and technical information.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
(a) Propagation	8	7.6	8	7.6	9	8.5	1	0.9
(b) Special projects	15	16.4	15	14.5	16	15.5	1	1.0
(c) Space communications	2	2.0	2	2.0	2	2.0		
(d) Technical information	5	4.8	5	4.8	6	5.6	1	.8
Total	30	30.8	30	28.9	33	31.6	3	2.7

An increase of 3 positions is requested for analysis of proper procedures for applying electronic data processing techniques to engineering problems; to provide for a study of methods of taking field strength measurements; a study of sharing of channels between land based and satellite services; further work regarding the adoption of automated procedures to monitoring and spectrum occupancy recording in an area of high density of stations; and for making a fundamental study of interference criteria for microwave systems.

(*a*) *Propagation.*—Although it would be very desirable to continue our efforts on the study of radiation scattered from discontinuities in the atmosphere as has been done in our Precipitation and Off Path Scatter Investigation (POPSI), it is expected that the Air Force radar we are now using will no longer be available for our use in 1968. Analysis of data will not yet be complete so some manpower is required to complete the project. The overall effect will be the reduction of approximately 1 manyear for this project which manpower will be devoted to other urgent projects.

The Commission's Rules for methods of measuring field strength are not in accord with the most effective methods that are presently known. Studies are required to determine which of the modern methods are most acceptable for the Commission's purposes and how these techniques should be applied. The present methods in the Rules are obsolete and give improper results. The industry depends on the Commission for guidance in the development of a more satisfactory method of conducting field surveys, and adequate staff should be available to develop a more accurate and satisfactory method of analyzing and processing mobile survey measurements. Field strength data on hand require further analysis to extract the information necessary to assure that the Commission's propagation curves take into account all available information. Inability to keep up-to-date in this regard is subject to widespread criticism.

Recent experience in Docket #16004 (Proposed Field Strength Curves for FM and TV Broadcast Stations) brings into emphasis the following points:

(1) More data concerning the propagation of signals in VHF and UHF for TV and FM, as well as mobile and other radio services, are urgently needed by the Commission for the derivation of curves to be incorporated in FCC Rules and Regulations.

(2) New methods must be developed for originating and analyzing these data, and new factors must be introduced for proper application in regulatory procedures.

(3) Unless this information is available to the Commission, many questions will be asked, and endless discussions will take place in docket proceedings and in committee meetings in efforts to resolve issues relating to these questions.

In order to improve the accuracy of FCC Standards and to save the many manhours which will be needed in discussions involving many uncertainties, it is planned to make a concerted effort, in cooperation with engineers in industry, to improve the systems of measurement surveys for obtaining field strength data.

In services other than broadcast, considerable increase in activity is expected due to channel-splitting to obtain more useful channels. It is expected that the workload increase in the non-broadcast area will be partially taken care of by reduction in pressure for activity in the broadcast area. In view of the President's economy instructions, no expansion at this time is being proposed.

(*b*) *Special Projects.*—Increasing congestion of the radio spectrum is creating new problems for the Commission which are no longer solvable with present technology by expansion of the spectrum. With more and more stations, the

magnitude of the problem grows by leaps and bounds. Electronic data processing with new programming seems to be the most practical solution of this problem, and means of using this modern process must be studied to implement procedures for using the available frequencies more effectively.

More information is required on terrain analysis in order to determine the interfering effects between stations, frequency assignment methods to reduce interference effects to a minimum, and items of a similar nature. However, analysis of terrain and signal paths is tedious and time consuming when done manually. It is felt that more effective and economical regulation by the FCC will be achieved with more effort in research in techniques for applying data processing to the solution of engineering problems.

The automated monitoring and spectrum occupancy area calls for an increase of manpower. This program is presently operating on a severely curtailed basis as far as development is concerned. Operational requirements to provide immediate information have taken personnel from developmental work. The utility of information obtained with present developmental equipment emphasizes the advantages to be obtained from further pursuing this project in obtaining information by automatic means in an inherently collated form rather than obtaining samples which will need to be assembled later. The problems arising out of the enormous increase in number of licensees, especially in the Land-Mobile Services as exemplified by the formation of several advisory committees in that area, demands some automated approach to this problem if efficient operation is to be expected. At the present time the Laboratory has operational automated facilities for obtaining spectrum occupancy information from 500 kilocycles through 500 megacycles. If required, these facilities can be extended to both lower and higher frequencies. These equipments automatically assemble the data by frequencies. These facilities indicate the presence of spurious signals, grossly excessive bandwidth and gross off-frequency operation.

Microwave reliability studies are required, including performance of antennas already in service and those expected to be in service to assure compatibility among microwave assignments in a congested portion of the spectrum.

(*c*) *Space Communications.*—It is anticipated that some of the channel-sharing proposals betwene land based services and satellite services will be prevalent during 1968. Microwave reliability studies will aid in evaluating the compatibility between microwave assignments and space communication assignments as these services are shared.

Extensive engineering studies will be required to determine the feasibility of providing for additional frequency requirements generated by proposed new applications of communication satellites, such as the proposals of the American Broadcasting Company and the Ford Foundation to provide a national TV program distribution system by satellites, in lieu of the presently used terrestrial network. Other proposals under study include the possible use of satellites for broadcasting directly to the public, as well as the use of satellites for aeronautical and maritime communications.

(*d*) *Technical Information.*—The spectacular growth of science and technology in recent years has resulted in a parallel increase in the volume and complexity of and need for scientific and technical information.

A considerable portion of our research effort is devoted to studies of the technical literature to determine what new developments are in the offing which may have an effect on the use of the radio spectrum. In addition, our files of technical reports must be kept current so this information is readily available upon request. The Commission should be kept fully informed of research and development which is being done by or for other government agencies and by the Industry or educational institutions in order to provide leadership in international consultative organizations engaged in the development of information pertinent to radio regulation. Reference materials should be prepared and maintained to enable the staff to supply information when desired. At present, when various information is requested, it is necessary for many manhours to be devoted to gathering the material, whereas with proper records, it could be furnished immediately.

Continuation of studies to develop propagation information for the various services is required at the present level. Professional technical advice to the Commission, other government agencies and the public is a very important part of the Commission's operations necessitating the answering of numerous questions on a day-to-day basis. Participation in technical studies of the International Radio Consultative Committee (CCIR), the Institute of Electrical and

Electronics Engineers (IEEE), the International Electrotechnical Commission (IEC), the Joint Technical Advisory Committee (JTAC), and joint groups with other government agencies is essential to the research function.

Emphasis should be placed on the following:

(1) Participation in and evaluation of the operations of a test of VHF TV channel sharing with land mobile systems. A crucial and highly technical project which the Commission is promoting because of the promise it holds forth for increasing spectrum utilization efficiency; and

(2) Making a special and fundamental study of interference criteria for line-of-sight microwave systems. This study would eventually result in recommendations for new technical standards.

The very nature of a research function is such that much of it could be eliminated with little *immediate* effect on the Commission's activities. However, the availability of information obtained over a long period of time saves considerable effort which otherwise would be required on a hurry-up "crash" basis at a greater cost than now incurred. The Commission is already subject to considerable criticism that its research efforts are much below the level expected of an agency of its nature. The level of research requested is barely sufficient to handle urgent problems. Any reduction would eventually slow down other Commission functions because the information desired would not be forthcoming in a reasonable period of time. A reduction should be considered as a hidden waste of money rather than savings.

2. Technical standards and rule making

Because of the continual development of new and different uses of radio, the Commission must be aware of all relevant technology and new developments in order to insure the continued usability of existing communication services and to accommodate new users. This requires continuous collection and analysis of information to provide the background for new or improved engineering standards and rules.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
(*a*) General operations	11	11.0	11	10.0	11	10	------	------
(*b*) Problem areas	6	5.6	6	5.8	7	7	1	1.2
Total	17	16.6	17	15.8	18	17	1	1.2

An increase of 1 position is requested for Technical Standards and Rule Making to provide for more concerted effort in areas concerned with more efficient spectrum utilization.

(*a*) *General Operations.*—Problems of international standardization are expected to increase in 1968, but at the same time some compensatory decline in activity with regard to national standards is expected.

One major objective is to bring the Commission's International Broadcasting Rules into compliance with the Geneva, 1959 international radio regulations regarding available frequencies and hours of operation. Currently, the Commission is not authorizing any new private international broadcasting stations.

The number of equipment calibrations and the complexity thereof is expected to increase somewhat during 1968. In view of the President's directives regarding economy, every effort is being made to increase the efficiency of this operation and, considering the great strides which have been made in the present year, we have hopes that through the adoption of new procedures, we will be able to do a reasonable job with the present level of personnel and facilities. At present, the backlog has been reduced to reasonable proportions.

One factor of great importance to consider is the gradual aging of equipment employed by the Commission. Much of this equipment has been stretched to about the limit and unless major purchases of new equipment are accomplished soon, we will again find ourselves faced with an impossible backlog of calibration and repair.

(b) Problem areas.—

Some areas where main endeavors should take place are listed below:

(1) Analysis of data and development of new rules regarding microwave reliability—an important proceeding intimately concerned with securing efficient spectrum utilization;

(2) Formulation of new rules and special requirements for new Single Sideband Systems and Equipment; and

(3) Formulation of rules and standards to be recommended for adoption by the Commission concerning CATV systems, both cable and microwave.

Proper performance in the above areas will require attendance at a number of technical conferences, committee meetings, technical seminars, and industry gatherings where questions relating to Commission projects or technical investigations crucial to FCC engineering matters are discussed.

It is not recommended that any of the above matters be dropped as all are interdependent with other concerns of the Commission or are a necessary part of Commission activities or policies. However, if the necessary budget cannot be obtained, we shall continue on our present programs only doing so less effectively and with less contribution to the Commission's functioning.

3. Equipment approval

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
(a) Type approval	3	2.8	3	2.8	3	2.8	------	------
(b) Type acceptance	5	4.7	5	4.7	5	4.7	------	------
(c) Certification	1	1.0	1	1.0	1	1.0	------	------
(d) Sampling	2	1.8	2	1.8	2	1.8	------	------
Total	11	10.3	11	10.3	11	10.3	------	------

(a) Type Approval.—Equipment is submitted to the Commission's Laboratory for a determination as to whether it can be operated in accordance with the rules and standards, resulting in reduction of interference to broadcast and other services and the provision of adequate monitoring devices.

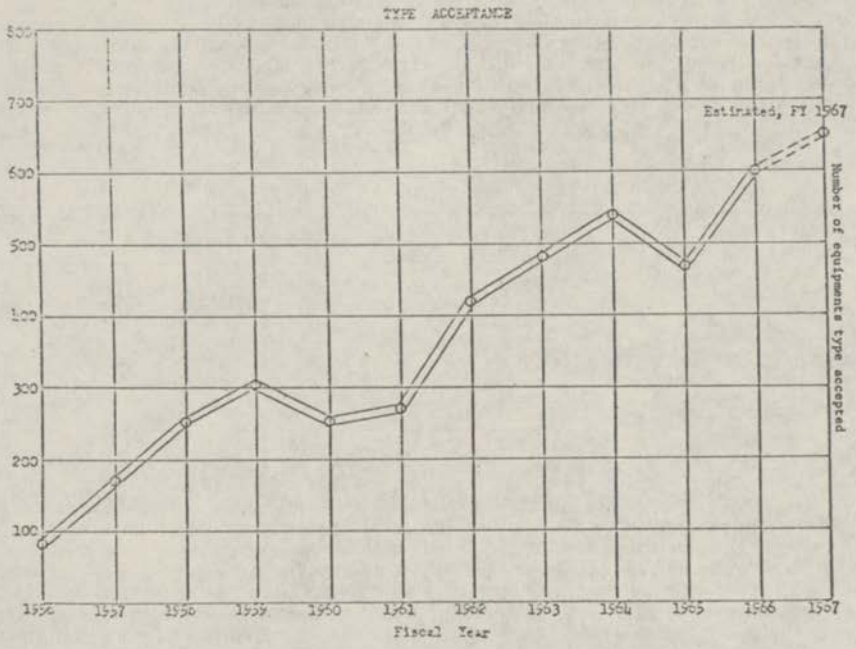
No great increase is presently expected in the number of submissions for type approval in 1968. Because of the increased use of the microwave spectrum by space and other services, it is anticipated that the frequency range examined for interference will have to be materially extended above 1 GIHz. In particular, the interfering emissions in instructional TV band adjacent to the 2450 MHz ISM band used by microwave ovens will need much closer attention to preclude interference to these educational uses.

Plans already underway to permit use of advanced (automated) measuring techniques will permit savings which will, at least, partially compensate for the added coverage. It is also anticipated that some procedural changes may further increase the efficiency of operation.

(b) Type Acceptance.—Type acceptance is based on representations and test data submitted to the Commission in writing by the equipment manufacturer or prospective licensee. This data is evaluated by engineers to determine whether type acceptance should be issued. Lists of both type approved and type accepted equipment for all the various services are prepared for publication.

There has been an overall increase in volume and complexity of type acceptance during the past ten years (from 65 equipment types receiving type acceptance in 1956 to 599 for 1966). This has been the result of a number of factors, including the extension of type acceptance to additional radio services and categories of equipment, cut-off dates established in Commission Rules for non-type accepted equipment, and a general increase in the number of all types of radio stations and uses. While this work demands more personnel because of the increased complexity of the equipment and the technical standards applicable to it, our work simplifies the work of other bureaus by providing one group within the agency to evaluate the technical capabilities of equipment in all radio services subject to such standards.

(c) *Certification.*—The Commission has established limits on the amount of electromagnetic energy which may be conducted or radiated from certain non-licensed devices (including FM and TV receivers) to insure that harmful interference is not caused to licensed radio users from the operation of these devices. To insure that receivers comply with these limits, a procedure has been established with which the manufacturer files a certificate with the Commission to the effect that the amount of electromagnetic energy radiated by the receiver does not exceed the limit specified in the Commission's rules. The measurement procedure used to determine this must be carefully evaluated to insure that it is technically sound and acceptable. This certification program has also been applied to the all-channel capability now required of all TV receivers and which is materially improving the utilization of TV channels 14 through 83.



Certificates covering 2,480 receiver models were processed during 1966. The number is expected to increase somewhat each year for the next several years as a result of our efforts to acquaint manufacturers of non-broadcast receivers with our certification program.

Present plans call for the expansion of this certification requirement to all low power communication devices. This is designed to provide the Commission with information on the various low power communication devices on the market and also to exercise a degree of control over the manufacture of these devices. This requirement will increase considerably the processing workload, but it is expected that a standard form can be developed which will keep the need for additional manpower to the minimum.

(d) *Sampling.*—Sampling tests of type approved, type accepted and certified equipment are made to insure that equipment actually supplied by manufacturers complies with our Rules and includes the interference reduction and other features which are supposed to be incorporated.

Sampling of these equipments is expected to be accomplished at a slightly greater rate due to accelerated measuring procedures and methods. Certain changes in measuring standards will facilitate the measurements and result in ability to sample a larger portion of the equipment by 1968.

4. Application processing

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
Application processing	5	4	5	4.2	5	4.2	------	----------

Pursuant to Section 303(g) of the Communications Act, the Commission is required to "study new uses for radio, provide for experimental uses of frequencies, and generally encourage the larger and more effective use of radio in the Public interest." The Experimental Radio Services provide licenses for basic research in radio and electronics, as well as the development of improved radio transmitters and new radio communication systems not provided for in other parts of the Commission's Rules. The extremely rapid developments in the field of oceanography, data transmission, and space communications via satellites, has rapidly increased the workload in the Experimental Services. The increased demand for frequencies and the necessity for frequency coordination on a case-by-case basis with both Government and non-government users has still further complicated the processing procedures.

Many experimental applications involve research and developmental projects covered by government contracts financed by the military, National Aeronautics and Space Administration, and other government agencies. Nearly all of these projects are characterized by great urgency, high priorities, and multimillion-dollar commitments. Such complications notwithstanding, it is planned to attempt to handle this workload with no increase in staff.

5. Frequency allocation and international treaties

This activity is based on the fact that the radio spectrum must be shared not only by all of the radio services of the United States, both Government and non-Government, but also by those of all other countries as well. This requires extensive coordination of frequency allocations and use, on a national and international basis, to derive the best use of the radio spectrum in the national interest. This includes efforts directed toward obtaining the most equitable allocation of frequency bands to meet the critical frequency requirements of the Commission's various recognized radio services such as broadcasting, public safety, aviation, etc. Participation in international telecommunication conferences and meetings is an essential activity directed toward the development of internationally agreed frequency allocations and other radio regulations such as technical standards, so as to provide for our always shifting and growing civil and governmental radio-communication requirements and promote more efficient use of the radio spectrum. Nationally, extensive coordination with other Government users of radio and with the Director of Telecommunications Management (DTM) is conducted on a continuing basis to achieve the best unified frequency management policies.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
(a) Domestic frequency allocations	6	5.6	6	5.4	7	6.7	1	1.3
(b) Interagency frequency coordination and frequency management	5	5.5	5	4.5	5	4.5	.....	.....
(c) Call signs	1	1.0	1	1.0	2	2.0	1	1.0
(d) Frequency assignment records	9	8.5	9	8.4	9	8.4	.....	.....
(e) Major international conference activities	3	3.0	2	2.0	2	2.0	.....	.....
(f) International interference and frequency coordination	3	2.2	2	2.0	2	2.0	.....	.....
(g) International notification of frequency	2	1.8	2	1.8	2	1.8	.....	.....
(h) International conference on information and records	2	2.3	2	1.7	2	1.7	.....	.....
(i) Other international activities	2	1.0	2	1.0	2	1.7	.....	.7
(j) Automatic data processing services	5	5.3	7	6.5	7	6.4	.....	.1
Total	38	36.2	38	34.3	40	37.2	2	2.9

(*a*) *Domestic Frequency Allocations.*—The FCC is responsible for the allocation of frequencies among all of the U.S. non-Government radio services.

The most serious domestic frequency allocation problem is probably that of providing additional spectrum space for the various land mobile services which have continued to expand at a rapid rate. This led to the establishment of a special Advisory Committee for the Land Mobile Service (ACLMS), composed of experts on land mobile matters, to make extensive studies and to recommend actions which may be taken to relieve this problem. Additional workload is expected to be generated in 1968 because of the need to perform careful engineering analyses and evaluations of the recommendations of the ACLMS when completed. This is expected to involve studies of matters such as alternative frequency allocation plans, channel loading criteria and the use of computers for analyzing and making frequency assignments. As generally recognized, there is no simple solution to the land mobile problem. A multiplicity of coordinated programs will be necessary, involving many man-hours of engineering effort in addition to that required by the other domestic frequency allocation problems described below. Accordingly, an increase of 1 position is requested to assist in coping with this increasing workload.

Special studies are expected to continue on the possible development of a high capacity, multichannel land mobile system. A system of this type is intended to provide a land mobile system of very high capacity and high efficiency as compared to present conventional single channel systems and could probably accommodate a number of types of land mobile uses. Both single and multiple access to such a system for direct dispatching and leased channels must be considered.

Studies will be devoted to means for meeting the growing frequency requirements for a number of types on one-way land mobile signaling systems, including paging and warning and alarm systems.

More effort will be devoted to developing plans for use of computer techniques in the field of frequency allocations. This involves a number of facets such as means for obtaining more complete and accurate information on stations authorized for use as raw data.

Studies already initiated will continue on technical criteria relating to the reliability of microwave relay systems. Such studies have a direct bearing on the efficiency of radio spectrum utilization by such systems.

There is a mounting need to augment a number of long-range frequency utilization studies, particularly in trouble areas of the radio spectrum. These require much study before analysis and evaluation can be made and involve the development and use of new techniques.

(*b*) *Interagency Frequency Coordination and Frequency Management.*—Since the radio spectrum must be shared by all of the hundreds of thousands of U.S. radio stations, both Government and non-Government, the avoidance of chaotic interference requires close and careful advance coordination between the FCC,

which assigns frequencies to all non-Government stations, and the Director of Telecommunications Management (DTM), who makes all frequency assignments for Government radio stations under authority delegated by the President. Individual frequency assignments to Government stations are recommended to the DTM by the Interdepartment Radio Advisory Committee, composed of representatives of all Federal agencies having substantial radio usage. Detailed frequency coordination procedures and policies have been evolved jointly by the FCC and the IRAC to avoid frequency conflicts and promote the efficient joint use of the radio spectrum. Because of the limited spectrum space available and the continually increasing number of radio stations, the task of coordinating frequency assignments grows in both size and complexity. For example, a new policy has been adopted by the DTM requiring Government agencies to indicate the location of their radio operations specifically instead of generally, as was frequently done in the past in the case of "blanket" assignments. This has greatly increased the number of proposed individual frequency assignments which must be carefully analyzed before FCC comments can be given to the IRAC. In addition, the Government form used for applications for frequency assignments has been revised to meet the requirements of the computerized frequency record system now used by the DTM. This requires a separate form for each frequency and transmitter location, thereby increasing the total number of forms which must be processed. More coded information is also employed.

A study is expected to be initiated on the important matter making the FCC frequency assignment records compatible with similar record maintained for Government radio assignments by the IRAC. The lack of such conformity now all but precludes joint Government/non-Government spectrum occupancy studies using ADP techniques. Manpower will be devoted to the establishment of a common data base for both Government and non-Government frequency assignment records. Efforts will be made to develop and document consolidated procedures for the Government/non-Government coordination of frequency assignments in order to ensure adequate protection for assignments made by various FCC licensing offices, based on actual frequency usage.

In the broader field of frequency management, including the national allocation of frequency bands, the Commission, with its jurisdiction over non-Government radiocommunications, must coordinate closely with the DTM, who has parallel jurisdiction in the Executive Branch, on all matters of mutual interest. The Commission and the DTM also work jointly in the establishment of broad national telecommunication policies and the development of specific programs to bring about better frequency management, nationally. Because the growing demands for spectrum space greatly exceed that available, and will continue to become more serious, greater emphasis on such cordinated efforts will be essential, resulting in greater workload requirements in this area. For example, many of the substantially augmented frequency management programs which have been initiated by the DTM will require extensive participation by the Commission if such programs are to be implemented nationally.

(c) *Call Signs.*—This function involves the administration of all U.S. call signs. This includes the development of a sufficient number of call signs, in conformity with formats established by international radio regulations, required for allocation or assignment to stations in all of the Government and non-Government radio services. The administration of these call signs, which total several million, requires complete and current call sign records. Accurate and complete call sign records are essential for the rapid identification of radio stations and are important in the case of instances of harmful interference, particularly when safety of life and property are involved.

Under programs which have already been implemented, the issuance of ship telephone and aircraft authorizations is done by computer. Eventually, it is expected that the computerized call sign data will result in more current and readily available call sign records, in lieu of the manual call sign record system presently used. Efforts will be directed toward making an adequate number of assignable call signs available for computer use.

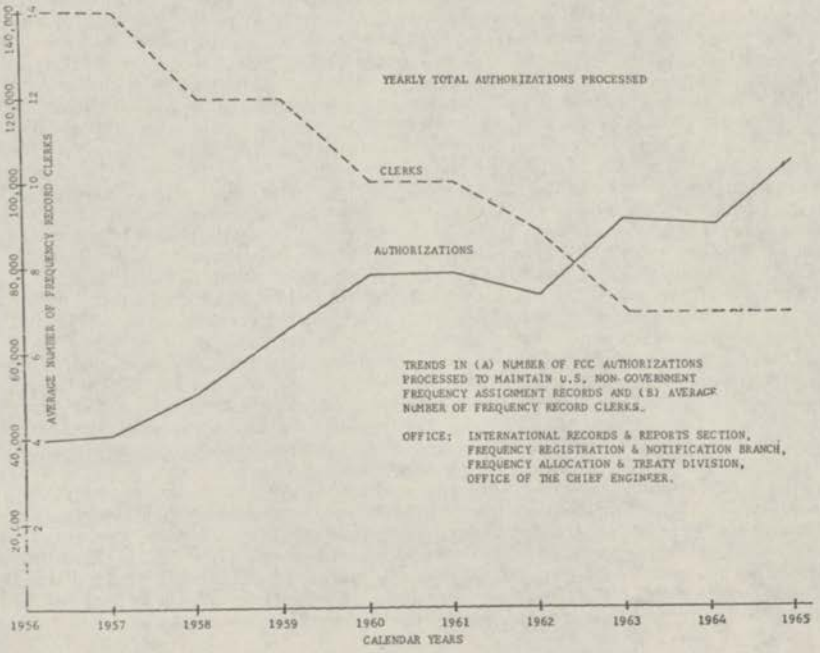
The adoption of new rules imposed additional requirements in the filing of requests for the assignment of new or modified call signs to broadcasting stations. Primarily, these rules are for the purpose of avoiding difficulties arising from the inadvertent assignment of phonetically similar call signs in the same area. Because of these rules, much additional workload has been created in the administration of call signs. For example, it is estimated that approximately 40 percent of the call sign applications are defective, necessitating much addi-

tional correspondence. This, together with the greater number of time consuming call sign problems generated, has increased the over-all workload by about 30 percent, greatly overburdening the one position permanently allotted to the call sign section. The schedule of fees for call signs has also increased workload requirements. As a result, large backlogs accumulate and assistance frequently has to be provided by personnel assigned to other duties, including engineers. Accordingly, an increase of one position is requested to assist in this function on a full time basis. This should permit backlogs to be reduced to a reasonable level,

(*d*) *Frequency Assignment Records.*—Lists are printed from the Commission's records of frequency assignments made to non-Government stations. Such lists are essential to good frequency management since they are used in avoiding conflicting assignments and for conducting occupancy studies of various frequency bands. During 1966 these compilations continued to increase in number of listings. Thirty-nine separate lists were printed and approximately 80 copies of each distributed for official use. Other copies are available to the general public from a private printing firm under contract with the FCC for that service.

In addition to the regularly scheduled frequency lists, many special lists were produced for particular studies of frequency occupancy. During 1966, a total of 105,407 licenses, which included additions, modifications and renewals, were processed to maintain the national non-Government frequency lists, as compared to the previous year's total of 97,137, indicating that a continuing increase may be expected in future years. However, improved procedures have permitted an actual reduction in the number of personnel assigned to this function.

In the processing of FCC authorizations in order to maintain the frequency assignment records, a substantial increase in the number of microwave assignments has occurred. In addition, in the case of Common Carrier microwave authorizations, the amount of information in the frequency records has been expanded to include such technical particulars as antenna characteristics. Although this additional information is justified because it greatly improves the utility of the frequency lists, especially in performing interference studies, it has created a substantial additional processing workload. In that connection, it is pointed out that continuing efforts to streamline administrative procedures has resulted in the processing of a substantially greater number of authorizations per person currently, as compared to several years ago.



TRENDS IN (A) NUMBER OF FCC AUTHORIZATIONS PROCESSED TO MAINTAIN U.S. NON-GOVERNMENT FREQUENCY ASSIGNMENT RECORDS AND (B) AVERAGE NUMBER OF FREQUENCY RECORD CLERKS.

OFFICE: INTERNATIONAL RECORDS & REPORTS SECTION, FREQUENCY REGISTRATION & NOTIFICATION BRANCH, FREQUENCY ALLOCATION & TREATY DIVISION, OFFICE OF THE CHIEF ENGINEER.

(e) *Major International Conference Activities*—Preparatory work is already well under way for a major international conference scheduled to be convened under the auspices of the International Telecommunication Union (ITU) in Geneva during 1968. This conference is the ITU World Administrative Radio Conference (WARC) for the Maritime Mobile Service and it will consider, among other things, revisions to the international radio regulations, and appendices, with reference to the availability and use of frequencies for use in the maritime mobile radio service and the desirability of accommodating the frequency requirements for oceanographic communications. The matter of single sideband will also be considered, and the revised international code of signals will also be examined. The Commission will collaborate with the Office of the Director of Telecommunications Management in the development of draft "Preliminary Views of the U.S." which each can recommend to the Department of State for transmittal abroad to other administrations for comment, prior to the submission of formal U.S. proposals to the ITU for the WARC. Those views will constitute the tentative proposals of the U.S. with respect to specific agenda items and also on other matters related directly to the maritime services, appropriate for consideration by the WARC. It is expected that after the Preliminary Views of the U.S. are sent abroad, teams of U.S. experts will visit foreign countries to discuss the document and resolve any difficulties encountered.

In addition to the above, it is expected that Commission participation will also be required at other international conferences or meetings during 1968 on dates to be established later.

(f) *International Interference and Frequency Coordination.*—Under the terms of the ITU Convention, the FCC is the medium of contact with foreign administrations in resolving harmful international interference to or from U.S. radio stations. During the past year the FCC was directly involved in 429 cases of international interference. These required well over one thousand pieces of correspondence and frequently involved diplomatic representations through the Department of State with foreign administrations. The number of such interference cases resolved during the same period totalled 388. Because the number of radio stations in the world continues to increase, it is reasonable to expect that greater effort will be required by the FCC in resolving an increasing number of interference problems with other countries.

Because of the high concentration of population and industry along the U.S.-Canadian border, many more cases of international interference would occur without special procedures which the FCC has been instrumental in developing whereby the assignments of each country near the border are coordinated in advance with the other. Such coordination involved the exchange of over 4,000 items of correspondence with Canada during the past year. Experience over the past several years indicates that this number will continue to increase with the corresponding growth in the numbers of stations authorized by both countries. However, this effort has reduced the amount of across-the-border interference cases in 1966 to less than ten, thereby avoiding much time and expense to both countries.

Participation is expected to continue in the development of seasonal high frequency (international) broadcasting schedules and the forwarding of such schedules to the International Frequency Registration Board (IFRB), in accordance with Article 10 of the International Radio Regulations.

(g) *International Notification of Frequencies.*—The FCC processes all U.S. notifications of frequency assignments to the International Frequency Registration Board (IFRB) of the ITU and works closely with the various Government users of radio and communication companies in the establishment of detailed notification procedures. These procedures were revised by the 1959 Geneva Radio Conference with a view toward making them more effective. However, this also increased their complexity which has required an over-all increase in the work which the FCC must devote to this function.

(h) *International Conference Information and Records.*—In addition to preparation and participation in numerous conferences, the FCC must maintain complete files of documents used in conjunction with such conferences, as well as those reflecting their results. Accurate records must also be kept on conference schedules and the countries which attend, as well as the degree to which such countries commit themselves to the treaties which result. This activity is essential to all other activities in the international telecommunication field.

(i) *Other International Activities.*—During the past year the Commission handled approximately 9800 international reports of "infractions" of the International Radio Regulations, as compared to 7200 during the previous year.

In addition, the Commission submitted a major portion of the world's monitoring observations for use by the IFRB in publishing its monthly summary which indicates the frequency occupancy between 2850 kc/s to 27,500 kc/s on a worldwide basis.

(j) *Automatic Data Processing Services.*—A portion of the frequency usage monitoring data (see i.) is processed mechanically through use of punch cards. It is hoped that in the near future, this processing can be enlarged and computer techniques used to supplement current processing and to process additional areas of information now performed manually. However, final review of the end product must be done manually because of variations in data and under the Commission's control and to ensure compliance with national guidelines.

The compilation and printed of lists of non-Government frequency assignments from master frequency records (see d.) now involves the use of punch cards and E.A.M. equipment. With a view toward streamlining this process and reducing the manual operations required, plans are being made to utilize computer techniques in the future. This should result in faster printing and the production of more current lists, including special lists for special occupancy studies.

Citizens Radio Service

Mr. Giaimo. We will take up next the Citizens Radio Service, page 167. By the end of fiscal year 1966 the service had grown to nearly 800,000 licensees, of which approximately 750,000 are Class D. It is by far the largest radio service under the Commission's jurisdiction.

You have 221,800 applications filed in fiscal year 1966, and you issued 168,400 licenses.

The fees are paid into the general fund of the Treasury and are not part of your budget; isn't that right?

Mr. Hyde. That is correct.

Mr. Giaimo. We will put in page 167.

(The page referred to follows:)

Citizens Radio Service

INTRODUCTION

The Citizens Radio Service is a radio communications service of fixed, land and mobile stations intended for short-distance personal or business radio communications, radio signaling, and control of remote objects or devices by radio. In this service, a very small amount of non-prime frequency space has been made available to the public on the basis of minimal eligibility requirements and with a wide permissible range of uses.

The Citizens Radio Service when it was established in 1949 permitted operation only in the UHF portion of the radio spectrum (460 to 470 Mc/s). It was modified in 1958 with the addition of the Class D category which permitted the use of frequences in the 27 Mc/s band. By the end of FY 1966, the service had grown to nearly 800,000 licensees, of which approximately 95% or 750,000 are Class D licensees. Today, it is by far the largest radio service under the Commission's jurisdiction.

During FY 1966, 221,800 applications were filed and 168,400 licenses were issued. Application filing fees for this service during this period totaled $1,378,571. These fees were paid into the U.S. Treasury and were not available to the Commission for any of its expenditures which totaled $618,484 for the Citizens Radio Service. It should be noted that the additional funds requested herein for this program are still below the sum collected from citizens application filing fees in past years.

PROBLEM STATEMENT

The rapid growth of the Citizens Radio Service has generated many regulatory problems and the Commission now is confronted with a serious challenge to its authority. Disregard for the Commission's rules with respect to Class D stations has become widespread. Rule violations by licensees have reached the point at which the usefulness of this service to the public has been seriously impaired. Furthermore, these violations constitute a significant threat to the

Commission's ability to carry out its statutory responsibility to regulate the use of the radio spectrum in the public interest.

That the Commission's present token enforcement program is inadequate is indicated by the inability of the staff to maintain a reasonable level of compliance with the rules and cope with the increased pollution of the service. (See supporting data below). Unless corrective action is taken, it is evident that the rapid deterioration of the Citizens Radio Service will continue. Additionally, the growing public awareness that the Commission's regulatory program falls short of being adequate can be expected to increase disregard of the rules in other radio services.

Because of the seriousness of the situation outlined above, the Commission is attempting to develop a long-range program, incorporating several specific proposals, which will help to alleviate the problem and provide for further study of the causes and potential solutions. An analysis of the problem and proposed program is provided below.

Mr. GIAIMO. Is there any comment that you would like to make on this section?

Mr. HYDE. In view of the discussion I presented earlier I do not think it will be necessary for me to comment further.

JUSTIFICATION BY ACTIVITY AND ORGANIZATION

Mr. GIAIMO. How much money are you asking for in this? On page 179, the budget for this section appears. You are asking for an increase of $289,414.

Mr. HYDE. That is right.

Mr. GIAIMO. We will put in page 179.

(The page referred to follows:)

JUSTIFICATION BY ACTIVITY AND ORGANIZATION

The budgetary request for fiscal year 1968 is as follows:

Financial requirements

	1966 actual	1967 estimate	1968 estimate	Increase
Personnel compensation	$534,345	$524,357	$611,300	$86,943
Personnel benefits	38,472	38,059	41,000	2,941
Other obligations	50,165	38,170	237,700	199,530
Total	622,982	600,586	890,000	289,414

Manpower requirements by activity (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
Regulatory	6	5.3	6	5.9	6	5.9	0	0
Authorization of service	23	20.3	20	19.3	20	19.3	0	0
Enforcement	45	44.3	46	44.3	59	55.2	13	10.9
Total	74	69.9	72	69.5	85	80.4	13	10.9

Manpower requirements by organization (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
S. & S.R.S. Bureau	28	25.6	28	27.2	28	27.2	------	------
Data Processing Division	8	6.5	5	4.5	5	4.5	------	------
Field Engineering Bureau	36	36.0	36	36.0	49	46.0	13	10.0
Hearing examiners	1	.6	1	.6	1	.6	------	------
Review Board	------	.1	------	.1	------	.1	------	------
Dockets Division	1	1.1	2	1.1	2	2.0	------	.9
Total	74	69.9	72	69.5	85	80.4	13	10.9

INCREASE IN PERSONNEL

Mr. GIAIMO. What about the increase in personnel? You are asking for 85 positions. That is an increase of 13 positions over your present strength, is that correct?

Mr. BARR. That is all to go in the enforcement branch.

Mr. GIAIMO. All right. We have put page 179 in the record.

JUSTIFICATION MATERIAL

We will insert page 180, the application workload which is page 181, pages 182, 183, 184, and 185.

(The pages referred to follow:)

CITIZENS RADIO SERVICE

REGULATORY ACTIVITIES

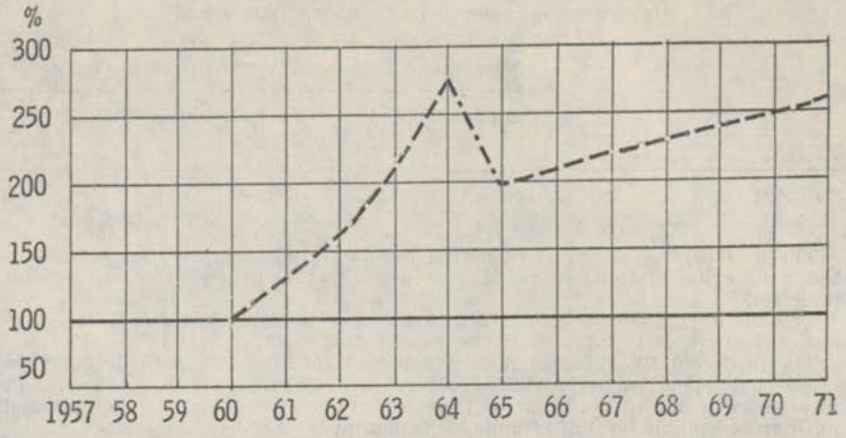
Safety and Special Radio Services Bureau.—This Bureau is primarily responsible for regulatory activities concerning the Citizens Radio Service. These include a continuous program of rule development and changes; participation in international coordination; reviewing and revising procedural requirements; studies of needs and technical changes in this service; legislative work; and handling petitions for rule making and other requests from the public. This work is being handled with 5.9 man-years and, despite a drain on these resources to aid in meeting the problems discussed above in the Citizens Service, no additional manpower is requested for FY 1968.

Office of the Chief Engineer.—Although the three corrective measures set forth in paragraphs "3", "4", and "5" above, for investigation during FY 1968 will involve protracted and perhaps controversial rule-making, it is planned to handle this work with existing professional staff. However, depending on the final disposition of these several rule-making actions, there will be a small impact on professional staff requirements in subsequent years, if new programs of a continuing nature, such as type acceptance and type approval programs, are established. Requirements of this nature will be explained in detail in the budget request for FY 1969.

AUTHORIZATION OF SERVICE

Safety and Special Radio Services Bureau.—This activity includes responding to inquiries from the public; developing and administering procedures and forms for handling applications; processing applications for station licenses; and handling special requests for temporary authorizations, waiver of rules, and similar matters. Mechanized techniques and simplified procedures have made made it possible to handle the large volume of applications, mail, and special requests in this service with moderate manpower strength. As the volume grows, some manpower increments become necessary.

The following chart reflects the growth in applications in the Citizens Radio Service for a twelve-year period from 1960 projected into 1967. (The year 1960 is used as a base year.)



-- Application Workload

	1966 actual	1967 estimate	1968 estimate
Applications pending beginning fiscal year	6,102	6,609	6,600
Applications received during fiscal year	223,845	235,000	245,000
Total application workload	229,857	241,609	251,600
Applications handled during fiscal year	223,248	235,009	245,000
Applications pending end fiscal year	6,609	6,600	6,600
Backlog end fiscal year in workweeks	1.5	1.5	1.5

ENFORCEMENT

Safety and Special Radio Services Bureau.—This includes analyzing and evaluating reports on violations by Citizens Radio station licensees and taking necessary enforcement action. These actions include warning letters, small monetary forfeitures, and station license revocation. Licensees have a statutory right to a hearing in license revocation cases; but many licensees waive this right. In some instances, criminal prosecution is recommended. The Bureau has handled this substantial activity with 6.5 man-years. The proposed pilot special Citizens Radio field violation detection program will result in a substantial increase of cases referred to the Bureau, and if the full force and effect of the stepped up field activity is to be realized these cases will have to be prosecuted promptly and forcefully.

Field Engineering Bureau.—The Phase 1 pilot program of violation detection by the Field Engineering Bureau for FY 1968 is to be staffed by 10 engineering or technical and 3 clerical positions. Four additional specially equipped mobile units will be necessary to make the program effective. These extra personnel and equipment will be deployed at selected locations where there is a high incidence of serious violations or a high degree of non-compliance.

1. Monitoring activities

Each monitoring team will have responsibility for enforcement monitoring by means of mobile facilities in the selected areas which may vary from a few counties to several states. By keeping monitoring enforcement personnel moving repeatedly between their base monitoring station and the communities within the selected areas, effective coverage will be achieved by a smaller number of teams (and men) than would be required if a separate team were assigned permanently to each community.

Manpower requirements (positions and man-years)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
Monitoring	16	16	16	16	22	21	6	5

The 6 additional positions requested for fiscal 1968 will be associated with the monitoring station nearest the area of operation selected for the pilot program.

The monitoring stations for which no increase is planned will provide coverage of their respective areas with the present staff.

The projected 1968 staffing plan will permit intermittent, periodic coverage of selected population areas of the country. Repeated visits to the same areas at intervals will indicate to licensees that the enforcement effort will be sustained until an acceptable level of compliance is obtained.

2. Inspections and Investigations

Seven additional positions (5 a.e.) will be required to implement the inspection and investigation portion of the pilot program Phase 1. The personnel engaged in this effort will be deployed at field offices in a specially selected area.

The field offices for which no increase is planned will perform their regular inspection and investigative work with the present staff.

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
Inspections and investigations	20	20	20	20	27	25	7	5

Factors responsible for the requested increase in personnel to be assigned to district offices for participation in the Citizens Radio Service pilot program phase 1 include:

1. Use of obscene, indecent, and profane language. In these cases an inordinate amount of time must necessarily be spent in locating, identifying, and obtaining probative evidence concerning the violations. Generally such transmissions are unidentified by call sign. The investigative techniques required to (a) establish the physical location of the station, (b) determine, probatively, the actual person making the transmissions, (c) obtain recordings of the transmissions, and (d) prepare a generally lengthy investigative report of the findings for use in prosecution are necessarily precise and time consuming.

2. Investigation of the number of cases of interference to television reception caused by transmissions from stations in the Class D Citizens Radio Service.

There has been a steady increase in the number of such complaints. In FY 64, the number was approximately 3000; in FY 65, 4600; and in FY 66, 5300. A television viewer subject to interference from transmissions of a Citizens Radio station is frequently sharply critical that television reception should be interfered with by such "frivolous" transmissions. The result is that when the Commission's engineer enters the case there is quite often a feud in progress between the complainant and the Citizens Radio operator. This makes it more difficult for the field investigator to resolve the interference problem.

3. The number of complaints received from Class D operators concerning interference caused by another CB operator is increasing. In FY 64, the number was approximately 1300; it rose to 1900 in FY 65; and to 2200 in FY 66.

4. There are a number of Class D station operators who, in the course of habitually violating the rules, do not give the required station identification in order to avoid detection and possible resultant sanction action by the Com-

mission. Determining the physical location of such stations and making inspections in order to determine the identity of the operators, requires many times the manpower needed to issue violation notices to operators whose identities are known.

5. Although statistics are not available, there is increasing evidence that Class D station operators are employing linear amplifiers. The Commission's rules state that the maximum input power permitted for use by Class D stations is 5 watts. The use of linear amplifiers in many cases may increase this power from 200 to 600 per cent. The violation is difficult to prove unless field strength measurements are made both before and after an inspection of the station. There have been instances where CB operators have hidden or have attempted to hide unauthorized linear amplifiers so that they will not be discovered by the engineer in the course of the station inspection. Obtaining field strength measurements in such cases requires the simultaneous participation of an additional investigator.

6. Class D station operators are limited to the use of an antenna not higher than 20 feet. In recent years disregard for this limitation has increased sharply. Deliberate use of an overheight antenna is an act of defiance against the Commission's rules, visible to other Class D operators and thus tending, by example, to promote the erection of overheight antennae by an increasing number of operators. Additional manpower is needed to locate overheight antennae and issue violation notices.

7. Detecting, locating, and suppressing unlicensed stations using CB frequencies.

Community Antenna TV

Mr. Giaimo. We go now to community antenna TV. We will put page 186 in the record.

(The page referred to follows:)

A. INTRODUCTION

Community antenna television (CATV) systems receive and amplify the transmissions of one or more TV broadcast stations and then redistribute the signals by cable to private homes or places of business of those who subscribe to the service for a fee. The coaxial cables used to distribute the signals to subscribers may carry up to 12 or more different signals (channels or programs) on different frequencies.

CATV systems in their traditional sense presented few problems, because the geographical areas served normally had little or no other source of television service available. As CATV began to expand into larger markets, however, questions arose as to its impact on existing television services. A standard TV station is able to transmit only one channel, but a CATV system is able to provide its subscribers with a choice of both network services and local services on a number of channels.

Numbers of standard TV station operators have complained to the Commission that, in areas in which CATV systems were competing with TV stations, the CATV systems were not carrying the local TV station. Also, some systems were duplicating the programming of the local TV station; viewers therefore no longer needed to tune to their local TV station in order to see the same program. Additionally, not all homes within the coverage area of a TV station are willing or able to subscribe to a CATV system. If CATV threatens local service, these viewers—mostly in rural areas where cable TV may not be economically feasible—will be subjected potentially to substantially reduced service or to a loss of service.

B. REGULATORY PROGRAM OBJECTIVES

The Commission's regulatory program with respect to CATV is designed to integrate CATV into the national television structure so as to promote maximum television service while insuring that CATV performs its supplementary role without unduly impeding standard television broadcasting services.

Having established its jurisdiction over all CATV systems, the Commission has adopted rules to govern their operation.

A special CATV Task Force was created by the FCC in FY–1967 to advise the Commission in CATV matters, to implement rules and procedures, and to expedite the processing of applications and pleadings. A Community Antenna

Relay Service has been established by the Commission, in addition, for non-common carrier microwave facilities serving CATV systems; this service also is the responsibility of the CATV Task Force.

Mr. GIAIMO. You are asking for an increase of $138,358, an increase over your present budget, and your manpower requirements, you are asking for an increase of 16. Is this all for CATV?

Mr. HYDE. It is not all in the task force. It is in the activity, some will be in hearing work.

Mr. GIAIMO. But all of the 16 additional people will be in CATV work?

Mr. HYDE. Right.

Mr. GIAIMO. We will put pages 187, 188, and your workload on page 189, pages 190 and 191 in the record.

(The pages referred to follow:)

CATV ACTIVITY

Budgetary requirements

	1966 actual	1967 estimate	1968 estimate	Increase
Financial requirements:				
Personnel compensation	$6,158	$250,150	$385,180	$135,030
Personnel benefits	443	18,480	21,808	3,328
Other obligations		3,500	3,500	
Total	6,601	272,130	410,488	138,358

Manpower requirements by activity (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
1. Processing applications and petitions			11	8.6	18	15.3	7	6.7
2. Rulemaking			1	1.0	3	2.4	2	1.4
3. Hearings		0.5	14	10.9	21	20.0	7	9.1
Total		.5	26	20.5	42	37.7	16	17.2

Manpower requirements by organization (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
CATV Task Force			21	15.0	26	24.0	5	9.0
Data Processing Division			1	.4	3	2.0	2	1.6
Hearing examiners			1	2.0	4	4.0	3	2.0
Review Board			1	1.0	2	1.5	1	.5
Opinions and Review		0.5	2	2.0	6	5.0	4	3.0
Docket Division				.1	1	1.2	1	.1
Total		.5	26	20.5	42	37.7	16	17.2

JUSTIFICATION BY ACTIVITY AND ORGANIZATION

1. Processing applications and petitions

CATV Task Force.—Processing requirements are estimated to require 13.3 man-years (15 positions). These would be broken down as follows:

(1) Analyzing and writing up for Commission consideration requests for evidentiary hearing or waiver under Section 74.1107 in the top 100 television markets are estimated to require 6.3 man years.

(2) The processing of Common Carrier and Business Radio applications would require 0.5 man years.

(3) The professional analysis of applications and related petitions to deny in the Community Antenna Relay Service would involve 1.8 man years.

(4) Petitions for special relief under Section 74.1109 (waiver of carriage and nonduplication requirements, and to prevent the expansion of CATV systems) would require 2.6 man years.

(5) 0.3 man years will cover the institution of compliance proceedings (hopefully the issuance of show cause orders which have for the most part centered around the February 15 grandfathering date will taper off).

(6) Notifications under the microwave rules—21.712 and 74.1031—and under the CATV requirements in 74.1105 will require 0.3 man years.

(7) The handling of the new CATV information reports on ownership, signals carried, subscribers, and cross-ownership interests will involve 0.5 man years.

(8) Correspondence and inquiries, including the handling of general correspondence and inquiries from Congress, from the industry, and from the public with respect to the new CATV rules and requirements will require 1.0 man years.

Fiscal year 1968 workload projection—Applications and petitions

	Estimated disposals	Man-days per unit	Manpower requirements	
			Man-days	Man-years [1]
(1) Top 100 market petitions (requests for evidentiary hearing or waiver under sec. 74.1107)	278	5	1,390	6.3
(2) Common carrier and business radio microwave applications (petitions to deny, petitions for waiver in renewals and routine review of all applications)	37	3	111	.5
(3) CARS microwave applications (professional analysis, including related petitions to deny)	130	3	390	1.8
(4) Petitions for special relief	193	3	579	2.6
(5) Institution of compliance proceedings (i.e. show-cause orders, etc.)	35	2	70	.3
(6) Notifications (secs. 21.712, 74.1031, 74.1105)	1,150	[2] 20	58	.3
(7) Information reports (new CATV report on ownership, signal, cross interests)	1,650	[2] 15	110	.5

[1] Man-year figures based on 220 productive days per year which includes allowance for holidays and leave.
[2] Per day.

Data Processing Division.—2.0 man-years (3 positions) are required for systems analysis, programming, de-bugging and operations (card punching, control, computer operations) of an automated system to process CATV information reports and provide the CATV Task Force with summary reports on ownership and related data.

2. Rulemaking

CATV Task Force.—Rulemaking and research would require 2.4 man years (3 positions). Open rule making proceedings in 15971 and 15586 and anticipated proceedings to redo the rules as experience with processing develops would need 1.6 man years. Research within the Task Force and in an advisory capacity with other interested units in the Commission would require 0.8 man years.

3. Hearings

CATV Task Force.—Participation in the CATV hearings will require 8.3 man years (8 positions). The hearings will be in show cause proceedings, in trials

ordered on top 100 market petitions, in proceedings on petitions to deny microwave applications, and in trials of 74.1109 petitions for special relief.

Hearing Examiners.—4.0 man years (4 positions) are required to handle the estimated 50 hearing cases to be disposed of during FY 1968 (see table below).

Review Board.—1.5 man year (2 positions) will be required in FY 1968 to process interlocutory requests (petitions to enlarge or modify issues and appeals from Hearing Examiner rulings).

Opinions and Review.—While this office devoted only 0.5 man year to CATV cases during FY–1966, the time to be devoted to such cases will be tremendously expanded during both FY–1967 (estimate of 2.0 man years) and FY 1968 (estimate of 5.0 man years).

As of September 21, 1966 there were pending before the CATV Task Force approximately 107 contested requests for waiver of the CATV rules. A continuing influx of similar requests can be expected during the remainder of FY–1967 and during FY–1968. Many of these waiver requests will be designated for hearing—as provided in the Commission's rules. Appeals from interlocutory rulings will commence immediately. While some of these interlocutories will be acted upon by the Review Board under its delegated authority, others must be handled by this office. Also, a substantial number of applications for review of Review Board interlocutory determinations in CATV cases will be handled by this office. Hearing examiners will prepare and issue initial decisions in these cases. Since the Commission has not delegated to the Review Board the task of reviewing such initial decisions and issuing final decisions in these cases, the task of digesting lengthy CATV hearing records, exceptions to initial decisions and supporting briefs, preparation of summaries for oral argument and drafting of final decisions after argument will devolve upon this office.

Other work of the Office includes cease and desist cases. In these matters, the Hearing Examiner certifies the record to the Commission without the issuance of an initial decision. Novel and extremely difficult engineering, factual and legal issues are involved. This Office assists the Commission in analyzing the records and in drafting the final decisions. Also, it handles interlocutories; petitions for reconsideration of designation orders and decisions.

Fiscal year 1968 workload projection—Hearing cases

Carried over from fiscal year 1967	20
Designated for hearing in fiscal year 1968	+50
Subtotal	70
Carried over into fiscal year 1969	−20
Total completed in fiscal year 1968	50

Analysis of cases designated for hearing in fiscal year 1968

	Estimated disposals	Estimated percent designated for hearing	Case workload
(1) Petitions to deny common carrier and business radio microwave applications	15	20	3
(2) CARS applications	136	5	7
(3) Petitions for special relief (sec. 74.1109)	193	5	10
(4) Evidentiary hearings, top 100 markets (sec. 74.1107)	278	10	28
(5) Cease and desist orders (sec. 74.1107)	35	5	2
Total			50

Mr. GIAIMO. Would you like to make some comment, additional comment, at this time, Mr. Chairman, on CATV, some of the problems that you are having with it, and any other comment in relation to it?

Mr. HYDE. I would offer just a sentence or two about that.

BEGINNING OF CATV

Community antenna started out in a gradual way, and it was expected that as conventional stations got on the air that this would satisfy the need of viewers and listeners. But with the development of the technology it was found to be a profitable business to put in an antenna system and bring additional signals into an area.

The entrepreneurs found it profitable, and the program material, at least for the time being, was there without asking.

Presently they were asking for microwave systems from the Commission to transmit the programs from city to city; and, at first, we issued those as a common carrier service without any regard to what the impact might be on the distribution of programs.

IMPACT OF CATV ON TV

Then we began to get complaints from the TV industry that a network outlet in a smaller market was being scooped by programs from the bigger markets, the same network which he ostensibly had the right to expose in his community.

We had a case where there was a protest against a grant of a microwave system in a city, and the Commission, passing upon the question as to whether the public interest would be served by issuing it, finally ended up in putting conditions on the use of the microwave designed to give some protection to the local network outlet as against the competition of the same network from other sources.

This was appealed to the Court of Appeals for the District of Columbia. A decision was entered there affirming our authority and, I think, our responsibility to show some concern about the consequences of issuing microwaves for this purpose.

This put us in the business of regulating community antennas to a degree, that is, to the extent that they used microwaves.

Mr. GIAIMO. Isn't that the limit of your jurisdiction now?

Mr. HYDE. So far as it was spelled out, I mean so far as you could find it in the provisions of the act going to licensing.

Mr. GIAIMO. Yes.

Mr. HYDE. But the Commission, by a divided vote, and I notice one of my colleagues——

Mr. BARTLEY. We do not know for sure.

NEW COMMISSION CATV REGULATIONS

Mr. HYDE (continuing). Watching with interest my answer to your question. The Commission undertook a rather broad regulation in this field, asserting the right and responsibility to do it under the delegations from Congress to regulate interstate commerce in communications.

There have been some cases, there has been some litigation on this. So at the moment we believe our legal position is sound, but this has not been fully adjudicated, and there remains considerable argument about it. We have at the same time—as we stated earlier today—recommended legislation to Congress which would spell out the congressional policy on this.

Mr. GIAIMO. Well, there is a need for it, isn't there?

Mr. HYDE. The majority of the Commission was strongly of the view that there was a need. We are, as I mentioned earlier, hopeful that this, I will call it, breakdown in the market for distribution of programs would come under some market control through the application of the copyright laws.

COPYRIGHT LIABILITY

During this development period there was a good deal of argument as to whether a community antenna did have a copyright liability. A district court of New York has held that they do have a liability. This is on appeal. Most lawyers who have discussed this with me feel confident that this finding of the court will be upheld on appeal.

COPYRIGHT LEGISLATION

At the same time there are amendments to the copyright law under consideration designed to modify it to meet the problems that come up with the development of the community antenna service.

For one thing, a recommendation has been made, and the Commission supported this one. We have thought it would be reasonable for the local community antenna system that is only delivering the program of a local station not to pay a copyright fee because the station which broadcasts in the community would have paid such a fee.

At the same time, when that program is carried to another city where someone has paid for the privilege of exposing it, we had thought they should pay. But lest this copyright liability might discourage the use of the programs we have felt that there ought to be a legal obligation to make these programs available for a reasonable fee in areas where a given network might not be available.

Some amendments to the copyright law along these lines, and some enforcement of copyright principles, as they now exist, might bring some order into this field and minimize the necessity for our getting into it.

We might still, as Commissioner Cox mentioned earlier, find it necessary to require that the community antenna system in a given city carry all of the local stations just to prevent them from practicing discriminatory abuse.

Mr. GIAIMO. This whole field of copyright is quite a serious one.

Mr. HYDE. Oh, it is.

Mr. GIAIMO. It is more than CATV.

Does the FCC get involved with neighboring rights in copyright, in international communications, overseas?

Mr. HYDE. I cannot recall any problems coming to us on that. I may mention that in conventional program distribution by over-the-air means, there is a restriction in the act which prohibits a station from picking up and rebroadcasting a program of another station without the permission of the originating station. We do apply that to the translators, for instance.

Mr. GIAIMO. As a result of the FCC's coming into the CATV field last year, and a couple of years ago, what is the relationship between the FCC and the States? Aren't they still licensing CATV?

STATE ROLE IN CATV

Mr. HYDE. Yes. We have taken a position that the franchising should be done at the local level.

Mr. GIAIMO. That is merely the giving of the license for public use?

Mr. HYDE. Yes. They use the public franchise.

Mr. GIAIMO. And from there on you regulate it?

Mr. HYDE. Yes, sir. The franchise would also include any assessment of fees to consumers and whatnot. We have stayed out of that entirely. We are not in the position of having any argument with local authorities on this. There has been a disposition in some areas to argue that the Federal Government regulates the service and the States should leave them alone. It has also been urged that local boards do the regulating and that the Commission should leave them alone, too.

Our rules are designed to recognize the responsibility of the municipalities and others in franchising, and only to get into the act, insofar as a majority of the Commission feels, when there is an interference with the orderly operation of the program market as regards interstate transmissions.

Mr. GIAIMO. What about the—I am sorry.

Mr. COX. Connecticut has undertaken a comprehensive system of statewide regulation.

Mr. GIAIMO. Yes. It is one of the few States.

Mr. COX. It is practically the only one in the country. There are other States which have either considered or are considering whether they ought to adopt some State-level, public-utility-type regulation.

Mr. GIAIMO. If you take a station that is in a city, a CATV station, that just rebroadcasts the signal of the local television station and is not using any microwave transmission from long distance, do you have anything to do with them?

Mr. HYDE. We would not bother them at all. No problem.

Mr. LEE. That is New York City.

Mr. COX. The franchise in New York City, where all they propose to do is carry the local stations because there is bad reception there because of shadowing from the high buildings, and since they do not import distant signals, the only thing I think they have to do is they are required to carry——

Mr. GELLER. Carry the local stations.

Mr. COX. But the actual impact on their operations is nil. They are going to do, they are doing just exactly what they wanted to do, and they do not propose to go further than that.

COMMISSION JURISDICTION OVER CATV

Mr. LOEVINGER. I might add that the Commission does assert jurisdiction even in these cases.

Mr. COX. Yes.

Mr. LOEVINGER. Commisioner Bartley and I happen to believe that this is erroneous, and we have written 50 or 75 pages of separate opinions that we can furnish on the legal aspect of it.

Mr. GIAIMO. You mean you do not think you should exert jurisdiction?

Mr. LOEVINGER. We think it exceeds statutory power for the Commission to assert jurisdiction at least over purely intrastate activities that involve transmission of signals, intrastate signals, within that State.

However, for the purpose of this hearing I think, perhaps, I should emphasize the area of agreement. There are roughly 1,600, 1,700 CATV systems now in operation. There are about twice that many that are either proposed or potential, not vaguely potential but actually potential in specific commmunities. That means that the aggregate number of CATV systems is approaching the total number of broadcasting systems. This is essentially a new technology and one that is evolving and developing rapidly.

With the assertion of the FCC jurisdiction over all of these systems and with most of them requiring some FCC action before they can operate and challenges being made against them and all sorts of regulations, it is perfectly obvious that the whole technology is going to be impeded and all sorts of distortions may occur in the development of the communications system in this area if the Commission is not adequately staffed. You can tell just by looking at how this group that was started within about the last year has increased, that although some of us disagree rather strongly with some of the legal points, and some of the legal positions that the Commission has taken, that we are agreed that we urgently need the appropriations requested for this purpose, and I think that it would not only handicap the development of technology, it would hinder our debate.

Mr. EVINS. Some disagreement on the implied powers but agreement on the appropriations.

Mr. LOEVINGER. Yes, sir.

LEGAL SERVICES

Mr. EVINS. Well, let us place in the record the legal services, pages 192 through 195.

(The pages referred to follow:)

LEGAL SERVICES

This activity covers the legal services provided by the Office of the General Council to the Commission, Bureaus, and Staff Offices. It also includes one data processing position for work related to the preparation of a legal index.

The General Counsel is the chief legal officer of the Commission. He is responsible for keeping the Commission advised as to the legality of its actions and their conformity with the Constitution, applicable statutes, treaties, and rules. The Office of the General Counsel handles all litigation involving judicial review of Commission actions or the enforcement of the Communications Act and the Commission's rules, in the Federal Courts.

This Office also is responsible for insuring that the Commission's views on legislative matters are adequately presented to the Congress and the Bureau of the Budget; for the drafting of legislation proposed by the Commission; for the provision of legal advice and representation in the preparation and implementation of international treaties and agreements; for the promulgation of general and procedural rules and regulations; for the provision of adequate liaison and representation on legal matters with other Government agencies and inter-agency committees; for the handling of special projects requiring legal investigation or analysis, for the handling of aspects of special defense projects, satellite communication regulations, and patent problems; and for the preparation of legal opinions and interpretations with respect to the Communications Act, the Communications Satellite Act of 1962, other Federal statutes applicable to Commission operation, and to miscellaneous administrative legal problems.

Financial requirements

	1966 actual	1967 estimate	1968 estimate	Increase
Personnel compensation	$536,953	$539,707	$545,600	$5,893
Personnel benefits	38,660	39,506	40,000	494
Other obligations	35,652	30,400	30,400	----------
Total	611,265	609,613	616,000	6,387

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
(a) General Counsel's Office	7	7.0	7	7.0	7	7.0	------	----------
(b) Litigation	11	9.7	11	10.3	11	10.3	------	----------
(c) Legislation	8	7.4	8	7.2	8	7.2	------	----------
(d) Administrative law and treaties	11	10.3	11	10.3	11	10.3	------	----------
(e) Enforcement and defense	13	11.7	13	11.4	13	11.4	------	----------
Total	50	46.1	50	46.2	50	46.2	------	----------

During Fiscal Year 1966, personnel turnover in the Office of General Counsel and the difficulty in immediately securing adequate replacements resulted in the lower average employment figure for the past fiscal year. Our estimated average employment figures for the next fiscal year are based on a personnel attrition which past experience has demonstrated to be average and normal.

(a) *General Counsel's Office.*—The Immediate Office is responsible for the administrative operation of the Office of General Counsel; for supervision of the activities of the various Divisions; for the representation of the Office in Commission meetings; for participation in behalf of the Commission in international conferences; and for special assignments in important matters which are made to the General Counsel by the Commission.

The increasing responsibilities of the Commission in many phases of the communications and broadcasting industries and the satellite communication program, with the many legal and jurisdictional problems raised in connection therewith, have called for intensive and concentrated efforts on the part of all personnel in the Immediate Office. It is contemplated that the activities of the Immediate Office will not entail any additional personnel which at present includes the General Counsel, Deputy General Counsel, Associate General Counsel, three secretaries, and a clerk stenographer.

(b) *Litigation Division.*—The Litigation Division is responsible for representing the Commission before the courts in all cases in which judicial review of the Commssion action is sought or in which the Commission is interested, other than enforcement proceedings. These cases are initiated in the Federal Courts and usually in the U.S. Court of Appeals for the District of Columbia.

The number of cases in which the Commission has participated decreased in the past fiscal year, and the pertinent figures for the Fiscal Year 1964, 1965, 1966 are 87, 92, and 77, respectively. This lower figure seems to have resulted from the fact that a number of appeals in CATV matters have not yet been taken, pending Commission determination of petitions for reconsideration under our recently adopted rules and regulations concerning CATV systems. Cases pending at the beginning of Fiscal Years 1965, 1966, and 1967 totaled 24, 34, and 33, respectively.

It is estimated that the Division's responsibilities can be properly discharged with the present staff of eleven.

(c) *Legislation Division.*—The Division is responsible for drafting and coordinating legislation proposed by the Commission; for reviewing and analyzing legislative proposals submitted by other agencies and the Congress to the Commission for comment; and for maintaining a legislative reference service and Congressional liaison with respect to matters with which the Commission is concerned, including obtaining and furnishing material for the Committees of Congress.

The increasing consideration which has been given by the Congress to legislation directly affecting or bearing upon the jurisdiction and the responsibilities of the Commission will continue to impose heavy work demands on this Division. Further, the types of matters which have been the subject of inquiries by Congressional Committees have continued to increase in complexity and significance. Employment in the Legislation Division for the current year is set at eight persons and no increase is requested for Fiscal Year 1968.

(d) *Administrative Law and Treaties Division.*—The Division is responsible for providing legal advice with reference to the preparation and implementation of international treaties and agreements; for legal research and preparation of opinions and interpretations with respect to the basic statutes and legal problems with which the Commission is concerned, including political broadcasting, "fairness doctrine", etc.; for providing legal advice with respect to the discharge of Commission responsibilities under the Communications Act as they relate to patents owned or controlled by companies and individuals engaged in activities under the jurisdiction of the Commission; for the promulgation of general and procedural rules and regulations by the Commission; and for staff work involved in the allocation of radio frequencies by the Commission, as well as for legal advice in miscellaneous problems of the Commission.

This Division has been and will continue to be heavily involved in legal questions stemming from Commission functions under the Communications Satellite Act of 1962. Further, international radio agreements now in process and preparatory work required for the international radio conference to be held in the Fall of 1968 will add greatly to the work of this Division. General legal research and the preparation of legal opinions in the field of administrative and communications law will continue at a very high level, particularly with respect to implementation of the recently enacted Freedom of Information statute. No increase in the number of persons is requested.

(e) *Enforcement and Defense Division.*—This Division is responsible for handling the legal aspects of compliance activities in the enforcement of Commisison rules and regulations, including review and analysis of recommendations for initiation of civil and criminal proceedings for violation of the Act or Commission rules; serves as liaison with the Department of Justice in such criminal matters; collaborates with United States Attorneys throughout the country in the initiation and maintenance of judicial proceedings for civil enforcement; reviews and prepares recommendations in matters of interpretation with respect to legal aspects of rules and regulations for experimentation in the electronic arts and for use of restricted or incidental radiation devices; assumes responsibility for the Office of General Counsel in all matters relating to national defense security, such as the establishment and maintenance of the Emergency Broadcast System. The personnel engaged in legal editorial work in connection with the printing and publication, in permanent form, of Commission Decisions and Reports, and the preparation of an Index thereto, are now assigned to this Division, and no increase is proposed for Fiscal Year 1968.

Mr. Evins. You have to have a good lawyer there to interpret these specific powers and the implied powers of the Commission.

Administrative services, that increases about $60,000.

Administrative Services

We will place the administrative portion of the justification in the record.

(Pp. 196 to 199 follow:)

Administrative Services

Included under this activity are the administrative services provided by the Office of the Executive Director, Office of Secretary, and the Office of Reports and Information.

Financial requirements

	1966 actual	1967 estimate	1968 estimate
Personnel compensation	$1,183,882	$1,233,374	$1,288,359
Personnel benefits	85,229	90,282	92,096
Other obligations	216,719	212,545	214,545
Total	1,485,830	1,536,201	1,595,000

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
1. Executive direction	33	30.3	38	34.8	40	36.2	2	1.4
2. Housekeeping services	134	128.5	124	121.0	125	120.8	1	−.2
Total	167	158.8	162	155.8	165	157.0	3	1.2

A. Justification by Activity

1. EXECUTIVE DIRECTOR

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
(a) Immediate Office of Executive Director	6	6.6	8	7.0	8	7.0	----	----
(b) Management information	6	4.7	8	7.0	9	7.7	+1	+0.7
(c) Personnel	18	16.0	19	17.8	19	17.8	----	----
(d) Budget	3	3.0	3	3.0	4	3.7	+1	+.7
Total	33	30.3	38	34.8	40	36.2	+2	+1.4

(a) *Immediate Office of Executive Director.*—This office coordinates and supervises all Commission staff and administers the internal administrative affairs of the Commission including budget and finance, personnel administration, organization and management methods, defense telecommunications planning, office services, mail and files, security, records management, and related administrative and managerial matters. In addition, this office coordinates the Commission's data processing program, the expense of which is charged to the respective activities making use of the data processing service. No increases are proposed for FY–1968.

(b) *Management Information Division.*—Organized as an independent unit within the Commission in 1966, this Division has proven to be a particularly productive source of effective management data and recommendations for the improvement of Commission operations. It has been possible to measure in significant numbers of dollars and positions the savings growing out of the services of this unit. The additional position sought for 1968 is to assume leadership in the development and implementation of a systematized program of information storage and retrieval for the Commission's vast bulk of documents; and to assume project responsibility for new programs in PPBS, activity time reporting, computerization of certain Commission operations, and so on. This position is expected to result in continuing tangible savings far in excess of the cost of the position itself.

(c) *Personnel Division.*—Personnel studies of the Commission's staff reveal that a significant percentage of the Commission's several hundred-man engi-

neering staff anticipate retirement within the next 2 to 3 years. The Commission consequently is faced with the enormous task of designing and implementing a recruitment and training program to replace large numbers of skilled professionals already in short supply. Unless this effort is undertaken in a timely and highly effective manner, the Commission will suffer a rapid and dangerous erosion of its ability to issue the more important licenses and maintain order in the radio spectrum. In addition, as it continues to modernize its staffing plans and organizational arrangements, and in response to Civil Service Commission criticism, the FCC is engaged in a substantial overhaul of its personnel classification program. The present limited staff of the FCC Personnel Division is finding it extremely difficult to remedy past and future problems and still meet its daily responsibilities but in the interest of economy no increase is requested.

(d) *Budget Division.*—The Budget and Fiscal Officer of the Commission is assisted by only one budget analyst. All functions of the Commission relating to the budget process, and all of the basic computational efforts within that process, are the responsibility of these two individuals. The Commission's one budget assistant expects to retire during the 1968 fiscal year. It is essential that a new analyst be employed, for familiarization purposes, at least one budget cycle prior to the impending retirement of the Commission's sole individual carrying this key assignment. This additional position, then, is simply a replacement brought on duty one year earlier than a replacement normally is sought.

2. HOUSEKEEPING SERVICES

Manpower requirements (positions and average employment)

	1966 actual		1967 estimate		1968 estimate		Increase	
	Positions	Average employment	Positions	Average employment	Positions	Average employment	Positions	Average employment
(a) Reports and information	5	4.9	5	6.0	5	5.0	.....	−1.0
(b) Secretary's office	23	20.3	20	19.7	20	19.7	.....	.....
(c) Accounts and payroll	26	23.9	26	24.5	27	25.5	+1	+1.0
(d) Office services	55	54.4	53	50.0	53	51.1	.....	+1.1
(e) Duplicating services	25	25.0	20	20.8	20	19.5	.....	−1.3
Total	134	128.5	124	121.0	125	120.8	+1	−.2

(a) *Reports and Information.*—The Communications Act and the Commission's rules and regulations require that "public notice" be given of certain Commission actions. This reporting is centralized in the Office of Reports and Information, which writes and releases such issue. In addition, this office releases copies of formal orders, decisions, opinions and rule making. It also serves as a point of contact for public, press and industry seekers of general or particular information; compiles fact sheets to answer recurring questions—particularly from public libraries, teachers, and students; drafts the Commission's annual reports to Congress; and maintains files of public notices, formal documents and other records for Commission as well as public reference.

The present staff of five has not been expanded these past several years despite the fact that the workload long since has risen considerably. The higher average employment in FY–1966 resulted from overlapping of employment due to retirements and terminal leave payments.

(b) *Office of the Secretary.*—The Secretary of the Commission is the custodian of official Commission records; prepares official records of action taken by the Commission; signs all orders, permits, licenses, or other instruments of authorization made, issued, or granted by the Commission; acts as Commission liaison officer with special committees of the Congress and other government officials and is responsible for the Library and Minutes functions. This Office also supervises the Dockets function but the costs are charged to the activities to which they provide service. No staff increase is requested.

(c) *Accounts and Payroll.*—This service includes all fiscal accounting, auditing, and payroll activities. The increase of one position is for one card punch operator to permit us to utilize our computer in the maintenance of more detailed and accurate activity time reports which are so vitally needed for internal management and budgetary purposes.

(*d*) *Office Services.*—These services cover procurement of office supplies, furniture, equipment, printed matter, building maintenance services, mail and messenger services, telephone switchboard, etc. No new positions are proposed for FY–1968.

(*e*) *Duplicating Services.*—The Commission's printing plant, as authorized by the Joint Committee on Printing, reproduces material necessary in the day-to-day activities of the Commission. We are hopeful that as a result of careful study of the number of copies run off on various jobs that economies can be made and that we will be able to reduce average employment in this area even below our already reduced FY–1967 level.

PERSONNEL BENEFITS AND OTHER OBLIGATIONS

Mr. EVINS. Other benefits are increased somewhat. We will insert pages 200 to 209.

(The pages referred to follow:)

PERSONNEL BENEFITS AND OTHER OBLIGATIONS

This section covers the estimated requirements of the Federal Communications Commission for personnel benefits and other obligations. It covers all non-salary expenses of the Commission.

Personnel benefits

	1966 actual	1967 estimate	1968 estimate	Increase
Employee awards	$4,480	$5,000	$5,000	
Retirement	888,837	930,456	950,000	$19,544
Life insurance	43,944	46,300	48,000	1,700
Social security	9,328	10,000	10,000	
Health plan	78,539	92,000	98,000	6,000
Accident compensation	3,846	444	880	436
Moving and related expenses		10,000	37,120	27,120
Total	1,022,974	1,094,200	1,149,000	54,800

The increase in moving and related expenses results from the enactment of Public Law 89–516 which liberalized the allowances to be paid to employees in connection with changes in duty station.

OTHER OBLIGATIONS

The following table shows a distribution of "other obligation" expenses by object class.

		Fiscal year 1967	Fiscal year 1968	Increase
21	Travel and transportation of persons	$233,675	$280,000	$46,325
22	Transportation of things	60,425	76,000	15,575
23	Rents, communications, and utilities	441,500	446,000	4,500
24	Printing and reproduction	210,000	210,000	
25	Other services	216,500	850,000	633,500
26	Supplies and materials	220,000	231,000	11,000
31	Equipment	339,000	352,000	13,000
32	Land and structures	52,500	41,000	−15,500
	Total	1,777,600	2,486,000	708,400

21 Travel and transportation of persons

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Increase
Transportation and per diem	$206,752	$196,500	$244,500	$48,000
Transportation of witnesses	163			
Rental of passenger cars	38,080	37,175	35,500	−1,675
Total	244,995	233,675	280,000	46,325

Transportation and per diem

	Fiscal year 1967	Fiscal year 1968	Increase
Office of Commissioners	$16,000	$18,000	$2,000
Office of Executive Director	8,250	13,000	4,750
Office of Hearing Examiners	2,250	5,000	2,750
Office of Chief Engineer	16,500	19,000	2,500
Office of General Counsel	4,000	4,500	500
Field Engineering Bureau	84,000	110,000	26,000
Common Carrier Bureau	19,000	21,000	2,000
Safety and Special Radio Services	11,750	13,750	2,000
Broadcast Bureau	32,250	35,250	3,000
CATV	2,500	5,000	2,500
Total	196,500	244,500	48,000

(*1*) *Coverage*

Includes transportation of Government employees, their families and others; their per diem allowances while in an authorized travel status; and other expenses incident to travel which are to be paid by the Government; including travel expenses of employees transferred from one duty station to another; home leave travel expenses for employees assigned to duty stations outside continental U.S. Also, includes rental of passenger motor vehicles from Government motor pools, and per diem and travel expenses of witnesses.

(*2*) *Requirements*

Of the total increase of $48,000 for transportation and per diem, $26,000 is for the Field Engineering Bureau. Public Law 89–516 considerably liberalized allowances to employees in connection with changes in official duty stations. As a result it is estimated that travel expense associated with such moves will increase by $10,000 in FY–1968. It is anticipated that some employee transfers that would ordinarily be completed this year will have to be deferred until FY–1968 because of legal limitation on amounts that may be expended for travel during the current year.

The expanded enforcement program in the Citizens Service described in the Citizens Program section of this document, will require field personnel to spend considerable time in travel status in mobile units. It is estimated that the 10 additional technical employees planned for the field service for this program will be in travel status a total of 700 man-days at a cost of $11,200. It also is estimated that existing personnel assigned to Citizens enforcement work will spend additional time in travel status requiring another $1,800, or a total increase for this program of $13,000.

An increase of $3,000 is required for monitoring activities in services other than the Citizens service. This is necessary in order to keep mobile monitoring units in operation a greater portion of the time and to cover the two new microwave monitoring units being placed in service late in 1967.

Recruitment of qualified engineering personnel is becoming more and more difficult each year. Many of our present staff are nearing retirement age, we must increase our efforts to secure replacements at the college level. In 1966 we visited 60 colleges and interviewed 268 engineering students. These same students were interviewed by many other agencies and by private industry. We must interview at least 600 graduating students in 1968 to get 50–60 new and replacement recruits. Similar recruiting problems exist in the legal and clerical field. An additional $4,750 is proposed for this purpose.

Increases are requested for the Office of Hearing Examiners and the CATV Task Force to enable them to participate in the CATV cases that must, of necessity, be held in the field. A total of $5,000 increase will be required for this purpose.

An increase of $3,000 is proposed for investigatory work in the Broadcast area into alleged violations of Commission rules, policies, and directives. These investigations take considerable time in locating and interviewing various parties involved, such as, licensees, community representatives, music publishers, composers, record manufacturers, distributors, etc.

More participation in international conference is required each year as the communications art advances in the United States and other countries expand their communications systems. Global satellite systems, improved oceanic cables, and general crowding of the radio spectrum used by all countries requires very close coordination and cooperation. An increase of an estimated $5,000 will be necessary for this purpose in FY–1968.

Small increases totaling $4,250 also are proposed.

22 Transportation of things

Fiscal year:	
1966	$62,009
1967	60,425
1968	76,000
Increase, 1968 over 1967	15,575

(1) Coverage

Transportation of things covers all contractual charges for the transportation of equipment, supplies and materials, including postage used in parcel post, freight and express charges, crating, cartage, handling, and other costs incident to local transportation or moves of equipment.

Transportation of household goods covers reimbursement to employees for authorized movement of household effects upon transfer from one duty station to another under our promotion from within policy; and other transfers for the benefit of the Government.

Public Law 85–749 authorizes payment of transportation charges for shipment of household goods of newly hired engineers and their families to the first duty station.

Rental of Trucks from Government Pools—Covers reimbursement to GSA for the cost of renting automotive trucks for the transportation of equipment, supplies and personnel.

(2) Requirements

The increased enforcement activity in the Citizens Radio Service will require the rental from GSA of additional small trucks for mobile operations. The increased cost is estimated at $4,200.

An additional $6,375 is requested for duty station changes and expenses related to the shipment of household goods and new employees proposed for FY–1968 and $5,000 to cover the increased costs resulting from the liberalized moving expense legislation.

23 Rents, communications and utilities

Fiscal year:	
1966	$464,684
1967	441,500
1968	446,000
Increase, 1968 over 1967	4,500

(1) Coverage

Rental of Land and Buildings for use by the Commission's Monitoring Stations, our relocation sites, and office space in the Metropolitan area.

Rental of IBM Tabulating Machines used for statistical data pertaining to licensees, frequency assignments, marine station listings, payroll and other accounting data. Also covers miscellaneous rentals of equipment other than motor vehicles such as butane gas tanks, western union clocks, Xerox copy machines, etc.

All telephone costs including $24,200 to be transferred to GSA for the FTS.

Cost of our Leased Line Teletype Circuit which is required for alerting all Monitoring Stations on the Circuit simultaneously so that the immediate bearings may be obtained and utilized in long-range direction finding operations.

Covers other general categories such as charges for the transmission of messages via marine cable, radio and wireless telegraph, GSA teletype system, and charges for postage and rental of post office boxes.

(2) *Requirements*

The increase of $4,500 is necessary to meet added costs resulting from a larger staff and the increased activity generated thereby. These costs are primarily in the area of communications, both installation and service, and penalty mail.

24 Printing and reproduction

Fiscal year:	
1966	$234,544
1967	210,000
1968	210,000
Increase	----------

(1) *Coverage*

All printing, binding, and reproduction work performed by the Public Printer, and commercial sources as authorized, for official use of the Commission, including the procurement of printed envelopes and microfilming charges.

The printing and reproduction work consists of application and license forms, rules and regulations, annual report to Congress, annual report forms filed by carriers and licensees, administrative bulletins and instructions, statistics of the Communications Industry, legal briefs, printed envelopes and letterheads, specially printed standard forms, and miscellaneous printed matter such as title inserts, calendars, printed title inserts, Congressional bills, Acts, and Reports, Congressional Record, Decisions of Comptroller General, printing of FCC Reports on weekly basis, and the scheduled printing of amendments to our Rules and Regulations.

(2) *Requirements*

No increase is proposed for FY-1968.

25 Other services

Fiscal year:	
1966	$281,654
1967	216,500
1968	850,000
Increase, 1968 over 1967	633,500

(1) *Coverage*

Includes all contractual services not otherwise classified, including items such as stenographic reporting service, fees, research contracts, security investigations, equipment installations, funds for transfer to the Civil Service Commission as FCC share of cost of recruiting program, reimbursements for health services, training costs, and all other contractual work and services.

(2) *Requirements*

As the social, political, and economic demands on the communications medium mount, so does the urgency of research needed to obtain the greatest degree of public benefit from the radio spectrum. There is increasingly urgent and immediate need for sound research despite the limited ability of the FCC at present to undertake such research. The Commission must anticipate and foster change. It must act before change and not merely react to situations that are created because it failed to plan and anticipate in advance.

For these reasons it is proposed herein that the sum of $150,000 be budgeted in FY-1968 for research, by independent organizations to be brought under contract with the Commission. Technical studies would take some of the effort, though research in long-range forecasting and the economic and social implications of Commission decision-making would properly be the subject of some of the research.

Services in connection with making equipment installations in vehicles and other miscellaneous services associated with the Citizens Radio Service program are estimated at $1,500.

For FY–1968 the FCC requests $30,000 in planning money to lay the groundwork for the creation of a modern laboratory for the Commission.

The present FCC laboratory, located in Laurel, Maryland, consists of a cluster of three buildings together containing less than 6,000 square feet of laboratory space exclusive of garage and storage areas. These buildings were not conceived of, and do not function as, an integrated, effective laboratory unit. Together with the outmoded equipment they house, these buildings represent the fruit of years of attempting to get by on half a financial shoestring. The FCC's laboratory today constitutes a totally inadequate approach to the problems to be solved and responsibilities to be met by the Commission.

The point long since has been reached and passed when a 19th century laboratory facility will meet 20th century demands on Commission ingenuity and testing research facilities. The Commission cannot meet its legal responsibilities on the basis of the present level of capability of our existing laboratory; the laboratory must be improved to the point at which it can meet the demands made of the Commission by the Communications Act of 1934 and the sea of technological developments of the past 30 years.

In the Citizens Program section of this document (Page 174) a proposal is presented for contractual studies estimated to cost $150,000. The problems with which the Commission is confronted in this service are set forth in the program section. An in-depth study of the entire Citizens Radio Service is proposed to further define the nature of the problem and to determine the most effective means of restoring control. The basic objective of the Commission's activities in this area is to attain an acceptable level of compliance in order to provide the public with a useful radio communications service.

For several years, and most particularly during calendar 1966, many Government agencies, private institutions and users of radio have been urging that much greater attention be given to efficient management of the radio spectrum. The interest in this matter stems from increasing congestion in the more useful portions of the radio spectrum, with the consequences that important users of radio, such as police departments for instance, are subjected to such harmful interference that they cannot operate effectively. Also, many persons and businesses who could use radio effectively for various purposes cannot find a suitable frequency or frequencies and hence are unable to use radio at all.

Solutions to the problem are difficult to identify and evaluate, and it has become apparent that an interdisciplinary team of experts probably could make a useful contribution. Since their recommendations would require implementation both by this Commission and the President's Director of Telecommunications Management (under the statutory scheme of the Communications Act of 1934 as amended and the Satellite Act of 1962), details of the manner in which the requested funds could be expended most usefully will be discussed in detail between the Agency heads and the Assistant Secretaries concerned during the months immediately ahead. It is important to stress that the money approved by the President for inclusion in this budget will be used as part of a team effort by the entire Government to improve its management of the radio frequency spectrum.

26 Supplies and materials

Fiscal year:	
1966	$234,422
1967	220,000
1968	231,000
Increase, 1968 over 1967	11,000

(1) Coverage

This object class covers items such as gasoline and oil, fuels and heating, technical supplies for our field offices and laboratory, and subscriptions, duplicating supplies, data processing supplies and general office supplies.

(2) Requirements

For FY-1968 an additional $5,000 is requested for technical supplies for field offices and monitoring stations for the expanded Citizens Service activity.

There is proposed only an additional $6,000 to cover all other increases in the supply area.

31 Equipment

	Fiscal year 1966	Fiscal year 1967	Fiscal year 1968	Increase
Technical equipment (FEB)	$325,995	$170,000	$183,000	$13,000
Technical equipment (LAB)	29,995	30,000	30,000	----------
Purchase of vehicles	12,041	15,000	15,000	----------
All other equipment	169,310	124,000	124,000	----------
Total	537,251	339,000	352,000	13,000

(1) Coverage

Technical equipment used by Commission's Field Engineering Bureau and the Laurel Laboratory. Purchase of passenger motor vehicles carryalls and trucks for field use. Furniture and office equipment including duplicating equipment, typewriters, adding and calculating machines, dictating and transcribing equipment, desks, chairs, tables, safes, steel shelving, filing equipment, etc.

(2) Requirements

In order to meet budgetary limitations expenditures for technical equipment for field installations were held to a very low level in FY–1967. Although there is a very serious need to modernize much of the existing equipment and provide pieces of equipment not available in some units, our complete proposal for technical equipment in field installations will have to be deferred for at least one more year.

Electronic instruments and related technical equipment are essential tools for the Field Engineering Bureau's technical personnel in achieving efficient and effective enforcement of the Commission's Rules, the Communications Act, and pertinent International Treaties.

The proliferation of radio services and new radio stations, together with more stringent operating tolerances and the increasing use of complex types of emissions, plus the rapid increase in the number of non-communication types of interference sources, make it imperative that the Commission utilize every available means to increase the efficiency of its surveillance and enforcement operations. Modern, more sophisticated equipment must be acquired in order to maintain order in the radio spectrum and to insure effective utilization of the available channels.

A five-year modernization and equipment upgrading program was developed in the planning for the FY–1967 budget. It was intended that this program, if achieved, would bring the technical facilities available to our field installations to a level consistent with the state-of-the-art. In keeping with economy directives it was necessary to reduce our 1967 proposals significantly below 20% of the $1,500,000 estimated five-year program cost.

The same sort of austere program will have to be continued into FY–1968. Our procurement proposals are based upon the minimum needs required to carry on a program of spectrum surveillance and rule enforcement. Priority will be given to (1) the current urgent need for replacement of obsolete and obsolescent facilities, (2) providing limited amounts of equipment to meet expanding requirements in existing programs and to handle new requirements which have arisen, and, (3) continuance of the program of upgrading mobile monitoring facilities for monitoring stations so that both the fixed and mobile installations can be effectively operated simultaneously.

The $13,000 increase for technical equipment will be limited to necessary equipment to carry out the expanded enforcement program proposed in the Citizens Radio Service.

It is proposed to procure one passenger vehicle in FY–1968 out of the funds requested for the purchase of vehicles.

No increases are proposed for equipment in any other area.

32 Land and structures

Fiscal year:	
1966	$51,452
1967	56,500
1968	41,000
Decrease 1968 from 1967	15,500

(1) Coverage

Fifteen of the Commission's monitoring stations are situated on FCC-owned or controlled property. Structures and facilities improvements proposed below have been reviewed with respect to possible flood hazards resulting from land clearing or land contour changes in connection with these improvements as required by Sec. 1 of Executive Order 11296. Based upon past experience at these stations and on the nature of the proposed improvements, it has been determined that these improvements will not be made in areas subject to flooding and will not contribute to possible future flooding problems on adjoining properties.

(2) Requirements

A decrease of $15,500 is proposed for FY 1968.

Mr. EVINS. Mr. Chairman, we think you and the members of the Commission have a very important mission, and we wish you a lot of good luck and success.

Mr. HYDE. Thank you very much. We do appreciate the very courteous hearing you have given us.

LIST OF WITNESSES

	Page
Ashbridge, W	420
Bagge, C. E	1039
Barlow, Robert	1
Barr, J. E	1136
Bartly, R. T	1136
Beaty, Jack	107
Beckler, D. Z	1
Benton, R. J	1136
Brickfield, C. F	419
Brown, F. S	1039
Brown, Mrs. V. M	796
Bucknell, R. H	420
Budd, P. J	420
Buffington, J. V	919
Burkhalter, W. M	107
Bush, J. W	796
Calhoun, R. L	796
Callahan, E. B	139
Camp, Dr. T	420
Capar, Wesley	1039
Carver, L. J., Jr	1039
Comarow, Murray	1039
Corcoran, J. T	796
Cox, E. H	796
Cox, K. A	1136
D'Alesandro, Thomas, Jr	107
Day, L. R	139
Delaney, J. A	919
Dervan, J. M	420
Dixon, P. R	919
Driver, W. J	419
Echols, E. A	420
Egbert, Miss Elfrieda	107
Elman, Philip	919
Evans, J. R	1136
Fable, R. C., Jr	419
Farmer, A. W	420
Fensterstock, H. W	107
Forbes, T. W	796
Franck, Col. B. T	52
Garson, H. N	796
Garver, J. C	420
Geller, Henry	1136
Glendening, W. P	919
Goff, A. M	796
Gorman, E. J	419
Gould, B. A	796
Haber, Dr. P. A. L	420
Hale, F. C	919
Hale, R. W	37
Hamill, J. A	245
Hampton, R. E	245
Hardy, Jerry	919
Hartwig, L. E	107
Henderson, J. M	919
Hershey, Lt. Gen. L. B	52

	Page
Hood, F. R.	419
Hook, L. J.	419
Horne, J. E.	139
Hornig, Dr. D. F.	1
Hyde, R. H.	1136
Iliff, Col. W. S., Jr.	52
Irish, Frederick	919
Jibb, W. F.	919
Johnson, Nicholas	1136
Johnson, R. C.	1039
Jones, M. G.	919
Kaufman, Stanley	1136
Kidd, Dr. C. V.	1
Kline, D. W.	420
Lee, R. L.	1136
Levy, M. I.	1136
Litke, A. L.	1039
Loevinger, Lee	1136
Lotito, G. J.	796
Loveless, H. C.	107
MacIntyre, A. E.	919
Macy, J. W., Jr.	245
Maiers, A. K.	419
Margolin, Edward	796
McAnsh, A. T.	419
McKinley, S. E.	1136
Meyer, G. A.	796
Miller, V. P.	419
Monk, A. H.	419
Moore, H. F.	420
Mueller, W. F.	919
Murphy, R. L.	796
O'Connor, L. J., Jr.	1039
O'Leary, J. F.	1039
Overend, C. F.	245
Paglin, M. D.	1136
Paolo, Matthew	796
Parsons, I.	419
Peckarsky, J. C.	420
Perry, Grady, Jr.	139
Pfahler, R. D.	796
Plummer, C. B.	1136
Quigley, R. F.	139
Rand, R. L.	139
Ross, C. R.	1039
Ryan, J. N.	796
Schmid, B. F.	796
Schwartz, H. S.	139
Schweickart, L. C.	420
Scott, K. E.	139
Semple, P. T.	107
Shea, J. W.	919
Sheehy, J. E.	919
Shytle, J. D.	419
Silberman, E. R.	420
Skouge, Dr. O. T.	420
Smith, C. S.	139
Smith, G. S.	1136
Snow, W. B.	919
Snyder, J. W.	919
Solan, R. F.	1136
Solomon, R. A.	1039
Sparks, C. J.	245
Speck, W. F.	245
Spring, Vernon	1136
Stancil, J. W.	419

	Page
Stillwell, B. E.	796
Stone, H. E.	107
Strassburg, Bernard	1136
Stratton, A. W.	420
Stringer, H. D.	919
Sweeney, C. A.	919
Tierney, P. J.	796
Trainor, H. J.	1039
Trevas, H. L.	139
Tucker, W. H.	796
Turner, B. E.	419
Uhlenhop, W. B.	245
Wald, H. P.	1039
Walters, L. M.	139
Webb, C. A.	796
Weiss, Ernest	796
Wells, Dr. B. B.	420
Welsh, Dr. E. C.	37
Wheelock, J. N.	919
White, L. C.	1039
Whitworth, D. P.	420
Williams, D. F.	245
Williams, S. L.	919
Wise, R. W.	420
Worthy, J. D.	139
Yarley, C. B.	919

75-491—67—pt. 1——83

INDEX

C

Page

Civil Service Commission 245
Annuities under special acts 264, 417
Budget for fiscal year 1968, summary of 275
Language changes 260–263, 278
Payments to trust funds 264, 277, 410
Civil service retirement and disability fund 265
Combining with Government payment for annuitants, employees' health benefits appropriation 261
Salaries and expenses 263, 271, 281
Administration and management services 342
Appellate functions 282, 333
Budget for fiscal year 1968, compared with 1967 285
Career development and training 249, 335
Training of Federal employees 266
Training at universities 341
White House fellows program 340
Computer utilization 253
Developing policies and standards 324
Positions, increase in 329
Wage board positions 330
Employment, Commission 272
Employment, Federal 254, 268
New hire rate 256
Separation and accession rates 255
Turnover rate 254
Equal employment opportunity 250
Expenses by objects of expenditures 401
Federal executive manpower program 313
Executive assignment system for upper grades 249, 268
Supergrades, available and assignment of 319
Hatch Act, duties under 277
Inspections 308
Surveys of agency management practices 311
Investigation of character and fitness for employment 297
Adverse actions 306
Dismissals 307
National agency checks 301, 304
Postmaster candidates, investigation of 302
Supplemental funds, need for 256
Investigation of U.S. citizens by international organizations, combining with salaries and expenses appropriation 260
Pay increase costs, supplemental funds for 260
Printing costs 286
Recruiting and examining program 288
Central testing service 293
Examinations for attorneys 279
Interagency boards 246, 292
Modernization of 246
Workload 295
Reimbursements from other agencies 274
Representation expenses 263

Civil Service Commission—Continued
Salaries and expenses—Continued
Page
Retirement and insurance programs, administration of 252, 348
Cost-of-living increase for annuitants 257, 354
Deficiency in retirement fund 375
Employees' contributions to retirement fund 356, 383
Employees' health benefits program 381
Employees' life insurance program 377
Payments to insurance companies 259, 378
Funding and financing of retirement program 356
Retired employees' health benefits program 391, 394
Summary of operations of various programs 385
Supplemental funds, need for 256
Supplemental funds, need for 256–260
Voting Rights Act of 1965, administration of 252, 284, 287, 396

F

Federal Communications Commission 1136
Administrative services 1290
Personnel benefits and other obligations 1293
Broadcast activity 1150, 1231
Advertising 1196–1197
Application disposals 1213
Broadcasting industry, financial condition of 1163, 1165
Complaints 1237
Editorializing, policy on 1176
Educational TV, control over 1194
Engineering studies and frequency allocation 1262
Laboratory 1263
Spectrum:
Allocation of 1153, 1188
Coordination of government use of 1192
Frequency allocations made in 1949 1151
Land mobile services 1150, 1151, 1184, 1193
Use of lower and higher 1188
Fairness doctrine 1197
Frequency management research 1153
International and satellite communications 1214
Communications Satellite Corp 1214
Rates 1218
Land mobile services 1150, 1151, 1184, 1193
Licensees, increase in 1141
Network study 1237
Networks, control of 1194
Newspaper ownership of stations 1164
News programs, slanting of 1195
Political campaigns, policy on 1176
Program content 1180
Programing, control of 1180, 1196, 1197
Radio stations:
Applications for new 1164
Power of, increase in 1165
Revocation of licenses 1235
Subscription TV 1199
Translator station 1234
TV programing 1166
UHF–TV study in New York 1166
Ultrahigh frequency channels:
Advantages of 1167
Applications for 1166
Availability of 1167
Community antenna TV, effect of 1168
Listing of 1169–1173
Workload 1232

Federal Home Loan Bank Board—Continued — Page
- Government investment accounts, use of funds from — 147
- Growth of savings and loan industry — 160
- Housing starts — 190
- Increase in operations — 189
- Insured and noninsured associations — 162
- Interest rates — 143, 164, 196
- Legislative program — 155, 159, 167
- Loans to member associations — 198
- Money market:
  - Effect of tight — 142
  - Improvement in — 148
- Mortgage loans by member associations — 194
- Mutual savings banks, chartering of — 169
- New associations, chartering of — 159
- Nonadministrative expenses — 140
- Operating Analysis Division — 211
  - Rent, communications, and utilities — 214
  - Travel expenses — 214
- Operations, manner of — 158
- Research and Home Finance, Office of — 203
- Reserve funds — 171
- Savings inflow of savings and loan associations, drop in — 142, 145
- Stock companies — 165
- Study of savings and loan industry — 154
- Supervision over member associations — 150
  - Cease-and-desist authority — 150
  - State saving and loan associations — 160

Federal Power Commission — 1039
- Administration — 1125
  - Computers — 1135
  - Employment:
    - Changes in — 1083
    - Lack of adequate — 1060
- Budget for fiscal year 1968, summary of — 1051, 1085
- Electric power industry — 1048, 1103
  - Accounting system, uniform — 1073
  - *Colton* decision — 1123
  - Dickey-Lincoln school project — 1067
  - Headwater benefit payments — 1079
  - Hydroelectric work — 1049, 1124
  - National Power Survey — 1071
  - Nuclear and other power — 1065
  - Penalties assessed for delinquency in payment of annual charges — 1081
  - Power pools — 1073
  - Rates, reduction in — 1069, 1123
  - Recapture of projects — 1064
  - Relicensing of projects — 1063
  - Underground powerlines — 1063
- Esthetic considerations — 1062
- Funds collected, source and application of — 1078, 1082
- Legislative proposals — 1062, 1090
- Natural gas industry — 1045, 1052, 1092
  - Air pollution — 1066, 1090
  - Fees — 1080
  - Jurisdiction, area of — 1053–1055
  - National gas survey — 1090
  - On-site audits — 1090
  - *Permian Basin* case — 1056
  - Pipeline activities — 1047, 1053
  - Producer investigations — 1087
  - Rate cases, area — 1046, 1056
  - Rate increases — 1055, 1060
    - Moratorium on — 1057
  - Refunds and rate reductions — 1087
  - Reserves, gas — 1070
  - Safety legislation — 1070

	Page
Federal Power Commission—Continued	
Public interest, role of	1086
Refunds and rate reductions	1088
Relicensing of projects	1063
Responsibilities of	1058
Salaries and expenses	1039
Federal Trade Commission	919
Administration, Office of	976
Budget for fiscal year 1968:	
Adequacy of	957
Comparison with 1967	974
Increases requested over fiscal year 1967	970, 972
Summary of	959
Complaints actions, 1963–66	975
Conflict-of-interest regulations	973
Deceptive Practices, Bureau of	1002
Bread and milk prices, study of	933
Cigarette testing	1010
Complaints, increase in	931
Consumer protection	932
District of Columbia consumer protection project	1003
Fair Packaging and Labeling Act	922, 1002
Federal-State cooperation	932
Scientific Opinions, Division of	1010
Economics, Bureau of	1033
Employment	951
Adequacy of staff	951, 953, 955
Increase in	948, 953
Reduction made by Budget Bureau	952
Expenses other than for personal services and benefits	1036
Field Operations, Bureau of	1019
General Counsel, Office of	979
Hearing examiners	966
Industry Guidance, Bureau of	934, 1023
Trade practice conference	934, 937
Investigation caseload	976
Investigation of complaints, procedure in	948, 955
Operations by industry group	971
Organizational chart	965
Responsibilities of	956
Restraint of trade, Bureau of	938, 942, 985
Corporate joint ventures	938
Discount houses	948
Mergers	940, 986
Penalty judgments	1001
Radio and newspaper advertising rates	942
Retail drug business	939
Workload	943
Salaries and expenses	920
Secretary, Office of	978
Sports monopoly	1037
Statutes administered	967
Textiles and Furs, Bureau of	1012
Textile labeling acts	944
I	
Interstate Commerce Commission	796
Accounts, Bureau of	878
Budget for fiscal year 1968	825
Comparison by bureaus and offices with 1967	847
Commissioners and their offices	841, 848
Managing Director, Office of	849
Secretary, Office of the	852
Economics, Bureau of	885

Interstate Commerce Commission — Page

- Employment — 838
  - Additional positions — 830
  - Comparative table, 1967–68 — 847
  - Employees transferred to Department of Transportation — 838
  - Personnel ratios — 845–846
- Enforcement, Bureau of — 889
- Expenses other than personal services and benefits — 914
  - Printing and reproduction — 918
  - General Counsel, Office of the — 855
- Motor carrier transportation — 823
  - Bankruptcies — 831
  - Unauthorized transportation — 823, 829
- Operations and Compliance, Bureau of — 895
  - Investigation of water carrier operations — 898
- Organization of — 842
- Pipeline safety — 825
- Policy determinations — 828
- Proceedings, Office of — 858–878
  - Certificates and captions unit — 860, 863
  - Railroad discontinuance proceedings — 865
- Railroad Safety and Service, Bureau of — 902
  - Boxcar shortages — 817
  - Car service activities — 902
  - Construction and abandonments — 863
  - Discontinuance of service — 813, 865
  - Loan guarantee applications received and action thereon — 866
  - Mergers — 810, 832
    - New Haven — 826
  - Shipments of less than carload lots — 814
  - Tariff regulation — 815
- Rapid rail transportation — 811
- Research activities — 821
- Salaries and expenses — 797
- Traffic, Bureau of — 908
- Transportation, Department of, functions transferred to — 802, 838
- Workload factors — 818

N

National Aeronautics and Space Council — 37
- Activities of — 39
- Balance in space program — 49
- Cutback in space program — 51
- Impact of space program — 41
- Jurisdiction of — 42
- Level of spending on space program — 44, 49
- Man on the moon program — 45
- Military aspects of space program — 43, 50
- National Aeronautics and Space Administration budget, recommendations on — 40
- Salaries and expenses — 37
- Soviet space programs — 42, 47
- Unobligated funds — 45

R

Renegotiation Board — 107
- Assignments, Office of — 118
- Authority to make renegotiation — 115
- Authorizing legislation, broadening of — 112
- Commercial exemption — 120
- Contract awards, prime — 111
- Employment:
  - Headquarters staff, size of — 119
  - Personnel turnover — 119

Renegotiation Board—Continued Page
Filings:
Examination of 125
Number of 122
Penalties for failure to make 121
Final contract payments 123
Incentive-type contracts 120
Profits, excess 113
Recoveries 109, 124
Refunds by contractors 115
Renegotiation clause in contracts 115, 122
Renegotiations, items included in 121
Salaries and expenses 107
Small business participation in defense contracts 126
Space contracts 136
Supplemental funds 110
Tax Court, Board's record in 110, 114
Tax credit 122
Time renegotiations are made 123
Time required to complete renegotiations 124
Travel expenses 117
Workload 111, 116

S

Science and Technology, Office of 1
Budget for fiscal year 1968, increase in 5, 17, 35
Employment:
Congressional liaison position 6, 26
Consultants 33
Increase in 17, 25, 27, 30
Loaned personnel 13
Positions filled 36
Functions of 4, 8, 14, 16
Aircraft noise suppression project 34
Assembling of information for the President 17, 25
Determining significance of information 9
Improving scientific and technical information systems 9
Intelligence information, handling of 10, 11
Study of energy resources 12
Publication of information assembled 28
Recommendations, implementation of 17, 24
Salaries and expenses 1
Size of office 14
Space program activities 15, 29
World food problem, work on 18
Selective Service System 52
Budget for fiscal year 1968, adequacy of 105
Draft law:
Changes in 84
Pending legislation 58
Prior enactments 56
Voluntary army 86
Enlistees, refusal to accept 55
Inductions:
4–F deferments 81
Agricultural deferments 72
Appeals to State directors 75, 86
Conscientious objectors 69
Decline in 53
Discrimination against lower income and noncollege men 83
Educational deferments 76, 82
Local board authority 72
Lottery system for 80
Peace Corps volunteers 104
Military personnel attached to National and State headquarters 61

Page

Selective Service System—Continued
National administration, planning, training, and records management 64
Employee turnover rate 74
National headquarters 66
Record management 57
Regional headquarters 67
Reserve training school 68
National Advisory Committee on Selection of Doctors, Dentists, and Allied Specialists 98
Berry plan 100
Selected reserve callups 100
National Selective Service Appeals Board 56, 102
Registration, classification, and induction 93
Appeals from classifications 104
Local board clerks 73, 75, 95
Reserves, standby 57
Salaries and expenses 52
Scandal in, absence of 86
State administration, planning, training, and records servicing 52
Local board clerks 73, 75, 95
Staffing in State headquarters 89
Summary of expenses by object classification 60
Supplemental funds for fiscal year 1967 54, 103
Travel expenses 64
Uncompensated officials 58

V

Veterans' Administration 419
Age of veterans 431
Appropriations, 1958–68 469
Benefit programs:
Compensation and pensions 422, 506, 535
Caseloads and costs 509, 513
Costs, fiscal year 1966 513
Death gratuities 508
Income of pensioners 451
Obligations and caseloads 513
Recipients of compensation, number of 433
Recipients of pensions 433, 447, 459
Supplemental funds for 507
Department of Veterans Benefits. (*See* General operating expenses.)
Educational 434, 468
Housing credit assistance funds 435
Direct loans to veterans and reserves revolving fund 555, 559
Loan guarantee revolving fund 573
Loan guarantee entitlement 557
Participation certificate sales 555, 557
Sale of loans 554
Special analysis of GI and direct loans 593
Title insurance 794
Insurance funds 579
Lapse of policies 582
National service life insurance 585
Policies in force 434
Reinstatement of insurance 581
Servicemen's group life insurance 583
Soldiers' and Sailors' Civil Relief 581
U.S. Government life insurance 587
Veterans' insurance and indemnities 424, 552
Veterans' special term insurance 582
Readjustment benefits 423, 545
Educational benefits 468
Special analysis of 591
Veterans' insurance and indemnities 424, 552
Vocational rehabilitation revolving fund 554

Veterans' Administration—Continued
Page
Budget for fiscal year 1968:
Increase over 1967 ---- 463
Size of ---- 428
Cemeteries ---- 792
Construction of hospital and domiciliary facilities ---- 426, 452, 467, 776
Activation of hospitals ---- 452
Architect-engineers, selection of ---- 788
Architectural fees ---- 791
Funding flexibility ---- 783
General administration ---- 786
Hospital costs ---- 789
Investment in facilities ---- 778
Long-range program ---- 778
Obligations and expenditures ---- 779, 783
Projects included in budget ---- 779
Standard plans ---- 789
Tampa Bay Pines, Fla., hospital ---- 453
West Haven, Conn., hospital ---- 791
Construction of State nursing homes, grants for ---- 426, 792
Employment ---- 463
Increase in medical staff ---- 429, 471, 677
Positions filled ---- 474
Total ---- 429, 471
General operating expenses ---- 421, 478
Data Management, Department of ---- 421, 496
Computers ---- 500
Employment ---- 502
Civil Service Commission examining boards ---- 520
Operating costs ---- 504
Research and development ---- 505
General administration ---- 421, 483
Board of Veterans' Appeals ---- 483, 488
Employment ---- 484
Investigation and security service ---- 491
Veterans' Benefits, Department of ---- 422, 506
Chief attorney and guardianship ---- 516, 522
Contact program ---- 523
Costs, summary by major object ---- 521
Employment ---- 515, 518
Insurance programs ---- 531
Dividends ---- 532
Term insurance ---- 532
Loan guarantee ---- 524
Home loan foreclosures ---- 527
Sale of properties to housing authorities ---- 529
Organization ---- 515
Rentals to military personnel ---- 529
Scope of operations ---- 522
Validation of rating schedule ---- 518
Language changes ---- 597
Legislation:
Proposed ---- 427, 468
Cost of ---- 589, 685
Readjustment benefit ---- 591
Loans. (*See* Housing credit assistance funds.)
Medical services ---- 424, 597

Veterans' Administration— Page
Medical services—Continued
Construction of Hospital and domiciliary facilities. (*See* this title.)
Exchange of medical Information 424
Grants to the Republic of the Philippines 426, 466, 768
Medical administration and miscellaneous operating expenses 424, 465, 602
Administrative costs 650
Chief Medical Director's staff 652
Employment 656
Exchange of medical information programs 613
Postgraduate and in-service training 603
Educational assignments requiring travel 607
Lecture fees 607
Training at VA hospitals and affiliated medical schools 604
Training equipment and services 607
Tuition and registration expenses 606
Reorganization of medical department 650
Medical and prosthetic research 425, 465, 617
Aging research programs 622
Benefits from programs 623
Cost changes 640
Distribution of research funds 637
Employment 625
Equipment 639
Laboratory space, additional 638
Major research fields 620
Prosthetic research 643, 716
Satellite research laboratory program 620
Medical care 425, 466, 664
Automatic data processing services 734
Beds, authorized number of 442
Blind rehabilitation centers 709
Capital outlay 736
Cardiac catherization laboratories 730
Clinical radioisotope program 724
Closing of hospital facilities 455
Contract hospitalization 760
Costs and patient load, Federal and non-Federal hospitals 761
Day hospital treatment 715
Dental program 764
Domiciliary and restoration care 444, 758
Eligibility for hospital care 654
Fee and per diem rates 740
Foreign physicians on VA rolls 649
Cuban refugee physicians 648
Foster home care 713
Funding requirements, decrease in 687
Funding requirements, increase in 687–736
General hospitals 750
Hemodialysis units 705
Hospital care 741
Hospital per diem costs, VA and others 682
Hospital waiting list 446
Intensive care units 719
Maintenance and repair 739
Medical reference laboratories 723
Neuropsychiatric hospitals 694, 749
New medical services 678, 693, 727
Nurses, recruiting of 456
Nursing home care 437–442, 459, 754
Costs 438
State nursing homes 438–442
Construction, grants for 426, 792

Veterans' Administration
Medical services—Continued
Medical care—Continued
Page
Nursing personnel, retention of 460
Open heart surgery 698
Operating beds 750
Outpatient care 763
Outpatient clinics, consolidating with hospitals 455
Patient load 435, 750
Average daily care beneficiary load 443
Inpatient 442
Patients, admitted, treated, and discharged 462
Patients in VA hospitals 445
Prosthetic treatment centers 716
Pulmonary emphysema units and laboratories 700, 718
Quality of medical care, improved 691
Speech pathology units 711
Speedup of medical care 655
Staffing 429, 446, 463, 471, 677, 679, 733
State homes 763
Supervoltage therapy 714
Training management 461
Training programs 456
Workload 689
Medicine and Surgery, Department of 597
Payments to veterans in United States 590
Revolving funds:
Canteen service revolving fund 673, 771
Rental, maintenance and repair of quarters fund 673
Supply revolving fund 674, 773
Special analysis 589
GI and direct loans 593
Trust funds:
General post trust fund 676, 774
Unobligated funds 475
Veterans, increase in number of 430
Veterans missing 492

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