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THE BUDGET FOR 1969

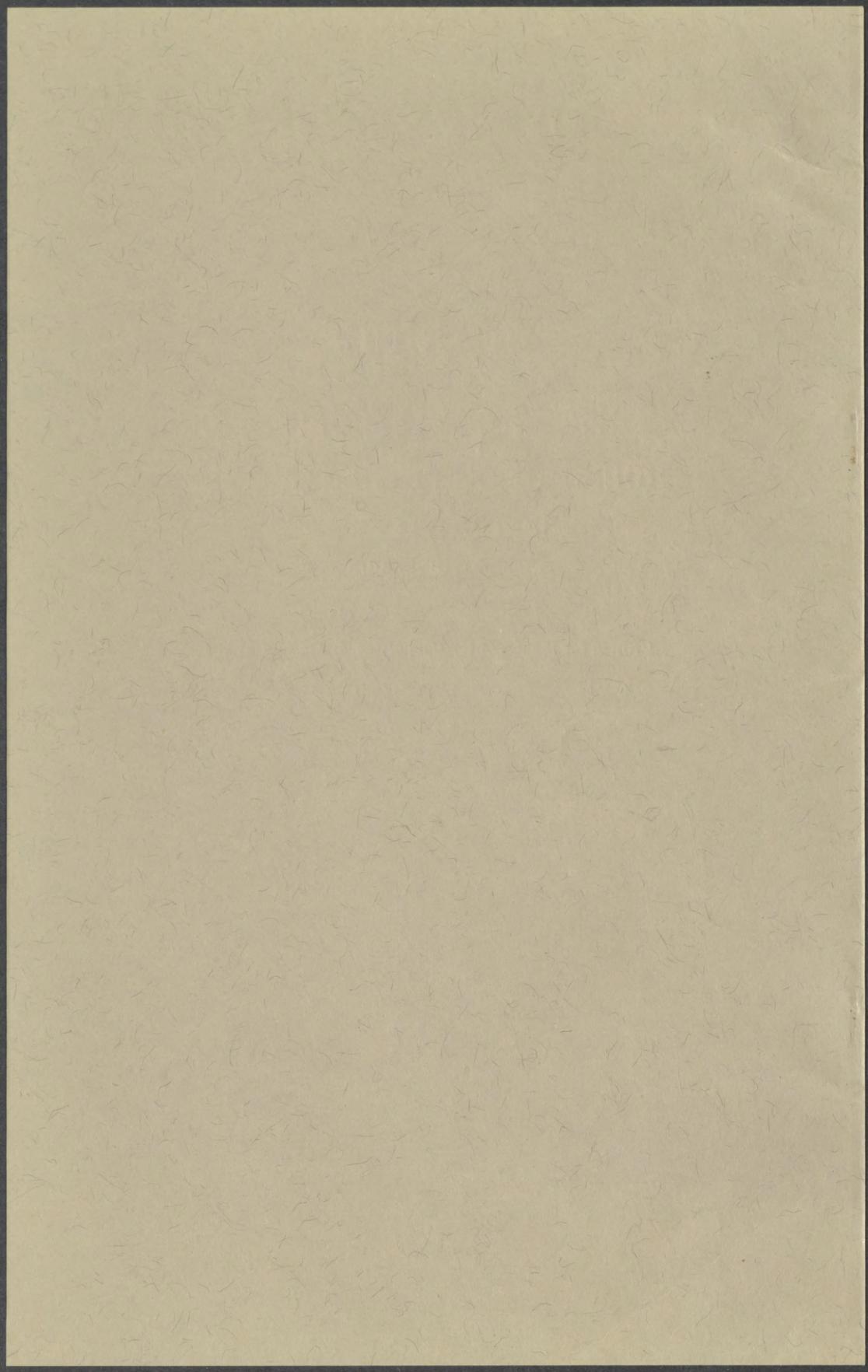
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HEARINGS
BEFORE THE
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES
NINETIETH CONGRESS
SECOND SESSION

Printed for the use of the Committee on Appropriations

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THE BUDGET FOR 1969

THURSDAY, FEBRUARY 8, 1969.

WITNESSES

TREASURY DEPARTMENT

HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY
HON. JOSEPH W. BARR, UNDER SECRETARY OF THE TREASURY
ROBERT A. WALLACE, ASSISTANT SECRETARY
ERNEST G. BETTS, JR., DEPUTY ASSISTANT SECRETARY FOR ADMINISTRATION AND BUDGET OFFICER
EDWARD P. SNYDER, DIRECTOR, OFFICE OF DEBT ANALYSIS
THOMAS LEAHEY, ASSISTANT DIRECTOR, OFFICE OF TAX ANALYSIS
CHARLES J. ZWICK, DIRECTOR, BUREAU OF THE BUDGET
SAMUEL M. COHN, ASSISTANT DIRECTOR OF THE BUDGET REVIEW
DALE R. McOMBER, DIRECTOR, BUDGET PREPARATION STAFF

BUREAU OF THE BUDGET

OPENING REMARKS OF THE CHAIRMAN

Mr. MAHON. The committee will come to order.

We are pleased to have before us this morning the Secretary of the Treasury, Mr. Fowler; and the Director of the Bureau of the Budget, Mr. Zwick; with their associates. We may have a bit of difficulty in properly seating everyone in view of the crowded quarters here, but, Mr. Secretary, I would say that we think we are in a very economical mood as we begin consideration of the new budget for fiscal 1969. We believe in austerity. It may be that some of the members of the committee who have not yet arrived may have to sit on the floor, but we should be willing to do some sacrificing here in order to move us toward a better fiscal situation.

Last year, as you know, Congress was engaged in a more or less constant battle over spending and appropriations and taxes. That battle is now resuming; this is really the beginning of it. We would like for you, Mr. Secretary, and you, Mr. Director, to lay before us a general outline of the new budget on behalf of the administration. There have been many reactions to the new budget, as you know. Some have said it is entirely too high. Others have said it is entirely too low. We would like to have your evaluation of the situation.

We do not expect to interrogate you in great depth. We expect to take up the details with witnesses from the various agencies over the coming months. We expect to make some reductions in the budget. In the last session we cut the appropriation requests for fiscal 1968 to

the extent of about \$5.8 billion, and we also enacted House Joint Resolution 888 reducing obligations to a very considerable additional extent. I will insert a recent table summarizing the extent of those actions. They approximate \$10 billion.

I think I may, before this record is printed, outline a few additional matters here which I won't take the time now to present.

NOTE.—The following tabulation sets forth the effect of title II of House Joint Resolution 888 on controllable obligations as estimated by the Bureau of the Budget on February 8, 1968, but subject to revision as later figures become available:

[In millions]

Department or agency	Budgeted controllable obligations	Reductions in obligations arising from congressional actions other than in H.J. Res. 888 (estimate)	H.J. Res. 888 additional reductions (estimate)	Total reductions (estimate)	Revised obligations (estimate)
	(1)	(2)	(3)	(4)	(5)
Agriculture.....	\$4,322	+\$72	\$548	\$386	\$3,936
Commerce.....	1,070	104	-----	104	966
Corps of Engineers.....	510	10	57	67	443
Health, Education, and Welfare.....	7,498	311	439	750	6,748
Housing and Urban Development.....	1,351	488	150	638	713
Interior.....	1,668	75	53	128	1,540
Justice.....	477	20	-----	20	457
Labor.....	525	27	20	47	478
Post Office.....	532	62	49	111	421
State.....	306	6	12	18	288
Transportation.....	1,456	+6	104	98	1,358
Treasury.....	917	7	26	33	884
Atomic Energy Commission.....	2,646	115	85	200	2,446
General Services Administration.....	699	8	113	121	578
National Aeronautics and Space Administration.....	5,061	511	-----	511	4,550
Veterans' Administration.....	1,754	1	139	140	1,614
Office of Economic Opportunity.....	2,060	287	-----	287	1,773
Economic assistance.....	2,450	455	-----	455	1,995
Other civilian programs.....	1,300	91	505	596	704
Allowances.....	2,450	-----	-----	-----	2,450
In'erfund transactions.....	-682	-----	-----	-----	-682
Exceptions.....	-----	-----	+300	+300	300
Subtotal.....	38,370	2,500	1,910	4,410	33,960
Defense, non-Vietnam, and military assistance.....	54,695	2,610	2,989	5,599	49,096
Total.....	93,065	5,110	4,899	10,009	83,056

Mr. MAHON. How would you like to proceed, Mr. Secretary?

Mr. FOWLER. Mr. Chairman, I thought I might make my presentation on the receipts side and Mr. Zwick on the expenditure and the overall budget picture, and then we would deal with the questions together. Some questions may point more to one than the other, and perhaps by dealing with the question jointly we can offer the most complete information.

Mr. MAHON. I think that is right. I believe it would be better to withhold our questions until both of you have made your presentations. You will probably cover many of the questions which we have in mind. Without objection, we will not expect to ask questions until you have made your presentations.

Approximately how long would it take you, Mr. Secretary, to present your testimony?

Mr. FOWLER. For my own part, I should say about 20 minutes.

Mr. ZWICK. About the same, Mr. Chairman.

Mr. MAHON. I don't want to burden you, but since this room is so crowded, if you could stand it probably would be desirable and we could hear you better. The acoustics are not too good.

Mr. FOWLER. I have, Mr. Chairman, and members of the committee, what is known as a penetrating monotone so the decibels will be all right, although the tone will be a little dull.

I am grateful for the opportunity to appear again before the membership of this distinguished committee.

Mr. MAHON. I want to say that there is probably more interest in the subject matter this year than last, and there was a great deal last year.

We will hear from you with a great deal of interest. We have been reading about you and reading your statements. We know of your heavy responsibilities. I wish you would touch on as many of these difficult and vital fiscal matters as you can.

GENERAL STATEMENT OF SECRETARY FOWLER

Mr. FOWLER. Thank you, Mr. Chairman.

First, I would like to say that in front of each member's desk there should be a set of charts with the heading "Fiscal Policy in Perspective—1968." I shall have occasion to refer to these later. Secondly, I have asked that there be placed at the desk of each member a copy of this blue book which is called, "Maintaining the Strength of the United States Dollar in a Strong Free World Economy." This was issued by the Treasury Department in mid-January to provide in detail the background and reasons for the balance-of-payments program announced by the President in his January 1 message. It describes what we have done to date and what we propose to do, both over the short and long term, to bring our balance of payments into equilibrium and keep it there—as the President said—as a matter of national and international responsibility of the highest priority.

In this book, in addition to the President's message, there is for those who do not want to delve too deeply into what is a very technical subject, a 14-page summary of the entire volume. I earnestly urge every member to read those 14 pages as a minimum. The increasing importance of this subject, not only to our national policy but to our role in the world, makes it almost an obligation for all of us to try to learn more about it in order to competently deal with it.

Following the summary, there is a chapter devoted to a description of the international monetary system and the process for the adjustment of the imbalances that occur in it. That chapter gives, I think, a general understanding of what this system is, what it is all about, and why the dollar plays such a key and indeed a vital role in it.

Then there is a chapter devoted to the current problems facing the international monetary system. Then, in chapter III, there is a description of what we have done to date in trying to cope with the problem of our own imbalance of international payments over the last 7 to 8 years. Then individual chapters are devoted to the five fingers of the solutions of the problem: First, the achievement and maintenance of a healthy trade surplus; second, an intensified program to moderate the foreign exchange cost of Government expenditures abroad, which is a matter of direct interest to this committee; third, an intensified effort to temporarily reduce the outflows of capital until

the longer term programs become effective; fourth, a long-range program for promoting foreign private investment in U.S. corporate securities, which is a flow-through from the fruits of the Foreign Investors Tax Act that was passed by the Congress a year and a half ago in October 1966; and fifth, a chapter devoted to a long-range program for narrowing the travel gap through promotion of foreign travel to the United States, and some temporary measures to restrain U.S. travel expenditures abroad while this longer range program is getting into effect.

Finally, at the end, chapter IX, "Adjustment Responses Expected of Our Trading Partners," develops the manner and method in which the solution to our balance of payments involves other nations. The damage that might come from the solution will be minimized given cooperation on the part of the countries, particularly the countries of Western Europe, whose surpluses over the last 8 to 10 years are really the counterpart of our deficits. This chapter drives home the proposition that the solution of our balance-of-payments problem, consistent with free world security and development, is a two-way street, and it takes, in a sense, two to tango. In order to do this job properly and effectively we need help and cooperation from other countries.

Now, to come to my statement proper:

The size and complexity of Federal programs makes it necessary for you to allocate the review of spending requests to your various subcommittees. Before undertaking this detailed review of spending requests, you may wish to examine the overall budgetary and financial plan for the coming year.

THE NEED FOR FISCAL RESTRAINT

A year ago when I appeared before your committee, I observed that:

The year ahead will require flexible policies geared to meet changes in the economy. For the present, we must avoid restraints until the economy can work off sizable inventories and the housing industry can respond to easier credit conditions. After midyear, however, we will need to move toward fiscal neutrality, as defense expenditures continue to rise. In 1968 the situation may call for restraint and we should be ready to provide it.

Now, a year later, there is no doubt. The current situation does call for fiscal restraint. Developments last year corresponded fairly closely to our expectations. The economy did work off its sizable inventories and the housing industry made a strong recovery. Expenditures did continue to rise but the overall total was held down by the reduction late in the year of various programs and personnel by \$4.3 billion. This resulted from effective cooperation between the administration and the Congress exemplified in Public Law 90-218 making continuing appropriations for fiscal year 1968.

But the move toward a sharply reduced deficit that we saw as necessary after midyear never came about. Despite the President's request of last August—since repeated on numerous occasions—there has as yet been little progress toward a tax increase.

Despite the cuts made during your sessions during the closing months of last year's session and despite the cuts effected in the continuing appropriation act, the deficit has remained high, and the Federal budget has become far too stimulative an influence on the economy.

The continuation of a large deficit in a buoyant economy is increasingly being registered in rising prices and imports.

NEED FOR TAX INCREASE

The President's budgetary recommendations constitute a sound financial plan for the next 18 months. But, early adoption of the President's tax increase proposals is an indispensable element in that plan. Prompt passage of the tax program would mean an additional \$16 billion in revenue over the next year and a half. In my opinion, no amount of discussion and debate is going to produce changes in budget expenditures remotely near the \$16 billion figure.

With the tax program, the current fiscal year deficit—on the new unified budget basis—would be reduced from \$22.8 billion to \$19.8 billion and the fiscal year 1969 deficit from \$20.9 billion to \$8 billion. Without the tax program, our budgetary deficits would decline only slightly and would remain excessively large. Fiscal responsibility is incompatible with back-to-back budget deficits in fiscal 1968 and 1969 exceeding \$20 billion.

It is not pleasant to ask the American taxpayer to pay more taxes. But, the alternative is even less pleasant. If extra revenues are not raised through the tax route, there will be an excessive amount of Federal borrowing. This will throw a heavy load on the money and capital markets. Already, interest rates are at the highest levels in decades. Private borrowing continues at a brisk pace. Superimposing a massive new amount of Federal borrowing will run the risk of congested financial markets and even higher interest rates.

Failure to enact the proposed tax increases would maintain the budget deficit at levels which over the next 16 months would risk fueling a boom that could produce a recession or even a bust. Budget deficits and a high rate of expansion are already contributing to an unacceptable acceleration of price advances. In the second half of last year, the comprehensive GNP price deflator rose at nearly a 4-percent annual rate, in contrast to a rise of 2.3 percent in the first half of the year, when we were recovering from the inventory adjustment. The Consumer Price Index showed a similar pattern. Once a wage-price spiral gets underway it becomes very difficult to check without stalling the economy in the process. Therefore, application of fiscal restraint should be taken now.

Budget deficits and a high rate of expansion are also beginning to hurt our trade surplus. There was some strengthening of the trade surplus in the first three quarters of 1967 but a sharp deterioration in the fourth quarter eliminated the gain anticipated for the year. It was an upsurge of imports more than any worsening of exports which caused this decline. The President's tax proposals of last August were intended to head off just such a development. But, failure to act on taxes has contributed to a rapid expansion of the economy. This expansion, in turn, is being reflected in a very sharp rise of imports. Eventually, if wage and price increases are allowed to rise unchecked, our basic international competitive position would begin to suffer.

Thus, very dramatically the events of the last quarter of 1967, underscored by a dwindling trade surplus, provide proof positive of earlier assertions of the important relationship of the tax surcharge

to our balance of trade and payments and the international position of the dollar.

In his tax message of August 3 last year the President stated that failure to act on his tax proposals and to restrain unnecessary spending could have the most serious consequences including:

An excessive expansion of domestic markets could again quicken the flow of imports to the United States, while rising costs and prices cut into our exports. The position of the dollar as the key element in the world's financial system could be impaired.

The keystone to the entire balance-of-payments program is the tax increase proposal or some variation. The other direct measures added in the President's January 1 program to the pre-existing effort are not going to be as effective in dealing with the balance-of-payments problem unless these tax proposals coupled with expenditure controls, appropriate monetary policy, and a more effective voluntary program of wage-price restraint, are combined to stem the inflationary pressures which now threaten our trade surpluses, both long term and short term.

Both domestic and international considerations require that we put our fiscal affairs in order by prompt enactment of the tax increase proposals. Failure to act would jeopardize the recordbreaking 7-year steady and stable expansion in our domestic economy and the 20-year operation of a sound international monetary system that has brought the greatest era of world trade and development in our history.

The current budgetary recommendations of the President involve a combination of restraint on expenditures and the tax action to increase revenues. On the expenditure side, the budget incorporates a rigorous application of priorities. Maybe there can be an argument about whether the table of program reductions and reforms on pages 20 to 22 of the budget and the proposed increases are in exactly the right areas. There can be no question, however, that severe restraints have been imposed.

EXPENDITURE INCREASES

The 1969 budget calls for practically no increase in controllable civilian programs, with a large number of individual decreases offsetting increases in high-priority areas. The increase in the total budget for fiscal 1969 over fiscal 1968 is far less than the corresponding increases in fiscal 1968 and fiscal 1967. The total rise in projected spending for 1969 is \$10.4 billion. The actual increase in 1967 over 1966 was \$23.8 billion. In 1968, the estimated increase is \$17.2 billion.

Furthermore, the total rise of \$10.4 billion is completely accounted for by higher expenditures for defense, obligatory interest on the public debt, and mandatory payments required by recently enacted laws dealing with social security, public assistance, veterans' benefits, and Federal pay increases. Any further reduction in total expenditures for fiscal 1969 would have to begin to cut deeply into high-priority programs.

EXPENDITURE INCREASES COVERED BY NORMAL REVENUE GROWTH

Between 1968 and 1969, the total expenditure increase of \$10.4 billion is more than covered by the normal growth in revenues associated with rising incomes and business activity. This means that all

of the revenues from the proposed tax action would be applied to reducing the budget deficit.

The fact that the fiscal 1969 normal growth in revenues will exceed the rise in expenditures reverses a contrary pattern. On both an administrative and a unified budget basis, expenditures rose more than revenues in fiscal 1967 and fiscal 1968. This pattern will be broken in fiscal 1969.

Even with the projected increase in expenditures, but without the proposed tax rise, the deficit in 1969 would be considerably less than the estimated \$26 billion of special expenses for Vietnam. This gives assurance that the tax increase need only be temporary and can be removed when the cessation of hostilities in Southeast Asia relieves the budgetary pressures from that conflict.

EXCESSIVE DEFICIT WITHOUT TAX INCREASE

Let me reemphasize, however, that in the absence of tax action the budget deficit next year would be far too large. It would be excessive in terms of:

The economy which is now advancing strongly. GNP rose by \$32.5 billion in the second half of last year in contrast to only \$13 billion in the first half.

The rate of inflation which has stepped up recently. Consumer prices rose at nearly a 4-percent annual rate in the second half of last year in contrast to less than a 2½-percent rate in the first half.

The financial markets and interest rates which are already at very high levels. Tax action would mean the difference in fiscal 1969 of borrowing \$8 billion from the public, or more than \$20 billion. The larger amount would seriously overstrain the capacity of the market and drive interest rates higher.

Our balance-of-payments position which worsened significantly last year. Following the British devaluation in November we lost a billion dollars worth of gold and have had to resort to a new and restrictive program with respect to our balance of payments. Failure to act on taxes has contributed to the recent worsening in our trade balance.

Prompt and favorable action on the tax increase proposals would lop \$16 billion off the back-to-back \$20 billion deficits that face us in fiscal 1968 and 1969. There is no corresponding action from the expenditure side within the realm of likely enactment that could do as much for our fiscal position.

I know that we can count on your committees for a searching and objective review of the expenditure side of the current budgetary proposals. We believe this is a tight budget and we welcome your close scrutiny of its constituent parts. It continues to be my firm belief that affirmative action on the President's tax proposals is the single most important step that can be taken to strengthen our budgetary and financial position.

Now, Mr. Chairman, if you will turn for a brief moment to the series of charts entitled "Fiscal Policy in Perspective—1968." I know the committee wants to view today the fiscal policy recommended by the administration not in terms of specific details but in terms of a general perspective. We have prepared these charts to let you consider the recommendations in the light of our current fiscal posture,

the burden of Federal debt and expenditures, the performance of the economy in recent years, the performance of the economy in 1967 indicating the need for further fiscal restraint, the effects of the new tax program on taxpayers, and some balance-of-payments considerations.

I find it very difficult to look at a chart and gather all that is intended by the drawing and the various figures; so we have provided on the back of each chart a description of what that chart is designed to tell. For example, and I am not going all the way through this because the members can study it at a later time, chart 1 provides an overall look at the budget outlays and receipts estimated for the fiscal year 1969, showing very clearly that the \$8 billion budget deficit is caused by heavy expenditures made necessary by the Vietnam war. Were it possible to eliminate the expenses of Vietnam, and also the \$13 billion in recommended tax increases, we might have a surplus rather than a deficit.

Let me say, to be perfectly clear and to elaborate that point for a moment, I do not want to say that the minute Vietnam is over there is going to be a reduction in the defense budget by \$26 billion. That I think would be a misleading interpretation of these figures because we went into Vietnam with a defense budget, as I recall it, close to \$50 billion. During that time, costs, prices, and the carrying charges of maintaining the defense posture we had, apart from the special buildup for Southeast Asia, certainly increased. I would not have any exact estimate of that, but I would think it might well be in the neighborhood of \$5 to \$6 billion. So you would be getting the same quantity, if I may use the expression, non-Vietnam defense, from \$54 billion that you got from about \$50 billion in early 1965. Moreover, the phase-down from Vietnam, possibly \$17 or \$18 billion of the \$26 billion total, won't be made in a single day or a single month or perhaps a single quarter. I thought I ought to add that to make that chart clear.

THE IMPERATIVE NEED FOR TAX INCREASE

The second chart, No. 2, deals with the effect of tax action on the budget deficit in fiscal years 1968 and 1969. Without tax action as recommended by the President the unified budget deficit would exceed \$20 billion in both fiscal 1968 and 1969. Enactment of the proposed tax program would reduce the fiscal 1968 deficit to \$19.8 billion and the fiscal 1969 deficit to \$8 billion.

Now, Mr. Chairman, I am going to stop right there rather than go through the remainder of these charts, and simply say with all the sincerity that I can command that to continue to tolerate two budget deficits in excess of \$20 billion from now until June 30, 1969, is to take a risk with our economy that it is not wise and not prudent to take.

Sometimes you can have a very substantial budget deficit, as we had during the first 6 months of the last calendar year, and if the private sector is either declining or is stable, that deficit won't create inflationary pressures. But if you have that same deficit coinciding with an economy which is expanding vigorously in the various sectors, you have the built-in ingredients of a raging inflation. And this happened to the economy in the last 6 months of the calendar year, an economy which grew at the rate of about \$16 billion a quarter—nearly half of the growth being not real growth but price increases.

That leads me to the conviction that we simply cannot take the chances, over the next 14, 15, or 16 months, that we don't have an explosive situation on our hands.

Whether it turns out to be that way or not, it just seems to me that the risks are too large to take, both in terms of our own domestic expansion and in terms of our external obligations to maintain and keep the dollar sound.

I have been in communication with, and receive communications from, a number of people whose life work in private finance and in business is devoted to analyzing this type of situation. We have the benefit of the point of view of ministers of finance and heads of central banks who can look at it objectively because they are not involved in our own domestic pressures. The uniform judgment I get, and I have plenty of material to support it here, is that the entire economic and financial world is looking to the U.S. Government to manifest during this period ahead a sense of fiscal responsibility which has not been definitely demonstrated.

Even though the rest of the world insists that fiscal restraint involves looking at both sides of the ledger, they cannot follow the details of the individual agencies' expenditures and whether you cut this program or that program or the other program. Therefore, the single dramatic psychological element of confidence in this economy at home and confidence in this economy abroad, which is the key to the strength of the dollar in the period ahead, depends upon what happens to the tax proposal I have discussed this morning.

Mr. MAHON. Thank you, Mr. Secretary.

We will withhold questions until we have heard from the Director of the Bureau of the Budget.

I think it appropriate to remark that perhaps the average American citizen who reads this record might very well comment that the Appropriations Committee met for the purpose of considering the budget, but that the Secretary of the Treasury spent nearly all of his time talking about taxes. It could be thought that the Secretary's statement might very well have been made more appropriately to the Ways and Means Committee, which deals directly with taxes.

But, of course, we on this committee know that the budget as submitted by the President has at least two sides to it. One is the spending side—the authorization and appropriations side—and the other is the income side, including recommendations as to new revenues. They are all part and parcel of the budget; the revenue proposals and estimates are just as much a part of the budget as the authorization and appropriation and spending proposals.

Your remarks have been very much to the point. We appreciate them very much. We could not be unaware of your great sincerity and your feeling of urgency in regard to the matters which you have discussed. I, for one, hope that ways will be found to promote the suggestions which you have made.

Secretary FOWLER. Mr. Chairman, may I say also that when I appear before the tax-writing committee, the Ways and Means Committee, it is not uncommon for me and the Director of the Budget to hear some questions and make some presentations regarding expenditures. I thought it would be only reciprocal if in coming here we discussed taxes.

Mr. MAHON. Very well said.

CHARTS AND TABLES

Before the Director proceeds, we will ask that the various charts and tables of the Secretary be inserted here. They should prove informative and helpful, and that is a prime purpose of this meeting, to secure helpful information. The explanatory note on the back of each chart could be transferred to the bottom of the chart and appear as a brief explanation for the chart.

FISCAL POLICY IN PERSPECTIVE -- 1968

Current Fiscal Picture

- Chart 1 - Budget Outlays and Receipts, Fiscal Year 1969
- Chart 2 - Effect of Tax Action on Budget Deficit Fiscal Years 1968 and 1969
- Chart 3 - Original Revenue Estimates Compared With Actuals
- Burden of Federal Debt and Expenditures
- Chart 4 - Budget Outlays as a Percent of Gross National Product
- Chart 5 - Federal Debt Held by the Public as a Percent of Gross National Product
- Chart 6 - Net Public and Private Debt
- Chart 7 - Federal Interest Expenditures as Percent of Receipts
- Performance of Economy in Recent Years
- Chart 8 - GNP Growth and Price Comparisons 1955-'60 and 1960-'66
- Chart 9 - Growth of Civilian Employment, 1952-'66
- Chart 9a - Real Gross National Product After the Recession Troughs of 1954 and 1961
- Chart 10 - Annual Rate of Growth in Selected Countries
- Chart 11 - Annual Rate of Cost of Living Increase
- Performance of Economy in 1967 -- Tax Action Need
- Chart 12 - 1967 Speedup in Economic Pace -- Quarterly Annual Rates of Change in Key Areas
- Chart 13 - Total Borrowing From the Public

Effects of New Tax Program on Taxpayers

Chart 14 - Tax Burden in Selected Countries

Chart 15 - Tax Savings From Actions Taken After 1963

Chart 16 - Tax Savings at 1968 Proposed Rates Compared with 1963 Rates

Chart 17 - Tax Savings as a Percent of 1963 Tax: At 1968 Proposed Rates Compared with 1963 Rates

Balance of Payments

Chart 18 - U.S. Balance of Payments on "Liquidity" Basis and Gold Sales

Chart 19 - U.S. Balance of Payments on "Official Settlements" Basis and Gold Sales

Tables

Table 1 - Federal Spending and Receipts, (New Budget Concept) Fiscal Years 1964-1969

Table 2 - Unified Budget Results and Estimates Fiscal Years 1964 through 1969 With and Without Special Vietnam Costs and Revenues

Table 3 - New Budget Concept of Federal Debt and Federal Debt as Percent of GNP

Table 4 - Comparison of 1963-1967 Tax Liability and 1968-1969 Tax Liability Under Proposed Surcharge Increase (Single Individual)

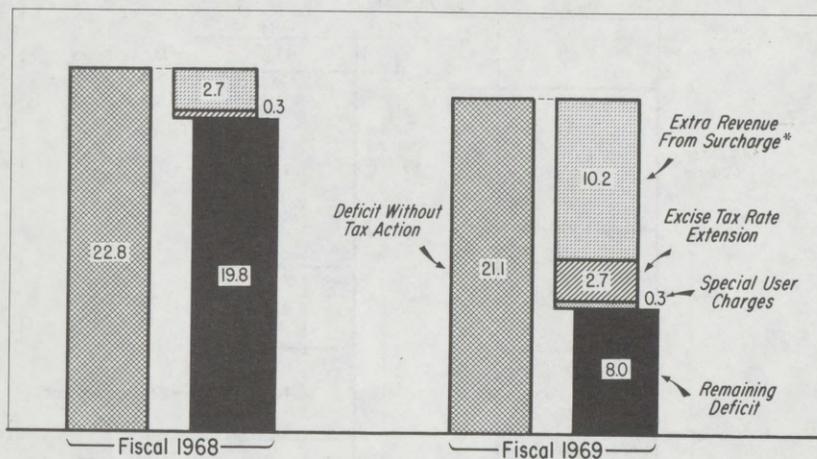
Table 5 - Comparison of 1963-1967 Tax Liability and 1968-1969 Tax Liability Under Proposed Surcharge Increase (Married Couple, No Dependents)

Table 6 - Comparison of 1963-1967 Tax Liability and 1968-1969 Tax Liability Under Proposed Surcharge Increase (Married Couple, Two Dependents)

Chart 2

EFFECT OF TAX ACTION ON BUDGET DEFICIT FISCAL YEARS 1968 AND 1969

Tax action needed to reduce deficits to safer levels



* Including acceleration of corporate tax payments of \$0.8 billion in fiscal year 1968 and \$0.4 billion in fiscal year 1969.

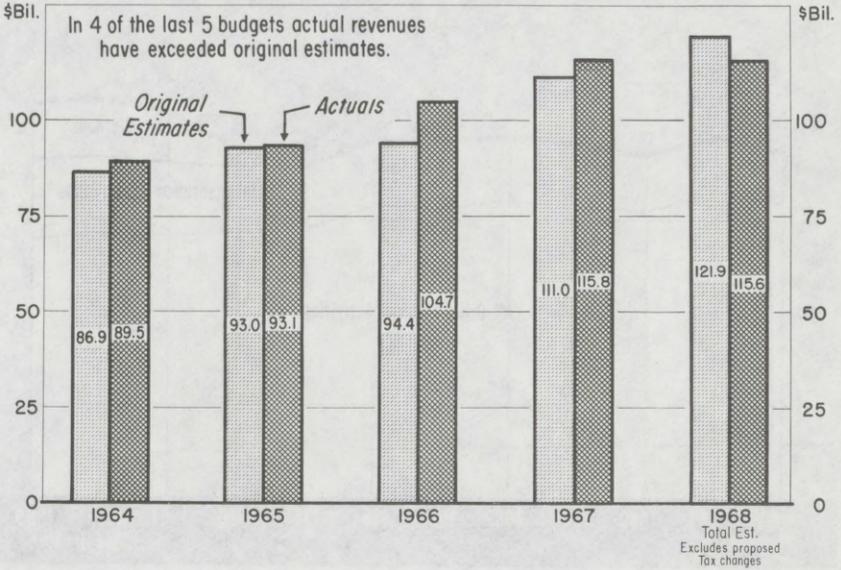
Note: Figures are rounded and will not necessarily add to totals.

Chart 2

Without tax action as recommended by the President, the unified budget deficit would exceed \$20 billion in both fiscal 1968 and fiscal 1969. Enactment of the proposed tax program would reduce the 1968 deficit to \$19.8 billion and the fiscal 1969 deficit to \$8.0 billion.

Chart 3

ORIGINAL REVENUE ESTIMATES COMPARED WITH ACTUALS (Administrative Budget)



Office of the Secretary of the Treasury

8-1516-B

Chart 3

The record shows that this Administration has not over-estimated receipts in order to justify higher expenditures. Actual receipts exceeded the original estimates in 4 of the last 5 fiscal years. The \$6.3 billion estimated shortfall for the current fiscal year results from two factors: (1) Corporate profits were less than estimated; and (2) the proportion of higher personal income going into tax revenues, which had been increasing in recent years, apparently decreased in calendar 1966. This caused actual collections of individual income taxes to fall short of the original estimates.

Chart 4

Budget Outlays as a Percent of Gross National Product

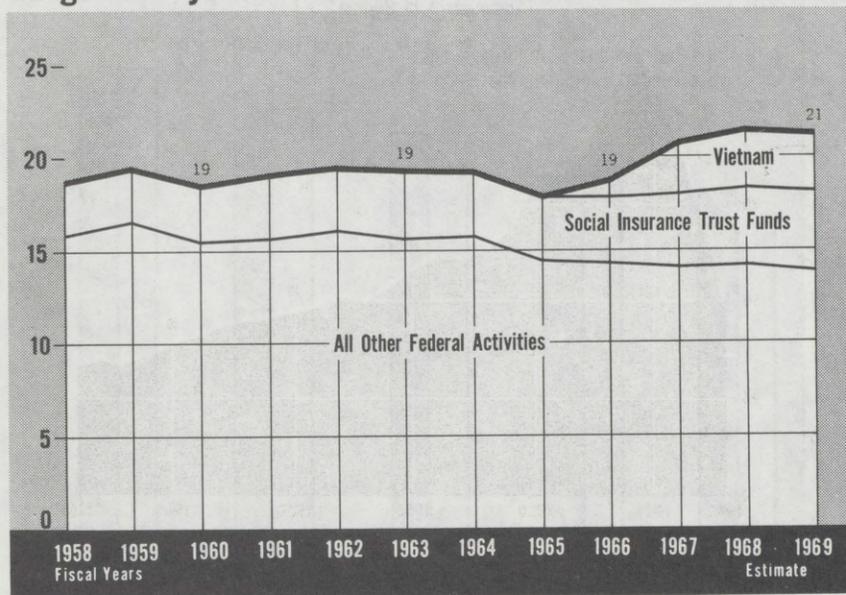


Chart 4

As a proportion of GNP, unified budget outlays rose in fiscal 1966, 1967, and 1968 because of Vietnam. Other outlays, exclusive of the social insurance trust funds, have steadily declined as a proportion of GNP since 1964. Even when this trust fund spending is included, the proportion has not risen appreciably. Although the chart does not reflect earlier years, since data on the new budget concept are not yet available prior to 1958, the current ratio of outlays to GNP is well below that at the time of Korea.

Chart 5

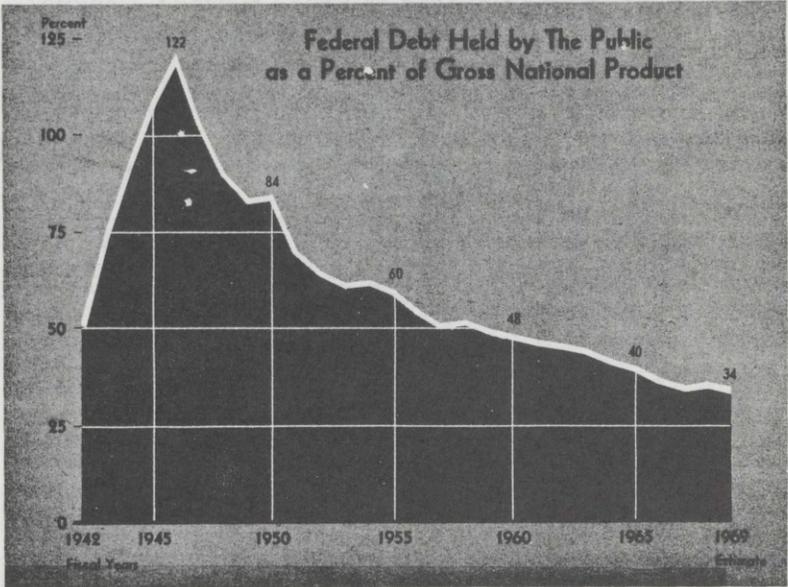


Chart 5

The Federal debt held by the public has grown at a much slower rate than the economy. From the peak of almost one and one-quarter times the GNP in fiscal 1946, the Federal debt held by the public has steadily declined, dropping to 48 percent in 1960 and to 40 percent in 1965. We estimate that it will fall further to about 34 percent in fiscal 1969. By this measure, the size of the Federal debt is a steadily lessening strain on the carrying capacity of the economy. (All data are based on new budget concepts.)

Chart 6
Net Public and Private Debt

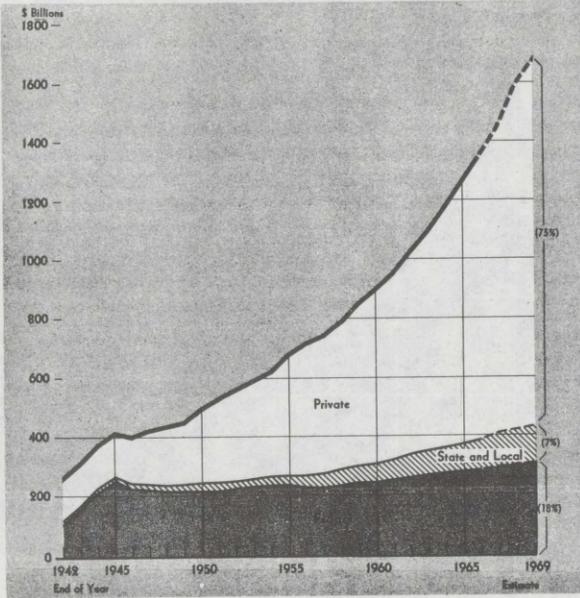


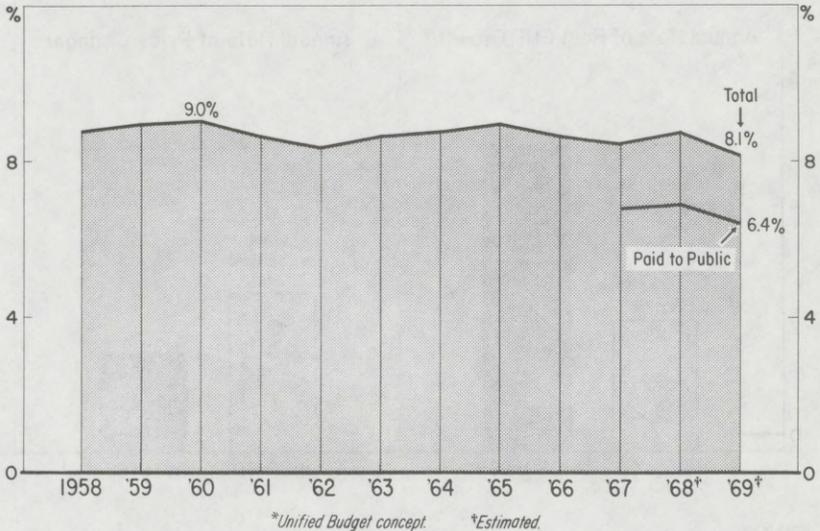
Chart 6

The Federal Government's share of total indebtedness declined from 58 percent at the end of 1946 to 27 percent by December 31, 1960, and is estimated to be only about 18 percent at the end of 1969. Individual, corporate, and state and local borrowers have each increased their share of total debt. During most of the postwar period, the relative decrease in the Federal share of total debt enabled the private economy to expand rapidly without overstraining our resources.

Chart 7

FEDERAL INTEREST EXPENDITURES AS PERCENT OF RECEIPTS*

For the past decade the share of receipts going for interest has been stable



Office of the Secretary of the Treasury

F-701

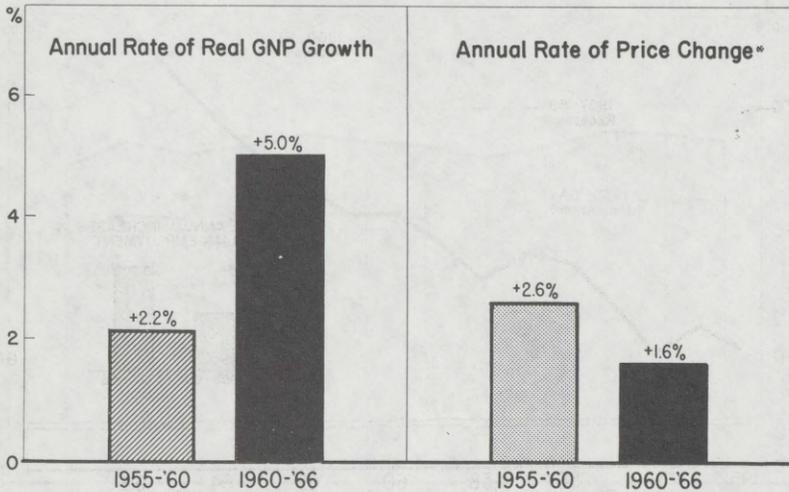
Chart 7

Budget interest expenditures, of which interest on the public debt is the main component, are shown here as a proportion of budget receipts. This ratio has shown a relatively stable trend over the past decade. The high point was 9 percent in 1960 and is estimated at 8 percent for fiscal year 1969. The Bureau of the Budget has not published the figures for interest payments to trust funds for the years prior to fiscal 1967. We have, however, indicated the ratio that would result for the most current years if we used such a measure of interest payments to the public.

Chart 8
GNP GROWTH AND PRICE COMPARISONS

1955-'60 and 1960-'66

During 1960-'66 the economy greatly improved in both growth and price performance

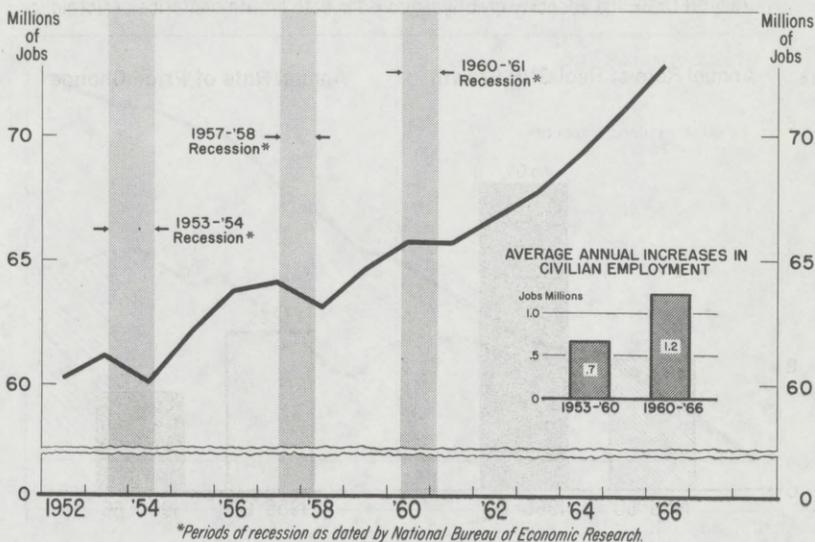


*GNP Price Deflator.

Chart 8

From 1960 to 1966, in contrast to the late 1950's, the rate of growth in the U. S. economy increased and price increases were smaller. Between 1960-1966, GNP at constant prices increased at an annual rate of 5.0 percent, more than double the 2.2 percent rate between 1955-1960. The annual rate of price change, as measured by the GNP price deflator, was 1.6 percent between 1960 and 1966, compared to 2.6 percent in the 1955-1960 period.

Chart 9
GROWTH OF CIVILIAN EMPLOYMENT, 1952-'66
 Economic Growth Means More Jobs; Slack Means Fewer Jobs



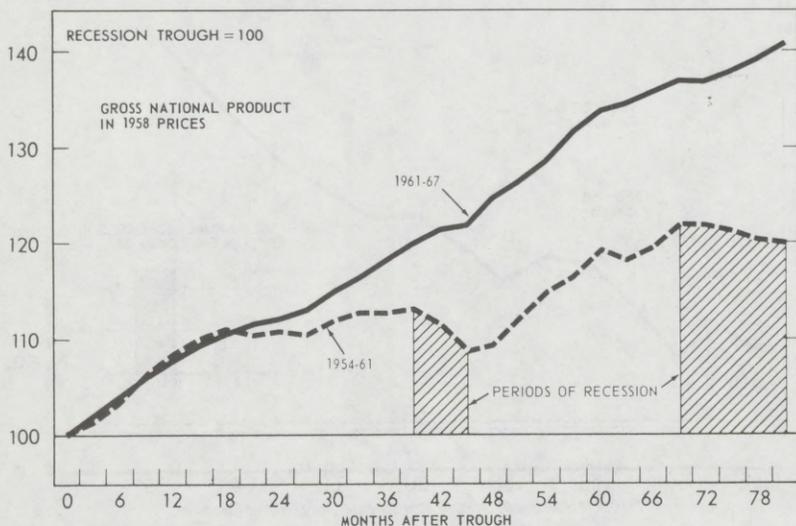
Office of the Secretary of the Treasury

C-1137-3

Chart 9

Workers have a definite stake in a stable and growing economy. As shown in the chart, each of the past three recessions has resulted in a decline in net number of new jobs. In contrast, continued economic growth without recessions from 1960 to 1966 has meant larger employment gains than in previous years. Civilian employment increased by almost 1.2 million annually in the recession-free years 1961-1966. During 1953-1960, employment increased only about 700 thousand annually.

Chart 9A
 Real Gross National Product
 After the Recession Troughs of 1954 and 1961



NOTE.—BASED ON SEASONALLY ADJUSTED QUARTERLY DATA.

SOURCES. DEPARTMENT OF COMMERCE AND COUNCIL OF ECONOMIC ADVISERS.

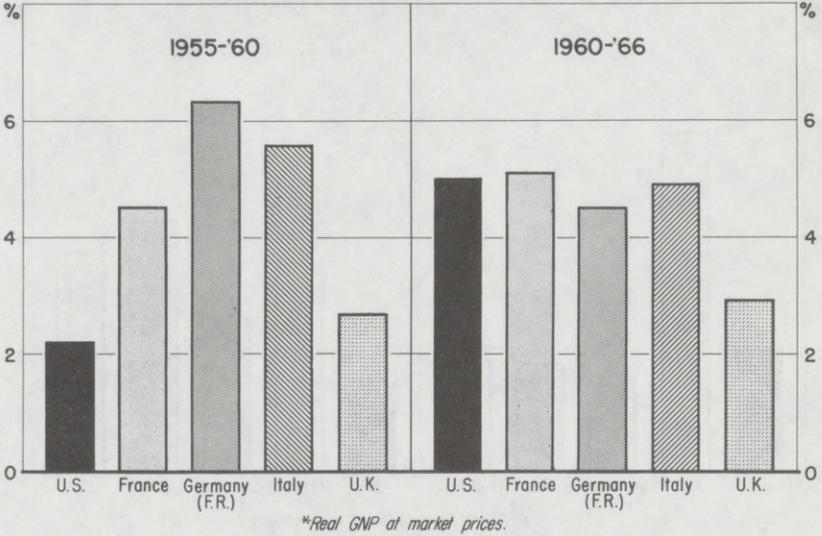
Chart 9A

There is a sharp contrast between the path of real GNP in this expansion and that which followed the recession trough in 1954 (i.e. the previous seven years). If real GNP had risen in 1961-67 at the rate it did in the earlier period, it would have reached \$688 billion at the end of 1967 (in end-of-1967 prices). The actual performance of the economy exceeded this by \$120 billion -- a difference greater than the current total of Federal expenditures for goods and services.

Chart 10

ANNUAL RATE OF GROWTH IN SELECTED COUNTRIES*

In the 1960's U.S. growth compares favorably with that of other countries



Office of the Secretary of the Treasury

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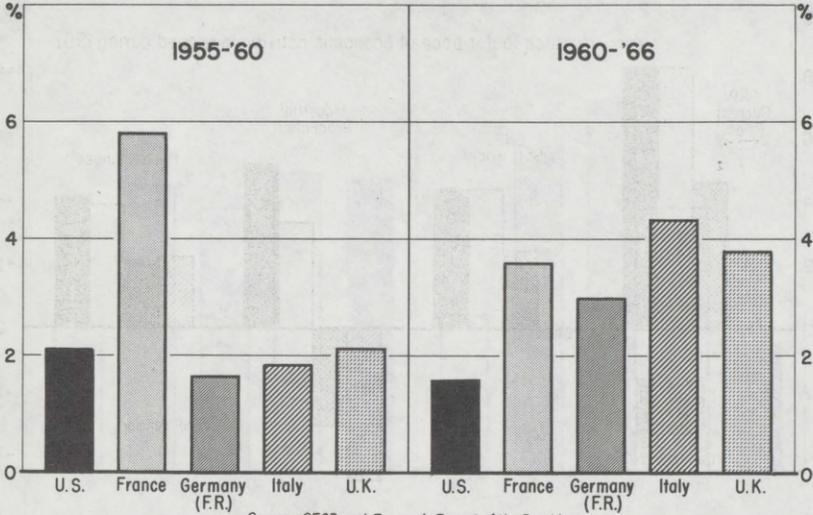
Chart 10

During the late 1950's, the growth rate of the U. S. economy fell below that of other major industrial countries. In the 1960's, the U. S. growth rate has risen appreciably and compares very favorably with growth rates abroad.

Chart II

ANNUAL RATE OF COST OF LIVING INCREASE

U.S. cost of living increases have been smaller than abroad



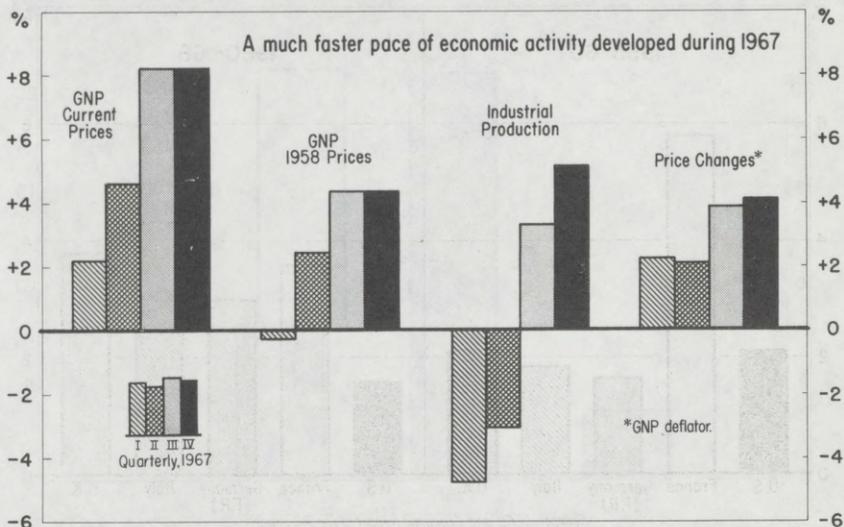
Office of the Secretary of the Treasury

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Chart 11

The U. S. cost of living record was generally in line with the experience of most major industrial nations in the 1955-60 period and it was considerably better than the major industrial countries during the 1960-66 period. After rising at about a 2 percent rate in the 1955-60 period, the U. S. cost of living advanced at the slower rate of approximately 1.6 percent in the 1960-66 period.

Chart 12
1967 SPEEDUP IN ECONOMIC PACE
QUARTERLY ANNUAL RATE OF CHANGE IN KEY AREAS



Office of the Secretary of the Treasury

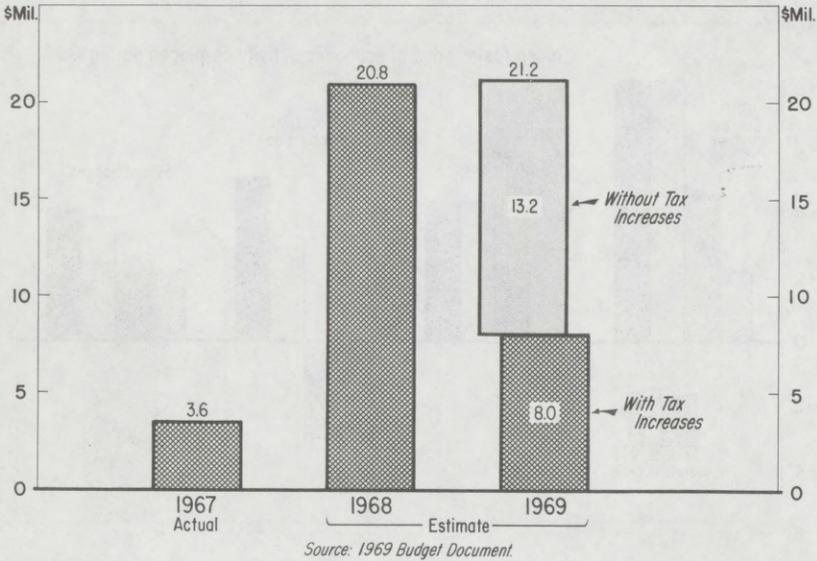
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Chart 12

The economic projection in January 1967 was for a slow first half but a strong last half of the year. That is why the proposed tax increase was not to take effect until the last half. The estimate proved to be generally correct with the first half somewhat lower than projected and the second half somewhat higher.

Growth in GNP in current prices, at annual rates, was only about 2 percent in the first quarter of 1967 and about 4-1/2 percent in the second quarter. The third and fourth quarters, however, registered strong gains of 8 percent. In terms of constant prices, GNP actually dropped slightly in the first quarter, rose a little over 2 percent in the second quarter, but jumped 4-1/2 percent in the third and fourth quarters. Industrial production declined in the first half of the year but rose strongly in the second half, exceeding a 5 percent rate in the fourth quarter. Price changes, which stayed close to an annual rate of 2 percent in the first half, rose to a rate of 4 percent in the last quarter. All these developments indicate a trend of growth in the economy which runs the risk of becoming excessive in the absence of a tax increase.

Chart 13
TOTAL BORROWING FROM THE PUBLIC



Office of the Secretary of the Treasury

B-1562

Chart 13

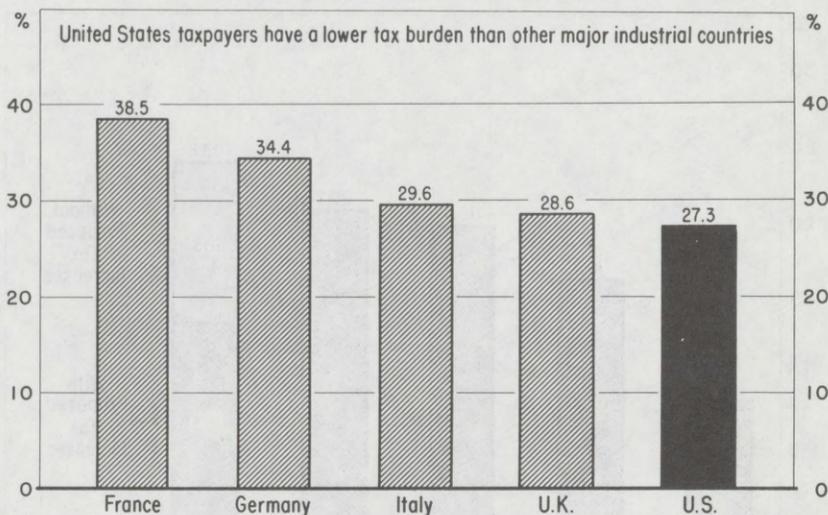
Total borrowing from the public in fiscal 1968 will be more than five times the borrowing in fiscal 1967. However, with the tax proposals and expenditure restraints, the borrowing need will be reduced by more than half from 1968 to 1969. Without the tax increase, the borrowing need will actually exceed the 1968 total. Such a large, continuing Federal demand for funds would cause further upward pressures on interest rates and disintermediation tendencies with the bad effects of such pressures on the housing industry we saw in 1966.

Note: These borrowing requirements reflect, in the main, the estimated deficits for 1968 and 1969 with adjustments for seigniorage, changes in cash balance, and deposit fund balances. These borrowing requirements, reflecting as they do deficits calculated on a unified budget basis, exclude borrowing by the Federal Land Banks and the Federal Home Loan Banks.

Chart 14

TAX BURDEN IN SELECTED COUNTRIES*

Total Federal, State and Local Taxes as % of GNP



*Based on OECD data for 1966.

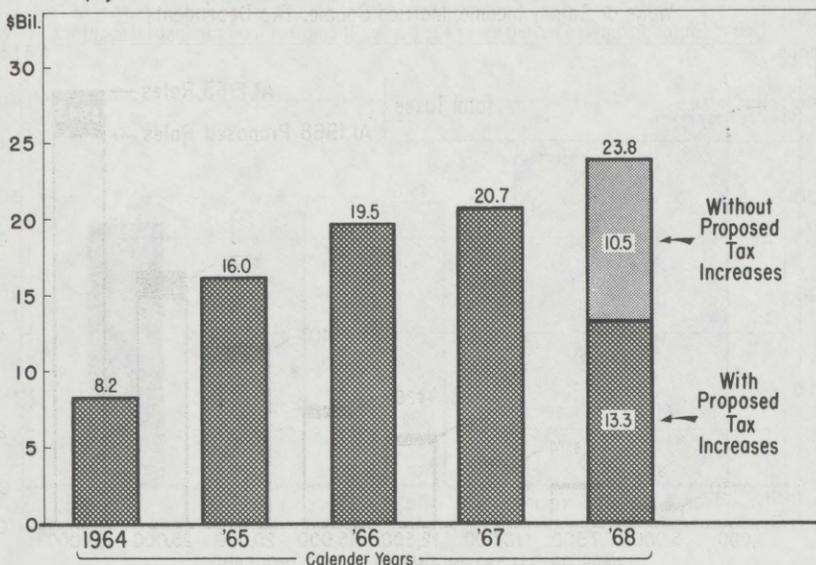
Chart 14

Americans enjoy a lower tax burden than any of the major industrial countries of Western Europe -- and this includes taxes levied at all levels of government -- Federal, state, and local. As shown in the chart, estimates based on data compiled by the Organization for Economic Cooperation and Development show that as a proportion of total national production, French citizens paid 38.5 percent in taxes; Germany, 34.4 percent; Italy, 29.6 percent; United Kingdom, 28.6 percent; and the U. S., 27.3 percent. The figures are based on data for 1966.

Chart 15

TAX SAVINGS FROM ACTIONS TAKEN AFTER 1963

Taxpayers will continue to benefit from huge tax savings after proposed tax increase



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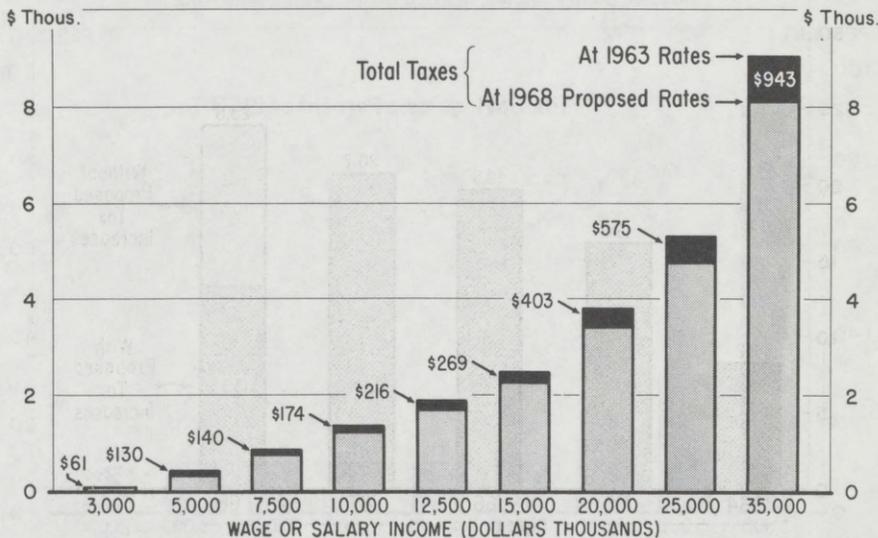
Chart 15

One factor in the debate over the proposed tax increase which should not be overlooked is the amount of tax savings which results from actions taken after 1963. These tax savings, which were over \$8 billion in 1964, will rise to nearly \$24 billion in 1968. Even after the enactment of the proposed tax increases, the savings in 1968 would still come to over \$13 billion. Thus, even with the proposed tax increase, American taxpayers are still far ahead of where they would have been were tax rates to have remained at pre-1964 levels.

Chart 16

TAX SAVINGS AT 1968 PROPOSED RATES COMPARED WITH 1963 RATES

Wage or Salary Income, Married Couple, Two Dependents



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B-1551-1

Chart 16

The enactment of the proposed 10 percent surcharge effective April 1, 1968, would come to 7.5 percent of the tax for calendar 1968. This would still leave individual taxpayers paying much less income tax than they did in 1963. For example, a married couple with two dependents and a wage and salary income of \$7,500 would have a 1968 tax liability of \$737 instead of \$877 at 1963 rates -- a saving of \$140. Savings at other income levels are shown in the chart.

Chart 17

**TAX SAVINGS AS A PERCENT OF 1963 TAX:
AT 1968 PROPOSED RATES COMPARED WITH 1963 RATES**
Wage or Salary Income, Married Couple, Two Dependents

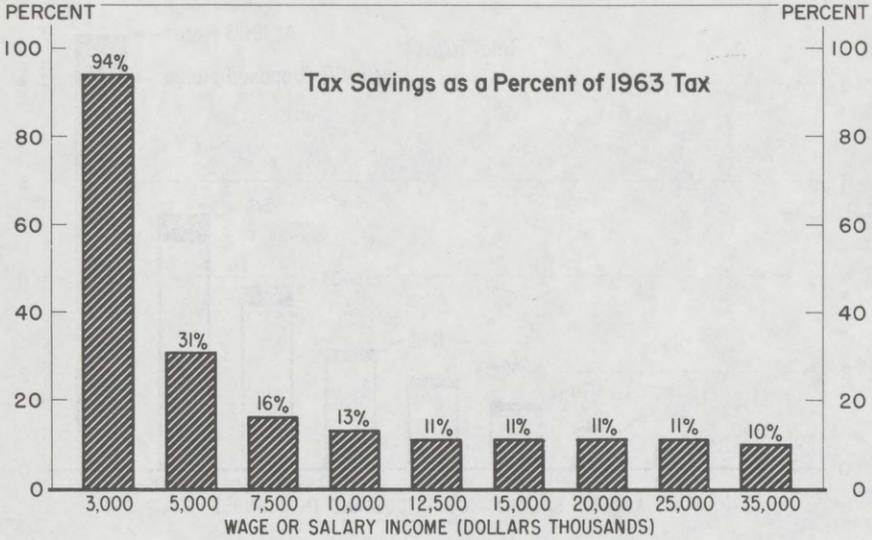
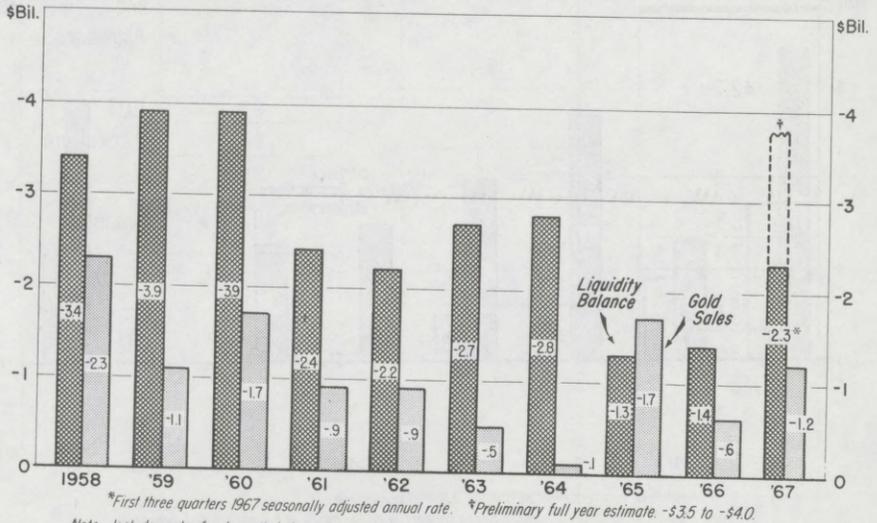


Chart 17

The tax savings at 1968 proposed rates are relatively greatest at lower wage and salary levels, as shown in the chart. For example, a married couple with two dependents and wage and salary income of \$3,000 would pay \$61 less tax at 1968 rates than at 1963 rates -- about 94 percent of their total 1963 tax liability of \$65. (There would be no increase in 1968 or 1969 tax for a married couple whose tax at 1967 rates was \$290 or less.)

Chart 18
 U.S. BALANCE OF PAYMENTS ON "LIQUIDITY" BASIS
 AND GOLD SALES



Note. Includes sales for domestic industrial and artistic purposes. Also includes acquisitions from IMF of \$300 million of gold in 1960 and \$150 million in 1961 and a payment of \$259 million of gold for quota increases in 1965.

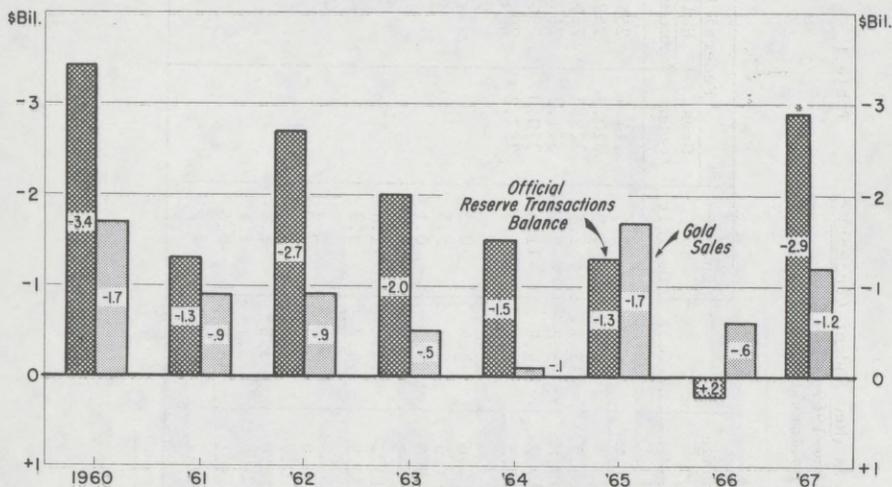
Office of the Secretary of the Treasury

FO-417-B-2

Chart 18

The liquidity deficit of \$1.4 billion in 1966 was about \$100 million above 1965, but it was a much better performance than in other recent years. In 1967, however, our attempts to restore balance in our international accounts received a severe setback and the deficit rose sharply to between \$3.5 billion and \$4.0 billion. This deterioration reflected the effects of higher costs in Vietnam, heavy unilateral transfers, a disappointing trade surplus, and increased outlays by U. S. citizens traveling abroad. The uncertainties and unrest which accompanied the sterling devaluation added to our already difficult problems.

Chart 19
**U.S. BALANCE OF PAYMENTS ON "OFFICIAL SETTLEMENTS"
 BASIS AND GOLD SALES**



* First three quarters 1967 seasonally adjusted annual rate.

Note: The official settlements balance counts changes in dollar claims of foreign official monetary authorities — but not private holdings — in addition to reserve losses of the U.S. The liquidity balance counts changes in the liquid dollar holdings of all foreigners — private and public — as well as losses in reserves.

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FD-416-A-2

Chart 19

The factors which combined to worsen the "liquidity" deficit (noted in discussion of Chart 18) had a similar effect on the "official settlements" deficit. After achieving a small surplus in 1966 -- the first such surplus since 1960 when we first began to collect figures on this basis -- the deficit rose sharply last year to a seasonally adjusted annual rate of \$2.9 billion for the first three quarters of 1967.

Table 1
Federal Spending and Receipts (New Budget Concept)
Fiscal Years 1964-1969
(Billions of Dollars)

Budget	Fiscal Years	Revenues	Change in Revenues	Spending	Change in Spending	Deficit	Change in Deficit	Federal Debt		
								Gross Amount	Held by Public % of GNP	
Unified: Total	1964	112.7	6.1	118.7	7.4	-6.0	-1.3	314.4	255.6	41.8
	1965	116.9	4.2	118.0	-0.7	-1.1	4.9	320.8	259.6	39.7
	1966	130.9	14.0	134.6	16.6	-3.7	-2.6	329.5	265.6	37.0
	1967	149.6	18.7	158.4	23.8	-8.8	-5.1	341.3	269.2	35.3
	1968e	155.8	6.2	175.6	17.2	-19.8	-11.0	370.0	290.0	35.5
	1969e	178.1	22.3	186.1	10.5	-8.0	11.8	387.2	298.0	n.a.
Expenditure Account	1964	112.7	6.1	118.1	2.6	-5.4	-0.5			
	1965	116.9	4.2	116.7	-1.6	0.1	5.5			
	1966	130.9	14.0	130.7	14.0	0.2	0.1			
	1967	149.6	18.7	153.2	22.5	-3.6	-3.8			
	1968e	155.8	16.4	169.9	13.7	-14.0	-11.4			
	1969e	178.1	22.3	182.8	12.9	-4.7	9.3			
Loan Account	1964	9.7	-0.1	10.2	0.6	-0.5	-0.6			
	1965	9.7	--	10.9	0.7	-1.2	-0.7			
	1966	10.8	1.1	14.6	3.7	-3.8	-2.6			
	1967	12.6	1.8	17.8	3.2	-5.2	-1.4			
	1968e	15.1	2.5	20.9	3.1	-5.8	-0.6			
	1969e	17.1	2.0	20.4	-0.5	-3.3	2.5			

e - estimated

Office of the Secretary of the Treasury
February 1, 1968

Table 2

Unified Budget Results and Estimates
Fiscal Years 1964 through 1969
With and Without Special Vietnam Costs and Revenues
(In billions of dollars)

	Fiscal Years							Change 1964-69e		Change 1965-69e	
	1964	1965	1966	1967	1968e	1969e	Amount	Percent	Amount	Percent	
										(Vietnam Years)	
Unified Comprehensive Budget											
Total Outlays	\$118.7	\$118.0	\$134.6	\$158.4	\$175.6	\$186.1					
Total Revenues	112.7	116.9	130.9	149.6	155.8	178.1	\$67.4	57%	\$68.1	58%	
Deficit (-)	-6.0	-1.1	-3.7	-8.8	-19.8	-8.0	26.3		26.2		
Total Outlays	118.7	118.0	134.6	158.4	175.6	186.1					
Vietnam Outlays	-	0.1	6.1	20.6	25.0	26.3					
Non-Vietnam Outlays:											
Trust 1/	21.8	22.2	25.3	30.3	34.3	38.5	16.7	77%	16.3	73%	
Other	96.9	95.7	103.2	107.5	116.3	121.3	24.4	25%	20.6	22%	
Total Revenues	112.7	116.9	130.9	149.6	155.8	178.1	65.4	58%	61.2	52%	
Vietnam Revenues	-	-	1.2	4.6	3.0	11.5	11.5		11.5		
Non-Vietnam Revenues	112.7	116.9	129.7	145.0	152.8	166.6	53.9	48%	49.7	43%	
Non-Vietnam Outlays	118.7	117.9	128.5	137.8	150.6	159.8	41.1		41.9		
Non-Vietnam Revenues	112.7	116.9	129.7	145.0	152.8	166.6	49.7		49.7		
Surplus (+) or Deficit (-)	-6.0	-1.0	+1.2	+7.1	+2.2	+6.8	+12.8		+7.8		

1/ Social Security, Medicare, and other social insurance trust funds.

2/ Tax Adjustment Act of 1966. Administrative acceleration of tax collection provided an additional \$0.4 billion.

3/ Proposed legislation including surcharge, acceleration of tax collection and extension of excise taxes.

4/ Proposed legislation would produce \$12.9 billion but previous acceleration of tax collection will account for \$1.4 billion of revenue loss in 1969.

e - Estimated.

Note: Detail may not add to totals due to rounding.

February 7, 1968

Table 3

New Budget Concept^{1/} of Federal Debt and Federal Debt as Percent of GNP
(In billions of dollars)

End of Fiscal Year	Federal Debt		Federal Debt Held by the Public	
	Gross	Held by Public	Change	Percent of GNP
1950	\$256.9	\$222.2	\$+4.6	84.4%
Korea				
1951	255.3	217.2	-5.0	70.0
1952	258.8	217.5	+0.3	64.5
1953	265.7	221.1	+3.6	61.6
1954	270.8	224.5	+3.4	62.0
Peacetime				
1955	274.3	226.6	+2.1	59.9
1956	272.7	222.2	-3.4	54.3
1957	272.3	219.4	-2.8	50.9
1958	279.1	226.0	+6.6	51.3
1959	286.7	234.3	+8.3	49.9
1960	289.2	236.1	+1.8	47.7
1961	291.0	237.2	+1.1	46.8
1962	301.1	246.7	+9.5	45.5
1963	308.5	252.6	+5.9	44.1
1964	314.4	255.6	+3.0	41.8
1965	320.8	259.6	+4.0	39.7
Vietnam				
1966	329.5	265.6	+6.0	37.0
1967	341.3	269.2	+3.6	35.3
1968e	370.0	290.0	+20.8	35.5
1969e	387.2	298.0	+8.0	n.a.

1/ This concept excludes Federal Land Banks¹, Federal Home Loan Banks¹ and District of Columbia debt and Federal security holdings, CCC certificate of interest, and non-interest bearing debt issued to international lending institutions; it includes defense family housing mortgages.

e - Estimated.

n.a. Not available.

February 1, 1968

Table 4

Comparison of 1963-1967 Tax Liability and 1968-1969 Tax Liability Under Proposed Surcharge Increase

(Single Individual)

Note: There is no surcharge increase in 1968 or 1969 for a single person whose regular tax is \$145 or less.

Wage : income :	1963 tax 1/	1964 Tax Act : decrease :	1967 tax : as result of : 1964 tax cut 1/	1968 tax with 7.5% surcharge 2/ :	1968 increase : over : 1967 tax 3/	1969 tax with 5% surcharge 4/ :	1969 increase : over : 1967 tax 5/	For 1968, tax is \$ less than 1963 tax 6/
\$ 1,000	\$ 62	\$ 46	\$ 16	\$ 16	--	\$ 16	--	\$ 46
1,900	224	77	147	158	\$ 11	154	\$ 7	66
2,000	242	79	163	175	12	171	8	67
3,000	427	94	333	358	25	350	17	69
5,000	818	147	671	721	50	705	34	97
7,500	1,405	237	1,168	1,256	88	1,226	58	149
10,000	2,096	354	1,742	1,873	131	1,829	87	223
12,500	2,887	489	2,398	2,578	180	2,518	120	309
15,000	3,787	633	3,154	3,391	237	3,312	158	396
20,000	5,900	982	4,918	5,287	369	5,164	246	613
25,000	8,324	1,342	6,982	7,506	524	7,331	349	818
35,000	13,778	2,151	11,627	12,499	872	12,208	581	1,279

Office of the Secretary of the Treasury
Office of Tax Analysis

January 19, 1968

See footnotes on page 4.

Table 5

Comparison of 1963-1967 Tax Liability and 1968-1969 Tax Liability Under Proposed Surcharge Increase

Wage : income : tax 1/	1964 Tax Act : decrease : 1964 tax cut 1/	1967 tax : as result of : 1964 tax cut 1/	1968 tax : with 7.5% surcharge 2/ : 1967 tax 3/	1969 tax : with 5% surcharge 4/ : 1967 tax 5/	1969 increase : : over : 1967 tax 6/	For 1968, tax is \$ less than 1963 tax 6/
\$ 2,000 \$ 122	\$ 64	\$ 58	\$ 58	\$ 58	--	\$ 64
3,000 305	101	204	204	204	--	101
3,600 413	119	294	316	309	\$ 15	97
5,000 660	159	501	539	526	25	121
7,500 1,141	227	914	983	960	46	158
10,000 1,636	294	1,342	1,443	1,409	67	193
12,500 2,213	382	1,831	1,968	1,923	92	245
15,000 2,810	475	2,335	2,150	2,452	117	300
20,000 4,192	708	3,484	3,745	3,658	174	447
25,000 5,774	978	4,796	5,156	5,036	240	618
35,000 9,601	1,604	7,997	8,597	8,397	400	1,004

Note: There is no increase in 1968 or 1969 for a married couple whose regular tax is \$290 or less.

(Married Couple, No Dependents)

January 19, 1968

Office of the Secretary of the Treasury
Office of Tax Analysis

See footnotes on page 4.

Table 6

Comparison of 1963-1967 Tax Liability and 1968-1969 Tax Liability Under Proposed Surcharge Increase

(Married Couple, Two Dependents)

Note: There is no increase in 1968 or 1969 for a married couple whose regular tax is \$290 or less.

Wage : income : tax 1/	1963 tax 1/	1964 Tax Act : decrease :	1967 tax : as result of : 1964 tax cut 1/	1968 tax : with 7.5% : surcharge 2/ : : over 1967 tax 3/	1969 tax : with 5% : surcharge 4/ : : over 1967 tax 5/	For 1968, tax : is \$: less : than 1963 tax 6/
\$ 3,000	\$ 65	\$ 61	\$ 4	\$ 4	\$ 4	\$ 61
5,000	420	130	290	290	290	130
7,500	877	191	686	737	720	140
10,000	1,372	258	1,114	1,198	1,170	174
12,500	1,901	334	1,567	1,685	1,645	216
15,000	2,486	424	2,062	2,217	2,165	269
20,000	3,800	640	3,160	3,397	3,318	403
25,000	5,318	906	4,412	4,743	4,633	575
35,000	9,037	1,508	7,529	8,094	7,905	943

Office of the Secretary of the Treasury
Office of Tax Analysis

January 19, 1968

See footnotes on page 4.

Footnotes - Tables 4, 5, and 6

- 1/ Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income, whichever is greater. Tax liability from optional tax table where income is under \$5,000.
- 2/ Ten percent surcharge effective from April 1, 1968 to December 31, 1968 (three-fourths of year).
- 3/ 1968 tax minus 1967 tax.
- 4/ Ten percent surcharge effective from January 1, 1969 to June 30, 1969 (one-half of year).
- 5/ 1969 tax minus 1967 tax.
- 6/ 1968 tax minus 1963 tax.

GENERAL STATEMENT OF THE BUDGET DIRECTOR

Mr. MAHON. All right, Mr. Zwick, please proceed. Will you first state to us when you became Director of the Bureau?

Mr. ZWICK. Yes, sir.

Mr. Chairman and distinguished gentlemen; I am delighted to be here. My first reaction, though, is somewhat the bizarre fact that I am a 10-day-old Budget Director and this is a committee that has had years of experience before in these matters. It does seem that we have got the cart before the horse here with my briefing you with that great experience.

BIOGRAPHY OF MR. ZWICK

Mr. MAHON. What is your background in the Government? Give us a little background now. You can amplify it for the record.

Mr. ZWICK. I came to the Bureau a little over 2 years ago on October 1, 1965. I was an Assistant Director so I have been involved in the 1967, 1968, and 1969 budget presentations.

Mr. MAHON. Your background before that?

Mr. ZWICK. Well, I am trained as an economist. Before my employment with the Bureau, I was with the Rand Corp. in Santa Monica, Calif., which does work basically for the defense establishment, primarily research and development.

I taught economics at Harvard University and the University of Connecticut. I have degrees in agricultural economics from the University of Connecticut and in economics from Harvard.

(The following biographical information was later supplied for the record:)

Charles J. Zwick took office as Director of the Bureau of the Budget on January 29, 1968. He was named by President Johnson to succeed Charles L. Schultze on January 8. Mr. Zwick joined the Bureau as an Assistant Director on October 1, 1965. Prior to this, he had been with the Rand Corp. in Santa Monica, Calif.

Director Zwick was born in Plantsville, Conn., on July 17, 1926. He is married to the former Joan Cameron, and they have two children, Robert, 12, and Janet, 8.

After active duty in the Army from 1946 to 1948, Mr. Zwick returned to the University of Connecticut where he received a B.S. degree in 1950 and an M.S. degree in 1951. He received a Ph.D. in economics from Harvard University in 1954.

Between 1954 and 1956, he was on the economics faculty of Harvard University where he taught courses in the economics of agriculture and quantitative methods. He also was a member of the faculty of the department of agricultural economics at the University of Connecticut.

At Rand, Mr. Zwick headed work on military logistic problems and Rand's Urban Transportation project under a Ford Foundation grant. During 1964 and 1965, he led a team studying economic assistance programs in Vietnam, Thailand, and Laos.

The third major feature of the new budget format is to highlight congressional action. If you look at the first summary table in the budget, on page 10 of the budget document, if you have it in front of you, you see a format there which lays out as the first item "budget authority." The second bank of figures within this table gives you the normal expenditure, receipt, and net lending relationships. The third bank of figures then gives you the deficit and the means of financing it. The last bank within that summary table on page 10 covers the debt

outstanding. So that throughout the budget we have tried to highlight more the congressional action required within the budget.

Mr. MAHON. Is it correct to say that the Congress will, at this session, be acting upon the obligational authority budget—what is now called the budget authority—which is some \$201 billion for 1969, rather than \$186 billion expenditure, or “budget outlay” figure—or, I should say, the portion that is subject to annual action.

Mr. ZWICK. Yes, you will be acting on \$141.5 billion of that \$201 billion, because the remainder is available through prior actions. I have a chart later on which gives a breakdown showing what you have to act on specifically and what is available through prior authorization.

Mr. MAHON. Will you make very clear what you mean by these various types of budget?

Mr. ZWICK. I think as we go through the charts it will come out.

Mr. MAHON. So it is clear in the record.

Mr. ZWICK. I suggest that we delay that.

Mr. MAHON. Proceed.

Mr. ZWICK. The fourth major feature I would like to call to your attention is a new definition of netting, which the Commission proposed in order to get more uniform rules of netting receipts against expenditures. In the old budget, whether or not receipts were netted depended upon how the individual statutes were written in terms of fund structures of the various Federal programs. The Budget Commission recommended, and we have adopted, a procedure whereby if receipts are market oriented—such as postal receipts, grazing fees, park permits, and fees from the Park Service, proceeds of sale of property—they are netted against expenditures. On the other hand, when receipts are associated with the exercise of sovereign power of Government—that is, taxes, fees for regulatory activities, et cetera—they are treated as receipts. We think that this gives us a more unified and consistent pattern of netting and grossing expenditures.

On the last item on the chart, the budget treats participation certificates, so-called PC's, as a means of financing the deficit, rather than as a negative expenditure, which was the case in the earlier budgets.

These are the major changes we have adopted this year in the budget document. In addition to these changes, the Commission made two other important recommendations: (1) to shift the budget to an accrual accounting basis and (2) to identify the interest subsidy part of a loan program and include it in the expenditure account of the budget; in other words, you would calculate the interest subsidy element in a loan and then count it as an expenditure rather than as a loan.

Both the accrual accounting technique and the identification of the interest subsidy in loans involve major modifications in the accounting systems of the Government.

NEW UNIFIED BUDGET

- Is Comprehensive in Coverage - Includes Trust Funds
- Separates Spending and Lending
- Highlights Congressional Action
- Nets Market-Oriented Receipts Against Expenditures
- Treats PC's and Seigniorage as Means of Financing the Deficit

CHART 1

The major features of that new unified budget are shown in my first chart. First, the new budget has comprehensive coverage—in other words, it includes the trust funds as well as the old administrative budget items and also includes loan programs. In that respect it is closer to the old consolidate cash budget than the national income accounts budget—which excludes lending—or the administrative budget—which excludes trust funds.

The second major recommendation was that the budget be separated into two accounts, an expenditure account and a loan account. Because loans have a different economic impact than outright expenditures, it was thought desirable to separate them.

The expenditure account approximates the old national income accounts budget but it is not completely identical to it. The lending account includes most loan programs but not all loan programs. I would like to make this point: loans which do not have to be repaid or loans that are made on noncommercial terms, such as, AID loans, are in the spending account rather than the lending account.

Mr. ZWICK. What I am going to do today is run through fairly quickly a set of budget charts which you have in front of you. We are going through the big charts but I think it will be easier for you to follow the individual charts that you have in front of you.

NEW BUDGET CONCEPT AND FORMAT

The first point I would like to make, Mr. Chairman, is that we have a new budget format this year. As you all know, last year the President established a Commission to study budget concepts and the budget format. That bipartisan Commission—the President's Commission on Budget Concepts—was chaired by Mr. David Kennedy from Chicago. It included both Chairman Mahon and Mr. Bow from this committee and Chairman Hayden and Mr. Young from the Senate Appropria-

tions Committee. That Commission in October of 1967 unanimously recommended that a new budget format be adopted. The Commission recognized, and we recognized, that it will probably be at least 2 years before we can adopt these recommendations. We would anticipate using our present format for the 1970 and 1971 budgets. With luck, in 1972, if the whole Government accounting system is on an accrual basis, we would move to an accrual accounting basis and an identification of the subsidy elements in the interest payments in loan programs.

THE ACCRUAL CONCEPT FOR RECEIPTS AND EXPENDITURES

Mr. MAHON. At this point in the record I wish you would make it absolutely clear, in lay terms, what you mean when you contrast the present concept with the accrual concept.

Mr. ZWICK. Very well.

(The following information was supplied for the record:)

THE ACCRUAL SYSTEM OF STATING RECEIPTS AND EXPENDITURES

At present the Federal Government counts its expenditures at the time the checks are issued. It counts its receipts at the time the money is collected. The budget surplus or deficit is the difference between receipts and expenditures for the year. Therefore the surplus or deficit ignores amounts which we owe but have not yet been paid and amounts which are owed to us but remain to be collected later.

The President's Commission on Budget Concepts has recommended a change in the present practice to one of counting expenditures and receipts when they accrue. This is one feature of the system of accounting known as the accrual system; it has other features which are not directly pertinent to this discussion.

Essentially accounting for expenditures on the accrual basis would mean that expenditures would be reported in the year and month in which the Government becomes liable to make the payment even though the payment itself might occur at a different time. Another way of saying this is that expenditures are recorded on an accrual basis when performance occurs on the part of the prospective payee—an employee, a vendor, a lessor, a contractor, etc. Similarly in the accrual system receipts are recorded when they are earned by the Government; that is, when the other party becomes liable to the Government to make the payment.

Some examples from non-Government life may illustrate the difference between the accrual system and the present system of stating receipts and expenditures:

A man buys a \$100 suit of clothes, takes delivery and starts wearing the suit in August, but pays for it on a revolving charge account basis, one-third at a time in September, October, and November. The expenditure accrued in August because that is when he became responsible for paying the \$100, even though the checks were issued in payment in several later months. Similarly when the Government buys something and accepts delivery, the accrual would be recorded in that month rather than waiting until the checks are drawn to pay for it at some later time as is presently the case.

A businessman's employees are at work in the last half of February and earn their pay, but the checks are drawn to pay them in March. Since performance occurred in February and the salary was owed as of the end of that month, the accrued expenditures were issued in March. Many Government employees receive their checks 10 to 13 days after the close of a pay period. Under the accrual system the Government would report the expenditures in the months in which the salaries are earned rather than the present system of reporting only at the time the salaries are paid.

A college lets a contract to construct a building to its specifications, and the contractor starts performance. Under the accrual system the cost to the institution of the work put in place is recorded as an expenditure month by month without waiting until the time when the building is accepted and the contractor is paid off. The Government has many construction contracts, and under the accrual system the Government's liability for work performed will be recorded monthly regardless of the timing of the payments to the contractors or the

amounts held back for final completion of the contract. Any adjustments due to improper performance would be recorded under the accrual system at the time they are settled at the end of the contract.

A corporation advances \$500 to an officer on June 30 to facilitate an official trip he will make in July, with the understanding that he will account for the advance and return the unused portion, or claim and receive an additional amount on the basis of his actual expenses at the end of the trip. Under the accrual system this is an expenditure only when the trip occurs, and until that time the advance is recorded as an amount due from the employee; under the checks issued system the expenditure is recorded in the month of June even though no performance has occurred at that time.

Similar rules are applicable to receipts. In the case of income taxes the accrual occurs as the corporation or individual earns the taxable income, even though a delay is permitted in making the payment. Rents and royalties are recorded as a receipt earned by the Government under the accrual system in the months in which the other party uses the property or extracts the minerals, even though he may be allowed an additional 30 days or 60 days in which to make the payment therefor.

Basically the accrual system of reporting receipts and expenditures represents a refinement of the conventional system of reporting checks issued and collections. The refinement modifies the conventional (cash) system by taking account of what is owed by the Government and to the Government. Therefore the accrual system provides a much more accurate representation of the changes in the Government's financial position.

The accrual system will greatly reduce the possibility of significant deviations in monthly figures which are unrelated to the true financial position of the Government. Under the cash system delays in paying bills toward the end of the month may result in abnormally low expenditures in that month and high expenditures in the following month when the auditing and payment of bills catches up. Under the accrual system the transactions for each month will reflect expenditures for which the Government became liable during the month and will not be influenced by delays in the payment of bills.

Since nearly all business accounting in the United States is based on the accrual system, the Government's accounts on the new basis will fit more readily into the total economic picture. Government purchases will be on the same accounting basis as businessmen's sales to the Government, as will the various other types of business transactions that occur. Heretofore the sales to the Government recorded in the economic statistics of the Nation could not be matched by the Government's expenditures for purchases recorded in its own central accounts because the one was on the accrual basis and the other on the checks issued (cash) basis.

Mr. ZWICK. I think that highlights the major elements in the new budget format. Let me turn now to my next chart, and run through very quickly how we get from the old administrative budget to the new budget concept.

First, let me note that we do carry in the 1969 budget the administrative, consolidated cash, and national income account budgets. Information is provided in Special Analysis A so that you can translate from the new budget basis to the administrative budget and the consolidated cash data. Special Analysis B presents the national income accounts data.

We did carry the new budget data, in summary at least, back 10 years to 1958. And, as I have noted, we have provided in the budget a bridge for you between the old and new concepts.

(Note: Special Analyses A follows:)

SPECIAL ANALYSIS A

COMPARISON OF NEW AND OLD
BUDGET CONCEPTS

Reprint of Pages 464 to 472 .

From the Budget of the United States Government
for the Fiscal Year Ending June 30, 1969

Detail will not necessarily add to totals because of rounding

BUREAU OF THE BUDGET

January 1968

SPECIAL ANALYSIS A

COMPARISON OF NEW AND OLD BUDGET CONCEPTS

This analysis provides a comparison of the budget totals under the new concept used in this budget with two older concepts used heretofore.¹ It also presents, as a transitional matter, a full table based upon the old concept of the "administrative budget." It continues the presentation of a gross table on the flow of funds, as a supplementary measure of Federal financial data.

THE NEW CONCEPT OF THE BUDGET

In this budget, a unified comprehensive summary budget statement is utilized to present the total financial plan for the Government, along the lines recommended by the President's Commission on Budget Concepts in its report of October 10, 1967. The basic principles are that the budget encompasses all programs of the Federal Government and its agencies, with the outlay and deficit divided between the expenditure account and loan account, and with proprietary receipts offset against outlays, regardless of the funding structure at any particular time. Payments between funds are eliminated from the totals, as is conventional in statements that consolidate data for a number of funds. These principles are explained on pages 48 to 50 of this document.

The financial plan also includes appropriate attention to congressional action on the budget, a comprehensive statement of the Federal debt with a distinction between that which is internal and that which is held by the public, and a redefinition of participation certificates in loans to be a part of the debt rather than a sale of assets.

Two of the fundamental recommendations of the Commission could not be adopted in this budget because, as the Commission report indicates, more time is required to provide an appropriate accounting basis for the data. These relate to the use of the accrual basis, instead of the cash basis, for the presentation of receipts and expenditures, and the identification of subsidies on loans (including the capitalization of the interest subsidies at the time the loan is disbursed).

OLD MEASURES OF THE BUDGET

The administrative budget.—While the budget documents have for many years covered all of the types of funds administered by the Government, certain funds were totaled separately from others to form the "administrative budget." This administrative budget covered receipts and expenditures of the Federal funds—that is, funds owned by the Government. It excluded funds held in trust by the Federal Government. In the case of public enterprise funds, intra-

¹Transactions in the Federal sector of the national income and product accounts, another measure of Government finances, are set forth and explained in Special Analysis B.

governmental funds, and reimbursements which by law are mingled with appropriations, the administrative budget offset receipts against expenditures; otherwise, it presented receipts and expenditures gross, except for refunds.

While the administrative budget was not coextensive with either the finances requiring annual action or the expenditures subject to legislative and administrative control, it was often the focus of attention as the principal financial plan for the Government. Actually, it always included a number of appropriations and funds in which money becomes available each year without new action by the executive or legislative branches, the most important being interest on the public debt. Similarly, it excluded a few items on which annual action is required, but which are in the nature of trust funds.

Consolidated cash statement.—The consolidated cash statement sought to reflect the transactions between the Government and the public. It was “consolidated” in the sense that it included both Federal funds and the trust funds. It was “cash” in the sense that its totals were basically on a checks-paid basis, as distinguished from the checks-issued basis used in the administrative budget.

Since the trust funds, particularly those derived from taxes and social insurance premiums, have become of greater importance, the consolidated cash statement took on a greater significance in the presentation of Federal finances, and in permitting analysis of the relationship between Federal finances and the remainder of the economy. This statement followed the same rules as the administrative budget with respect to grossing and netting; most trust funds were reported gross, but a few, designated as trust revolving funds, were included on the basis of the net excess of expenditures over receipts. The consolidated cash statement also included among Government-sponsored enterprises two privately owned groups—the Federal home loan banks and the Federal land banks—which at one time were mixed ownership in nature.

ELEMENTS OF DIFFERENCE

Table A-1 presents “bridges” between the measures of receipts and expenditures used in this budget and the older measures of the administrative budget and the consolidated cash statement. Table A-2 makes a similar presentation for the measures of borrowing and other financing presented in this budget, as compared with the changes in the net borrowing by Federal funds, related to the administrative budget, and the net borrowing from the public, related to the consolidated cash statement.

Table A-1. RELATION OF BUDGET TOTALS TO OLDER MEASURES
(In billions of dollars)

Description	Reconciliation to administrative budget			Reconciliation to consolidated cash		
	1967 actual	1968 estimate	1969 estimate	1967 actual	1968 estimate	1969 estimate
RECEIPTS						
Unified, comprehensive budget totals.....	149.6	155.8	178.1	149.6	155.8	178.1
Additions or deductions (-), differences in:						
Coverage (adjusted for intragovernmentals ¹):						
Trust funds.....	-37.0	-38.9	-43.9			
D.C. municipal funds.....				.3	.4	.4
Grossing of proprietary receipts:						
To be continued in fund structure.....	2.8	2.1	2.0	4.5	4.1	4.2
Proposed for netting in new funds.....	.4			.4		
Interfund and intragovernmental transactions:						
Employee payments for retirement.....	-1.2	-1.3	-1.4	-1.2	-1.3	-1.4
Employer payments of Government for social security.....	.5	.5	.6	.5	.5	.6
Social security annuitants' payments for supplementary medical insurance.....				-.5	-.6	-.8
Definition of receipts: Seigniorage.....	.8	.4	.2	*	*	*
Total, receipts under older concepts.....	115.9	118.6	135.6	153.6	158.9	181.1
OUTLAYS (FORMERLY EXPENDITURES)						
Unified, comprehensive budget totals.....	158.4	175.6	186.1	158.4	175.6	186.1
Additions or deductions (-), differences in:						
Coverage (adjusted for intragovernmentals ¹):						
Trust funds.....	-30.9	-35.1	-36.6	*	*	*
D.C. municipal funds.....				.3	.3	.4
Privately owned institutions.....	-.1		.1	-3.9	1.6	2.8
Grossing of proprietary receipts:						
To be continued in fund structure.....	2.8	2.1	2.0	4.5	4.1	4.2
Proposed for netting in new funds.....	.4			.4		
Interfund and intragovernmental transactions.....	-.7	-.8	-.8	-1.2	-1.4	-1.6
Timing:						
Debt issued in lieu of checks:						
International lending agencies.....	-.2			*	*	*
Other program payments.....						
Interest.....				-.7	-.6	-.6
Other interest accruals, checks outstanding, and clearing accounts.....				.7		
Deposit fund liabilities.....				-1.1	-.4	-.4
Definition of cash, monetary assets.....	-.6	-.4	-.7	.1		
Definition of borrowing:						
Sales of participation certificates, net.....	-3.5	-4.7	-3.1	-2.6	-3.4	-2.3
Increase in balances held for buyers of participation certificates.....	.1	.3	.3			
Sales of Defense family housing mortgages, net.....	.1	.1	.1	.1	.1	.1
Totals, outlays under older concepts.....	125.7	137.2	147.4	155.1	176.0	188.7

*Less than \$50 million.

¹ The adjustments for coverage take account of the change in the intragovernmental transactions caused by inclusion or exclusion of funds which have transactions with the Federal funds.

Significant differences are as follows:

Coverage.—Trust funds must be subtracted from the new budget totals in moving toward the administrative budget concept. The District of Columbia municipal funds, and certain transactions of Government sponsored, but privately owned corporations (Federal land banks and Federal home loan banks), for which the U.S. Treasurer acts as fiscal agent, must be added to the new budget to move toward the consolidated cash statement.

Grossing of proprietary receipts from the public.—The new budget offsets against expenditures the proprietary receipts from the public, both in the Federal funds and the trust funds, regardless of fund structure. The older budget concepts permitted such offsets only in accordance with the fund structure—that is, when the receipts are deposited in public enterprise funds, trust revolving funds, etc. The proposals to create new public enterprise funds such as for the Rural Electrification Administration and the power marketing agencies of the Department of the Interior, have no effect on the totals under the new concept; under both of the older concepts, however, the adoption of such proposed legislation would reduce the receipts and expenditures from the levels which would otherwise prevail.

Interfund and intragovernmental transactions.—Under each concept, payments between funds covered by that concept are netted out to avoid duplication. However, there are differences in the application of this principle. The Government's payments into the social security trust funds, representing its contributions as employer of military personnel and covered civilian personnel, are treated as an intragovernmental transaction in the new budget, just as the Government's payments into the civil service and foreign service retirement and disability funds are treated there and in the consolidated cash statement. On the other hand, the new budget does not treat as an intragovernmental payment the employee's share of retirement or social security, which is collected by payroll deductions. Nor does the new budget treat as an intragovernmental transaction the monthly payments for supplementary medical insurance which are collected from social security or other annuitants through deductions from their annuity checks. The older consolidated cash statement had given intragovernmental treatment to such deductions. The new concept does not diminish the recorded expenditures in payment of earnings or annuities because of the payroll deduction method of making collection from the payees.

Timing.—The new budget follows closely the checks-issued principle of the conventional accounts, and therefore differs from the old administrative budget only in one minor regard with respect to timing. In accordance with the recommendations of the President's Commission on Budget Concepts, payments to international lending organizations are recognized in the new budget only when the cash is actually paid out, whereas the administrative budget recognized the expenditure at the time that the public debt figures were increased through the issuance of notes to these organizations.

Table A-2. RELATION OF FINANCING TOTALS TO OLDER MEASURES

(In billions of dollars)

Description	Reconciliation to administrative budget			Reconciliation to consolidated cash		
	1967 actual	1968 estimate	1969 estimate	1967 actual	1968 estimate	1969 estimate
FINANCING						
Unified comprehensive budget deficit.....	8.8	19.8	8.0	8.8	19.8	8.0
Additions of deductions (-) to borrowing, differences in:						
Coverage:						
Trust funds.....	6.5	4.3	7.1	-.6	*	*
Borrowings from D.C. government.....				*	*	*
Privately owned institutions.....	-.1		.1	-3.9	1.6	2.8
Timing.....	-.2			-.6	-.6	-.6
Definition of cash, monetary assets.....	-.3	-.4	-.7	.5		
Definition of borrowing.....	-3.4	-4.6	-3.0	-2.5	-3.3	-2.2
Net change in borrowing.....	2.5	-.7	3.5	-7.4	-2.3	.1
Additions or deductions (-) to other financing, differences in:						
Coverage:						
Trust funds.....	-.4	-.4	.2	.7	*	*
Other.....				.1	*	*
Timing.....				-.4	-.4	-.4
Definition of cash, monetary assets.....	-.3			-.3		
Definition of borrowing.....	.1	.3	.3			
Definition of receipts.....	-.8	-.4	-.2	*	*	*
Net change in other financing.....	-1.4	-.5	.3	.1	-.4	-.4
Deficit under older concepts.....	9.9	18.6	11.8	1.5	17.2	7.6

*Less than \$50 million.

Several adjustments are necessary, however, to move from the new budget toward the old consolidated cash statement, since the latter was on a checks-paid basis. The exclusion of deposit funds from the coverage of the new budget is a reconciling item; the exclusion is made because deposit funds generally represent a timing adjustment with respect to transactions of other funds; the most common uses of deposit funds are to account temporarily for receipts before they are earned, and to account temporarily for certain expenditures after the check in payment of the liability has been drawn but pending final settlement. Such funds are also used to account for moneys deposited with the Government as banker.

Definition of cash and monetary assets.—The United States drawing rights in the International Monetary Fund (which represent a part of the Government's equity in the fund) are now treated like cash. Hence, the exercise of those drawing rights, under which cash is moved from the IMF to the U.S. Treasury, no longer affects receipts, expenditures, borrowing, or redemption of borrowing. Also, the exchange of notes for cash in connection with subscriptions to the IMF do not affect the new budget totals. In the older concepts, certain transactions with the IMF affected the totals.

Definition of receipts.—Seigniorage, representing the difference between the face value and the intrinsic value of coins manufactured, increases the Government's cash without an increase in liabilities and has therefore been a receipt in the administrative budget. It has been excluded from the consolidated cash statement of receipts because it did not come from the public. The new budget similarly excludes seigniorage.

Definition of borrowing.—Both of the older concepts treated the sale of certificates of participation in loans as the sale of an asset, and therefore as a receipt offsetting expenditures in the public enterprise funds concerned. However, the portion of the loan repayments received by the Government and retained for the certificate holders until maturing of the certificates was accounted for in a trust fund. On recommendations of the President's Commission, such sales are now treated as borrowing. Under these circumstances, the repayments on loans collected by the Government are appropriately deposited into Federal funds. The new budget also treats Defense family housing mortgages as a form of borrowing.

Borrowing.—Several of the factors named above also affect the figures on borrowing. The reconciliation of debt outstanding under the three concepts is as follows (in billions of dollars):

	1967 actual	1968 estimate	1969 estimate
Public debt issued by the Treasury.....	326,221	347,031	358,908
Agency debt issued by authorized agencies (TVA, FHA, etc.), other than participation certificates and trust fund issuances.....	910	1,099	1,333
Portion of above debt held by Federal funds (-) ¹	-2,736	-3,637	-4,270
Total net debt outstanding, administrative budget concept....	324,394	344,493	355,971
Participation certificates issued to public.....	6,119	9,504	11,737
Defense family housing mortgages outstanding.....	2,034	1,954	1,871
Agency debt issued by trust funds to public.....	7,821	10,617	12,033
Public and agency debt held by trust funds (-) ¹	-67,881	-73,630	-81,376
Public debt held by the IMF and international lending organizations (-).....	-3,328	-2,937	-2,237
Total net debt outstanding, unified comprehensive budget concept.....	269,160	290,000	298,000
Participation certificates and defense family housing above.....	-8,153	-11,458	-13,608
Debt issued in lieu of checks other than to IMF and international lending organizations (-).....	-13,321	-13,916	-14,466
Debt issued to public by Federal land banks and Federal home loan banks.....	8,239	8,119	10,979
Public and agency debt held by Federal land banks and Federal home loan banks (-).....	-3,851	-2,100	-2,100
Debt issued for IMF drawings, net of Exchange Stabilization Fund holdings.....	828	828	828
Debt issued by trust revolving funds, not included in consolidated cash computations (-).....	-93	-91	-104
Public debt held by trust revolving funds not included in consolidated cash computations.....	11	12	13
Debt issued by the District of Columbia Armory Board.....	20	20	20
Public and agency debt held by District of Columbia agencies.....	-65	-70	-73
Total net debt outstanding, consolidated cash concept.....	252,773	271,344	279,489

¹ After adjusting for reclassification of participation sales trust fund.

Financing other than borrowing.—The remaining adjustments in table A-1 that do not affect borrowing (except for those which are self-balancing within table A-1) generally affect either the cash accounts

or the liabilities related to the cash accounts. One item in this group is the accumulation of trust fund balances, which, in conventional administrative budget terms, represent a change in liabilities. In both the consolidated and comprehensive budget concepts, trust fund balances, like the Federal fund balances, are merely a reservation within the total balances on the books of the Treasury that result from the cumulative surplus or deficit.

THE "ADMINISTRATIVE BUDGET"

Table A-3 presents, according to customary classifications, the administrative budget as derived from the adjustments set forth in the preceding tables.

Table A-3. THE "ADMINISTRATIVE BUDGET" (in millions of dollars)

Description	1967 actual	1968 estimate	1969 estimate
RECEIPTS BY SOURCE			
Individual income taxes.....	61,526	67,700	80,900
Corporation income taxes.....	33,971	31,300	34,300
Excise taxes.....	9,278	9,509	9,908
Estate and gift taxes.....	2,978	3,100	3,400
Customs.....	1,901	2,000	2,070
Miscellaneous receipts.....	6,871	5,644	5,669
Interfund transactions.....	-682	-678	-660
Total, administrative budget receipts.....	115,849	118,575	135,587
EXPENDITURES BY AGENCY			
Legislative Branch*.....	250	285	296
The Judiciary.....	87	95	101
Executive Office of the President.....	28	32	33
Funds appropriated to the President.....	4,141	4,808	4,900
Department of Agriculture.....	5,741	6,520	7,220
Department of Commerce.....	757	856	910
Department of Defense—Military.....	67,664	73,930	76,881
Department of Defense—Civil.....	1,343	1,401	1,371
Department of Health, Education, and Welfare.....	10,794	13,156	14,515
Department of Housing and Urban Development.....	493	495	1,249
Department of the Interior.....	1,516	1,542	1,717
Department of Justice.....	409	443	504
Department of Labor.....	512	713	712
Post Office Department.....	1,141	1,087	767
Department of State.....	414	421	431
Department of Transportation.....	1,467	1,570	2,093
Treasury Department.....	14,538	15,493	16,440
Atomic Energy Commission.....	2,264	2,333	2,546
General Services Administration.....	675	648	673
National Aeronautics and Space Administration.....	5,426	4,805	4,575
Veterans Administration.....	6,197	6,325	6,818
Other independent agencies.....	543	804	1,322
Allowances for:			
Civilian and military pay increase.....			1,600
Contingencies.....		100	350
Interfund transactions.....	-682	-678	-660
Total, administrative budget expenditures.....	125,718	137,182	147,363
Excess over receipts (+) or expenditures (-).....	-9,869	-18,607	-11,776

As in the case of the basic tables of the budget, the amounts shown include transactions under both existing and proposed legislation. The receipts, therefore, include the expected income from the proposed income tax surcharge, as well as lesser amounts from other tax proposals. The expenditures include those to be financed from Federal funds under the President's legislative program, as well as those recommended under existing legislation, and its renewal or extension.

FLOW OF GOVERNMENT-ADMINISTERED FUNDS

In recent years there has been presented in the special analyses of the budget, a consolidated statement of Government-administered funds on a gross basis. This statement presents the flow of moneys between the Federal Government and the public. It has been on a checks-issued basis and its coverage has been substantially the same as the new concept. It excludes borrowing and repayment thereof.

The Commission recommended that the compilation of such gross figures be continued as supplementary information. Table A-4 presents such a statement.

Table A-4. GROSS FLOW OF GOVERNMENT-ADMINISTERED FUNDS

(In millions of dollars)

Description	1967 actual	1968 estimate	1969 estimate
RECEIPTS BY SOURCE			
Individual income taxes.....	61,526	67,700	80,900
Corporation income taxes.....	33,971	31,300	34,300
Employment taxes.....	27,823	29,730	34,154
Unemployment insurance.....	3,652	3,660	3,594
Premiums for insurance and retirement.....	1,853	2,049	2,275
Excise taxes.....	13,719	13,848	14,671
Estate and gift taxes.....	2,978	3,100	3,400
Customs.....	1,901	2,000	2,070
Other receipts from the public:			
General and special funds.....	5,280	4,838	5,070
Public enterprise funds.....	14,812	14,755	16,542
Trust funds (excluding trust revolving funds).....	1,836	2,035	2,291
Trust revolving funds.....	9,549	11,481	13,238
Reimbursements to appropriations and other funds.....	2,450	2,475	2,630
Total receipts from the public.....	181,350	188,971	215,135
PAYMENTS BY FUNCTION			
National defense.....	74,245	80,389	83,979
International affairs and finance.....	6,032	6,334	6,635
Space research and technology.....	5,439	4,812	4,589
Agriculture and agricultural resources.....	18,859	20,184	22,075
Natural resources.....	3,920	4,196	4,308
Commerce and transportation.....	12,953	14,234	15,285
Housing and community development.....	4,313	6,370	5,897
Health, labor, and welfare.....	39,017	45,311	50,419
Education.....	4,186	4,702	4,879
Veterans benefits and services.....	7,937	8,195	8,405
Interest.....	10,561	11,147	11,655
General government.....	2,709	2,803	3,015
Allowances for:			
Civilian and military pay increase.....			1,600
Contingencies.....		100	350
Total payments to the public.....	190,173	208,775	223,090
Excess of payments (-).....	-8,823	-19,805	-7,954

It differs from the unified comprehensive budget, only with respect to grossing and netting and the distribution here of the nonfunctional adjustments shown elsewhere. Its deficits are the same. The items which are here grossed may be summarized as follows (in millions of dollars):

	1967 actual	1968 estimate	1969 estimate
Receipts conventionally offset against expenditures:			
Receipts of public enterprise funds (table C-1).....	14,812	14,755	16,542
Receipts of trust revolving funds (table C-5).....	9,549	11,481	13,238
Reimbursements to appropriations and other funds:			
Department of Defense.....	2,249	2,278	2,432
Other agencies.....	200	197	198
Other receipts offset against expenditures in the new budget (table 12).....	4,948	4,430	4,617
Total.....	31,758	33,141	37,027

Table A-4 is not fully comparable to similar information presented in recent budgets (table B-9 in the 1968 budget), because of the following conceptual changes that were set forth earlier in this analysis:

- Definition of borrowing (sale of participation certificates);
- Definition of cash and monetary assets (IMF);
- Timing of payments to international lending organizations;
- Government payments as employer for social security.

COMPARISON OF RESULTS

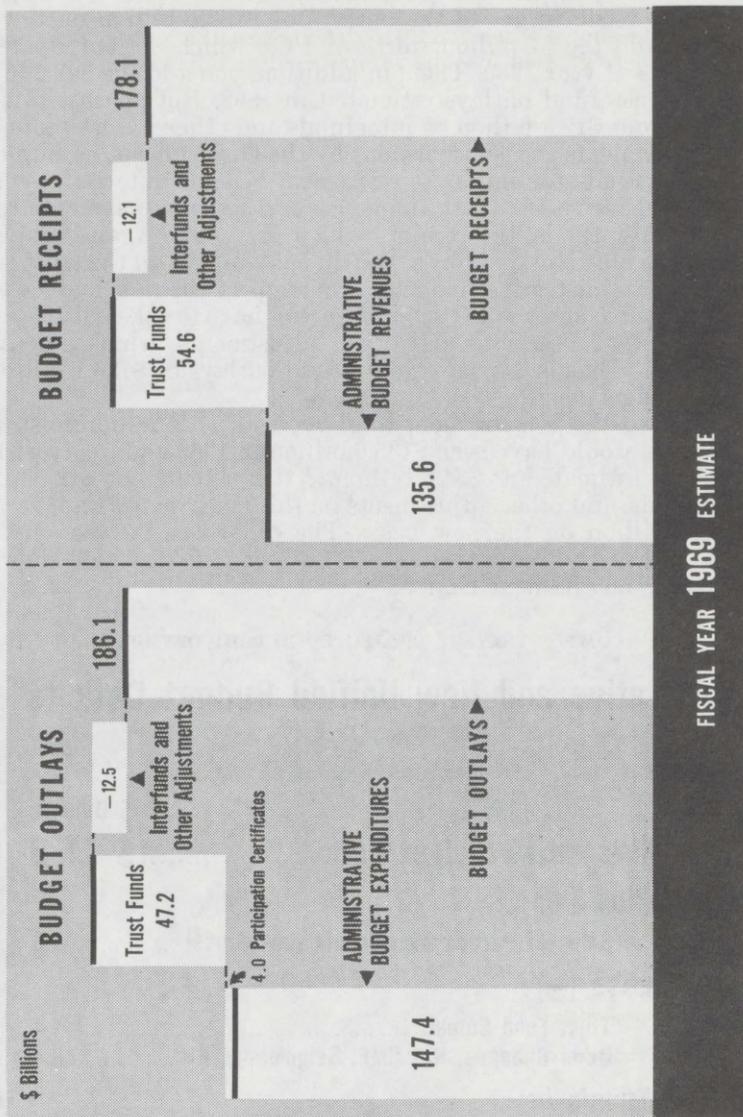
Table A-5 summarizes receipts, expenditures, and deficits under the new concept, the old administrative budget, the consolidated cash statement, and the flow of funds statement included above.

Table A-5. COMPARISON OF RESULTS UNDER FOUR CONCEPTS

(In millions of dollars)

Description	1967 actual	1968 estimate	1969 estimate
Unified, comprehensive budget:			
Receipts.....	149,591	155,830	178,108
Expenditures and net lending.....	158,414	175,635	186,062
Budget deficit.....	8,823	19,805	7,954
The "administrative budget":			
Receipts.....	115,849	118,575	135,587
Expenditures (including lending).....	125,718	137,182	147,363
Excess of expenditures.....	9,869	18,607	11,776
"Consolidated cash" statement:			
Receipts.....	153,596	158,823	181,146
Expenditures (including lending).....	155,142	175,981	188,725
Excess of expenditures.....	1,546	17,157	7,579
Flow of Government-administered funds:			
Receipts from the public.....	181,350	188,971	215,135
Payments to the public.....	190,173	208,775	223,090
Excess of payments.....	8,823	19,805	7,954

Administrative Budget and New Budget



FISCAL YEAR 1969 ESTIMATE

Mr. ZWICK. In the 1969 budget on an administrative budget basis you would have expenditures of \$147.4 billion. The first thing one would have to do to get to the outlays of \$186.1 billion on the new basis is to add the \$4 billion worth of PC's which are anticipated to be sold in fiscal year 1969. Then, in addition, you add the \$47.2 billion worth of trust fund outlays estimated in 1969. But against this you have to net out \$12.5 billion of interfunds and other adjustments. The major adjustments are contributions by the Government, as employer, to the trust funds for employee retirement benefits, interest payments by the Treasury to the trust funds, general revenue payments to the medicare trust funds, the receipts which are netted against expenditures, and so on. In other words, you do not simply add the trust funds to the old administrative budget to come up to the new budget total. You add the two and the PC's, but then you have to take out the intra-governmental transactions and other adjustments, which amount to \$12.5 billion. That is how you get to total outlays of \$186.1 billion on the new budget basis.

Turning to the receipt side, total receipts on the administrative budget basis would have been \$135.6 billion in 1969 and the trust fund receipts are estimated at \$54.6 billion. After netting out \$12.1 billion of interfunds, and other adjustments on this side, we get total receipts of \$178.1 billion on the new basis. The difference between the two totals—outlays and receipts—is the \$8 billion deficit, which shows up much better on the next chart.

COMPOSITION OF PROJECTED BUDGET DEFICIT

Administrative and New Unified Budget Deficits

	\$ Billions
Administrative Budget Deficit	\$ 11.8
Plus (+)	
Sales of Participation Certificates (Gross)	4.0
Less (-)	
Trust Fund Surplus	-7.4
Other Changes, Net (IMF, Seigniorage, Etc.)	-0.4
Equals (=)	
New Unified Budget Deficit	\$ 8.0
of which:	
Expenditure Deficit	4.7
Net Lending	3.3

On the administrative budget basis, the deficit in 1969 would have been \$11.8 billion. To that you have to add the \$4 billion worth of PC's. Then you take away the trust fund surplus of \$7.4 billion and make some minor adjustments in the way we handle the International Monetary Fund, seigniorage, et cetera—this comes to \$0.4 billion—and you have a total deficit of \$8 billion on the new basis.

This \$8 billion deficit is made up of a \$4.7 billion deficit on the expenditure account and \$3.3 billion of net lending. The net lending represents the gross outlays on loans minus the repayments received from our loan programs.

Mr. MAHON. Will you make sure the record shows the composition of this \$3.3 billion of net lending?

Mr. ZWICK. Yes, sir; we will.

(The following was later supplied for the record:)

DISBURSEMENTS, REPAYMENTS, AND NET LENDING FOR FEDERAL CREDIT PROGRAMS IN THE LOAN ACCOUNT

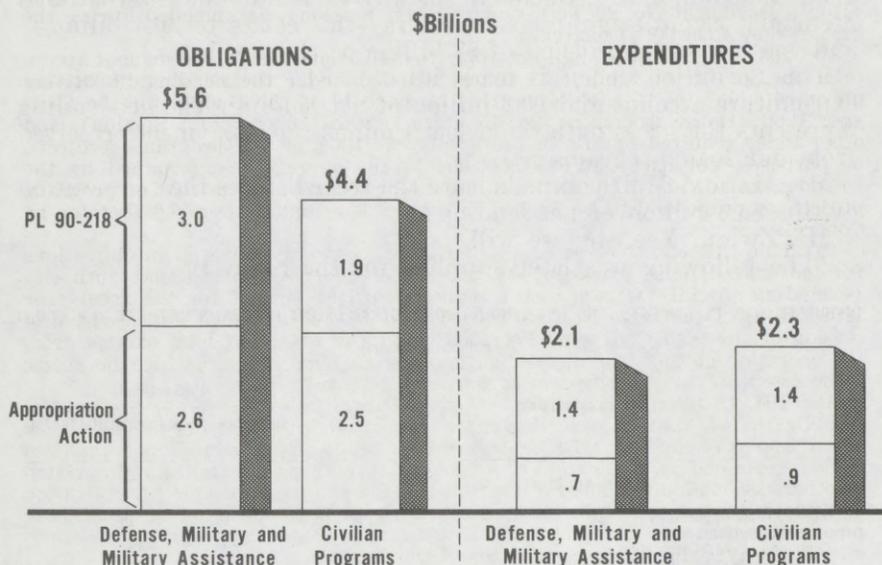
[In millions of dollars]

Agency or program	1969 estimate		
	Disburse- ments	Repayments	Net lending
LOAN ACCOUNT			
Office of Economic Opportunity.....	18	15	3
Department of Agriculture:			
Commodity Credit Corporation.....	220	196	24
Rural Electrification Administration.....	550	190	360
Farmers Home Administration.....	1,352	1,358	-6
Department of Commerce:			
Economic Development Administration.....	72	7	65
Maritime Administration.....		8	-8
Department of Health, Education, and Welfare:			
.....	87	4	83
Department of Housing and Urban Development:			
Federal National Mortgage Association.....	1,669	564	1,106
Federal Housing Administration.....	405	292	113
Public housing loans.....	220	235	-15
College housing loans.....	295	38	257
Urban renewal loans.....	475	444	31
Housing for the elderly loans.....	100	2	98
Public facility loans.....	54	4	50
Department of the Interior:			
General Services Administration.....	16	4	12
Veterans' Administration:			
Housing loans and guarantees.....	600	238	363
Insurance policy loans.....	165	101	64
District of Columbia.....	108	43	65
Export-Import Bank.....	1,680	1,005	675
Farm Credit Administration:			
Banks for cooperatives.....	2,370	2,132	238
Federal intermediate credit banks.....	9,481	8,948	533
Federal Home Loan Bank Board.....		20	-20
Small Business Administration.....	421	320	102
Other agencies or programs.....	12	16	-4
Purchase of obligations of federally sponsored enterprises.....		882	-882
Total, loan account.....	20,372	17,106	3,265

TEN-BILLION-DOLLAR CUTBACK IN FISCAL YEAR 1968 BUDGETED OBLIGATIONS

Mr. ZWICK. Switching gears to talk about the fiscal year 1968 cutback, I though the committee would be interested in knowing what happened as a result of their actions and the passage of Public Law 90-218 last year. This is shown on the next chart.

Fiscal Year 1968 Cutbacks from Budget Levels - Controllable Programs



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CHART 4

PUBLIC LAW 90-218, 90TH CONGRESS, H.J. RES. 888, DECEMBER, 18, 1967

JOINT RESOLUTION Making continuing appropriations for the fiscal year 1968, and for other purposes

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the joint resolution of October 5, 1967, (Public Law 90-102) is hereby amended by striking out "October 23, 1967" and inserting in lieu thereof "December 20, 1967".

TITLE II—REDUCTIONS IN OBLIGATIONS AND EXPENDITURES

SEC. 201. In view of developments which constitute a threat to the economy with resulting inflation, the Congress hereby finds and determines that, taking into account action on appropriation bills to date, Federal obligations and expenditures in controllable programs for the fiscal year 1968 should be reduced by no less than \$9 billion and \$4 billion, respectively, below the President's budget requests. The limitations hereafter required are necessary for that purpose.

SEC. 202. (a) During the fiscal year 1968, no department or agency of the Executive Branch of the Government shall incur obligations in excess of the lesser of—

(1) the aggregate amount available to each such department or agency as obligational authority in the fiscal year 1968 through appropriation acts or other laws, or

(2) an amount determined by reducing the aggregate budget estimate of obligations for such department or agency in the fiscal year 1968 by—

(i) 2 percent of the amount included in such estimate for personnel compensation and benefits, plus

(ii) 10 percent of the amount included in such estimate for objects other than personnel compensation and benefits.

(b) As used in this section, the terms "obligational authority" and "budget estimate of obligations" include authority derived from, and estimates of

reservations to be made and obligations to be incurred pursuant to, appropriations and authority to enter into contracts in advance of appropriations.

(c) The references in this section to budget estimates of obligations are to such estimates as contained in the Budget Appendix for the fiscal year 1968 (House Document No. 16, 90th Congress, 1st Session), as amended during the first session of the 90th Congress.

SEC. 203. (a) This title shall not apply to obligations for (1) permanent appropriations, (2) trust funds, (3) items included under the heading "relatively uncontrollable" in the table appearing on page 14 of the Budget for the fiscal year 1968 (House Document No. 15, Part 1, 90th Congress, 1st Session), and other items required by law in the fiscal year 1968, or (4) programs, projects, or purposes, not exceeding \$300,000,000 in the aggregate, determined by the President to be vital to the national interest or security, except that no program, project, or purpose shall be funded in excess of amounts approved therefor by Congress.

(b) This title shall not be so applied as to require a reduction in obligations for national defense exceeding 10 percent of the new obligational authority (excluding special Vietnam costs) requested in the Budget for the fiscal year 1968 (House Documents Nos. 15, Part 1, and 16), as amended during the first session of the 90th Congress: *Provided*, That the President may exempt from the operation of this title any obligations for national defense which he deems to be essential for the purposes of national defense.

SEC. 204. In the administration of any program as to which (1) the amount of obligations is limited by section 202(a)(2) of this title, and (2) the allocation, grant, apportionment, or other distribution of funds among recipients is required to be determined by application of a formula involving the amount appropriated or otherwise made available for distribution, the amount available for obligation as limited by that section or as determined by the head of the agency concerned pursuant to that section shall be substituted for the amount appropriated or otherwise made available in the application of the formula.

SEC. 205. To the maximum extent practical, reductions in obligations for personnel compensation and benefits under this title shall be accomplished by not filling vacancies. Insofar as practical, reductions in obligations for construction under this title may be made by stretching out the time schedule of starting new projects and performing on contracts so as not to require the elimination of new construction starts.

SEC. 206. The amount of any appropriation or authorization which (1) is unused because of the limitation on obligations imposed by section 202(a)(2) of this title and (2) would not be available for use after June 30, 1968, shall be used only for such purposes and in such manner and amount as may be prescribed by law in the second session of the 90th Congress.

Approved December 18, 1967.

Mr. ZWICK. Total obligations were cut by \$10 billion and expenditures by \$4.3 billion. Splitting between defense and civilian programs, obligations were cut \$5.6 billion in defense and \$4.4 billion in civilian activities. Expenditures were cut \$2.1 billion in defense and \$2.3 billion in civilian programs. Take a look at this another way and see how much of this \$5.6 billion cutback in defense obligations was due to appropriation actions and how much was due to the 2-to-10 cutback—you find that \$2.6 billion of the cutback was due to appropriation reductions and an additional \$3 billion was due to the 2-to-10 formula in defense. In civilian programs, \$2½ billion of the cutback in obligations was due to appropriation actions, and \$1.9 billion is due to the 2-to-10 cutback.

On the expenditure side, similarly, there is a cutback of \$700 million in expenditures for defense due to appropriation actions and \$1.4 billion of expenditure reductions due to the application of the 2-to-10 formula. On the civilian side, expenditures are down \$900 million due to appropriation actions and \$1.4 billion due to the application of the 2-to-10 formula.

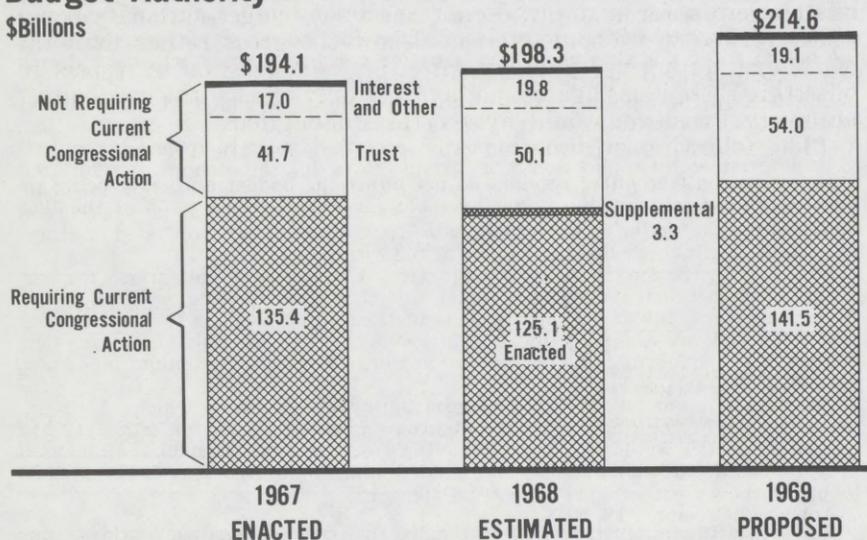
This gives you a quick overview of what has happened as a result of both the appropriation actions and the passage of Public Law 90-218—total obligations are down \$10 billion and expenditures are down \$4.3 billion in fiscal year 1968.

NEW BUDGET (OBLIGATIONAL) AUTHORITY

The next group of charts is concerned with budget authority, including the issue that Chairman Mahon started to raise a minute ago. I think this gives you a better feel for the actions that this committee has to in fact take on the budget. The first chart in this group shows you three fiscal years—1967, 1968, and 1969.

Budget Authority

\$Billions



NOTE: Amounts have not been Adjusted for:

	1967	1968	1969
INTERFUND TRANSACTIONS	6.6	7.4	8.2
APPLICABLE RECEIPTS	4.9	4.4	4.6

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CHART 5

Mr. ZWICK. I think it is probably better to start with fiscal year 1969, where you have total budget authority of \$214.6 billion in contrast to the \$201.7 billion that I mentioned a moment ago, Mr. Chairman. The reason for the difference is that we have not subtracted here the adjustments for interfunds and applicable receipts which we are netting. Therefore, the \$214.6 billion is the gross budget authority request that is in the budget. If you subtract out from the \$214.6 billion the \$12.8 billion of interfunds, and applicable receipts, you get back to the \$201.7 billion of budget authority we carry in our summary tables. Out of that, \$141.5 billion will require current congressional action. Then there is \$54 billion for trust funds and \$19.1 billion for interest and

other authority that becomes available automatically based on prior congressional action. To sum up, of the \$214.6 billion, the Congress is going to have to act on \$141.5 billion worth of budget authority, the rest being available through prior congressional actions. I should note that we are estimating supplemental requests in fiscal year 1968 for \$3.3 billion, so that current action will be needed on \$3.3 billion for fiscal year 1968 as well as on \$141.5 billion of new authority requested for fiscal year 1969.

Mr. MAHON. Mr. Director, your charts use different figures for the budget authority being sought, or estimated for 1969—at one place it is \$201.7 billion; at another, \$214.6 billion. One was what you might call “net,” the other “gross.” But my question would be, is it valid to do the offsetting that you spoke of, in respect to the so-called market-oriented receipts and the interfund items? I am advised that those offset receipts, for example, do not affect the budget authority being asked for, so why should you not show the gross rather than the net budget authority? I do not raise the same question in respect to offsetting these items against outlays, but only against the new budget authority. I wish you would say something about that.

(The following information was supplied for the record:)

It is true that the offset receipts do not affect the budget authority being requested. This is seen in the following table (from table 4 on p. 56 of the 1969 budget):

[In millions of dollars]

	1967 actual	1968 estimate	1969 estimate
Budget authority:			
Requiring current action by Congress.....	135,432	128,400	141,496
Not requiring current action by Congress.....	58,667	69,944	73,085
Offset receipts:			
Interfund and intragovernmental transactions.....	-6,589	-7,415	-8,240
Applicable receipts from the public.....	-4,948	-4,430	-4,618
Total budget authority.....	182,562	186,499	201,723

The offsetting against budget authority, as well as against outlays, was recommended by the President's Commission on Budget Concepts, so that budget authority and outlays would be on the same “wavelength.” The Commission said:

“In addition, tabulations and statements on appropriations should, insofar as possible, follow the same concepts, definitions, and scope as the tabulations and statements on budget expenditures.” (p. 15, report)

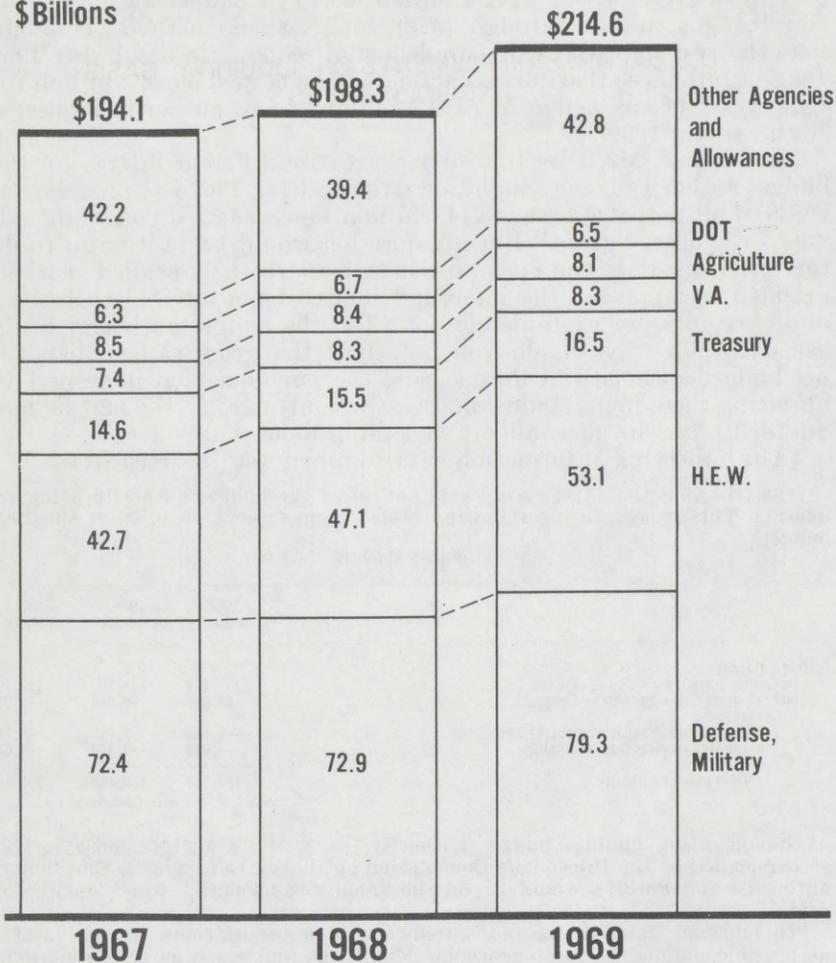
“As pointed out in chapter 2, the Commission recommends that the tabulation of the congressional appropriations in the President's budget be as consistent as possible, in terms of scope and definition, with the tabulation of budget expenditures.” (p. 28, report)

To do otherwise would muddy the comparison of budget authority with outlays, since it would result in showing some \$10 to \$13 billion of authority each year which would never appear in budget outlays, either then or in some future year.

Mr. ZWICK. This next chart gives you a feel for budget authority by agency, and the growth of it from fiscal 1967 to fiscal 1969.

Budget Authority by Agency

\$Billions



1967

1968

1969

ESTIMATE

ESTIMATE

NOTE: Amounts have not been Adjusted for:

INTERFUND TRANSACTIONS

APPLICABLE RECEIPTS

1967

6.6

4.9

1968

7.4

4.4

1969

8.2

4.6

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CHART 6

The biggest increases in budget authority are in Defense, which is up \$6.4 billion from 1968 to 1969, and in HEW, which is up \$6 billion. May I say very quickly, \$5.1 billion of the \$6 billion increase in HEW is for the trust funds—such as social security, health insurance, disability insurance, and supplementary medical insurance. Only \$900 million of the increase is due to the nontrust fund aspects of HEW. Then you have an increase in Treasury of \$1 billion; \$900 million of that is for interest costs.

This gives you a quick rundown of the big increase items, being Defense, up \$6.4 billion; HEW, up \$6 billion—and most of that in HEW, \$5.1 billion, being for the trust funds.

OBLIGATIONAL AUTHORITY IN LEGISLATIVE BILLS—BACK-DOOR SPENDING

Mr. MAHON. Mr. Director, the staff tells me that in this new budget it is proposed in a few instances to provide obligating authority—contract authority in, perhaps, all cases—directly through legislative bills rather than through the regular appropriations process. I am speaking of items in addition to what is already provided by previous legislation.

One item, I understand, relates to highway beautification for \$85 million. I believe some of the general road items are in that class, also. We have heretofore taken a dim view of that sort of direct arrangement for supplying new obligating authority. It tends to tie our hands at the appropriation stage.

Why do you propose highway beautification and the others in this direct manner, which to some considerable extent would, if adopted, effectively bypass the normal appropriation channels? We would like for you to comment on that, and supply a table listing all such amounts that became available through substantive bills.

You might also supply a table listing all permanent appropriations. (The following information was supplied for the record:)

For the last several years, we have followed a policy of recommending new obligational authority in legislative bills rather than through the regular appropriations process only in cases where this has been the traditional method of financing over the years (primarily the highway and housing programs).

Under the present law relating to highway beautification (23 U.S.C. 319(b)), an authorization for appropriations automatically becomes available for obligation a year in advance of the year for which the appropriation is authorized. In this case, our recommendation for an appropriation authorization will necessarily result in contract authority unless the basic law is amended. The budget assumed that this provision of the basic law would not be changed.

1969 BUDGET
PERMANENT APPROPRIATIONS

[In thousands of dollars]

	1967	1968	1969
Legislative branch:			
Federal funds: Library of Congress: Oliver Wendell Holmes devise fund.....	7	7	7
Trust funds: Library of Congress and General Accounting Office.....	2,830	2,744	2,744
Total, legislative branch.....	2,837	2,751	2,751
The Judiciary: Trust fund.....	1,012	1,065	1,095
Funds appropriated to the President: Trust funds (economic assistance, Office of Economic Opportunity, Peace Corps).....	3,505	3,526	3,593
Agriculture:			
Federal funds:			
Agricultural Research Service:			
Salaries and expenses.....	25,000	15,000	15,000
Animal quarantine station.....		200	327
Consumer and Marketing Service:			
Special milk program.....	53,000	104,000	104,000
School lunch program.....	45,000	45,000	64,325
Perishable Agricultural Commodities Act fund.....	894	905	905
Removal of surplus agricultural commodities.....	361,040	404,351	406,558
Foreign Agricultural Service: Salaries and expenses.....	3,117	3,117	3,117
Commodity Credit Corporation: National Wool Act.....	38,260	34,793	63,700
Forest Service: Miscellaneous appropriations.....	69,346	72,549	77,010
Total, Federal funds.....	595,657	679,915	734,942
Trust funds.....	63,586	66,808	68,275
Total, Agriculture.....	659,243	746,723	803,217
Commerce: Trust funds.....	15,599	108,923	133,670
Defense—Military: Trust funds.....	8,034	7,710	7,270
Defense—civil:			
Federal funds:			
Corps of Engineers: Miscellaneous appropriations.....	3,510	3,500	3,500
Wildlife conservation, etc., military reservations.....	253	267	270
Total, Federal funds.....	3,763	3,767	3,770
Trust funds (Corps of Engineers and Soldiers' Home's payment of claims).....	25,871	20,779	18,523
Total, Defense—civil.....	29,634	24,546	22,293
Health, Education, and Welfare:			
Federal funds: Office of Education:			
Colleges for agriculture and the mechanic arts.....	2,550	2,550	2,550
Promotion of vocational education, act of Feb. 23, 1917.....	7,161	7,161	7,161
Higher education facilities loan fund (participation sales insufficiencies).....		1,700	1,700
Total, Federal funds.....	9,711	11,411	11,411
Trust funds.....	30,077,055	32,594,643	37,670,398
Total, Health, Education, and Welfare.....	30,086,766	32,606,054	37,681,809
Housing and Urban Development:			
Federal funds:			
College housing loans (participation sales insufficiencies).....		10,739	12,061
Urban mass transportation fund.....	130,000	125,000	175,000
Public facility loans (participation sales insufficiencies).....		1,325	1,305
Total, Housing and Urban Development.....	130,000	137,064	188,366

1969 BUDGET—Continued
 PERMANENT APPROPRIATIONS
 [In thousands of dollars]

	1967	1968	1969
Interior:			
Federal funds:			
Bureau of Land Management: Miscellaneous appropriations.....	71,391	74,491	74,923
Bureau of Indian Affairs: Miscellaneous appropriations.....	7,331	7,091	7,481
Office of Territories: Internal revenue collections for the Virgin Islands.....	11,074	12,368	12,468
Geological Survey: Miscellaneous appropriations.....	1	-----	-----
Bureau of Commercial Fisheries:			
Promote and develop fishery products and research pertaining to American fisheries.....	6,778	7,444	7,000
Payment to Alaska from Pribilof Islands fund.....	300	332	112
Bureau of Sport Fisheries:			
Migratory bird conservation account.....	5,385	5,000	5,000
Miscellaneous appropriations.....	35,845	41,230	40,066
National Park Service: Miscellaneous appropriations.....	107	118	120
Bureau of Reclamation: Miscellaneous appropriations.....	3,331	3,588	3,600
Total, Federal funds.....	141,543	151,662	150,770
Trust funds.....	100,723	94,250	96,590
Total, Interior.....	242,266	245,912	247,360
Labor: Trust funds.....	4,073,404	4,118,155	4,094,872
State:			
Federal funds:			
Educational exchange permanent appropriations.....	353	353	354
Payment to the Republic of Panama.....	1,930	1,930	1,930
Total, Federal funds.....	2,283	2,283	2,284
Trust funds.....	11,545	12,592	12,337
Total, State.....	13,828	14,875	14,621
Transportation:			
Federal funds: Federal Aviation Administration: Grants-in-aid for airports.....	71,000	-----	70,000
Trust funds.....	1,211	7,543	3,508
Total, Transportation.....	72,211	7,543	73,508
Treasury:			
Federal funds:			
Office of the Secretary: Miscellaneous appropriations.....	16	16	18
Bureau of Accounts:			
Claims judgments, and relief acts.....	9,455	7,006	6,006
Interest on uninvested funds.....	12,753	12,788	12,387
Bureau of the Mint: Coinage profit fund.....	2,622	1,624	1,560
Internal Revenue Service:			
Refunding internal revenue collections interest.....	120,094	133,900	136,900
Internal revenue collections for Puerto Rico.....	59,803	65,000	67,000
Secret Service: Contribution for annuity benefits.....	671	800	800
Interest on the public debt.....	13,391,068	14,350,000	15,200,000
Total, Federal funds.....	13,596,482	14,571,134	15,424,671
Trust funds.....	32,413	35,278	38,696
Total, Treasury.....	13,628,895	14,606,412	15,463,367
Atomic Energy Commission: Trust fund.....	531	391	338
General Services Administration:			
Federal funds: Expenses, disposal of surplus real and related personal property.....			
	685	1,000	1,000
Trust funds.....	140	150	100
Total, General Services Administration.....	825	1,150	1,100
National Aeronautics and Space Administration: Trust funds.....	472	2,688	1,548
Veterans' Administration:			
Federal funds: Veterans' insurance and indemnities.....			
	638	650	650
Trust funds.....	737,902	753,790	745,558
Total, Veterans' Administration.....	738,540	754,440	746,208

1969 BUDGET—Continued
 PERMANENT APPROPRIATIONS
 [In thousands of dollars]

	1967	1968	1969
Other independent agencies:			
Federal funds:			
District of Columbia: Repayable advances to the District of Columbia general fund.....	33,000	39,000	40,000
Federal Power Commission: Payments to States under Federal Power Act.....	96	99	99
Small Business Administration: Disaster loan fund (participation sales insufficiencies).....		2,155	1,647
Total, Federal funds.....	33,096	41,254	41,746
Trust funds (American Battle Monuments Commission, Civil Service Commission, Federal Communications Commission, Foreign Claims Settlement Commission, Civil War Centennial Commission, Appalachian Regional Commission, Commission on the Status of Puerto Rico, National Capital Planning Commission, National Foundation on the Arts and the Humanities, National Science Foundation, Railroad Retirement Board, Smithsonian Institution, Tax Court of the United States, U.S. Information Agency, Water Resources Council).....	4,710,405	5,085,833	5,434,848
Total, other independent agencies.....	4,743,501	5,127,087	5,476,594
Total, permanent appropriations:			
Federal funds.....	14,584,865	15,600,147	16,629,617
Trust funds.....	39,866,238	42,916,868	48,333,963
Total.....	54,451,103	58,517,015	64,963,580

PERMANENT APPROPRIATIONS TO LIQUIDATE CONTRACT AUTHORIZATIONS

[In thousands of dollars]

	1967	1968	1969
Funds appropriated to the President: Trust fund: Military assistance:			
Advances, foreign military sales.....	(1,078,035)	(1,150,000)	(1,400,000)
Housing and Urban Development: Federal funds: Urban renewal programs.	(725,000)	(750,000)	(750,000)
Interior: Trust fund: Office of Saline Water: Cooperation with foreign agencies.....		(5,400)	(10,500)
Transportation: Trust funds: Federal Highway Administration:			
International trust funds.....	(6,441)	(5,440)	
Miscellaneous trust funds.....		(49)	
Total, Federal funds.....	(725,000)	(750,000)	(750,000)
Total, trust funds.....	(1,084,476)	(1,160,889)	(1,410,500)
Total.....	(1,809,476)	(1,910,889)	(2,160,500)

Note.—Contract authorizations, which permit obligations, are classified as budget authority. Since appropriations to liquidate contract authorizations permit payment of the obligations incurred under contract authorizations, they do not constitute budget authority.

BUDGET AUTHORITY (EXCLUDING APPROPRIATIONS) PROVIDED IN SUBSTANTIVE BILLS
[In thousands of dollars]

	1967 enacted	1968 estimate	1969 estimate
Reappropriation: Appalachian Regional Commission		11	
Authorizations to spend debt receipts:			
Agriculture: Agricultural credit insurance fund (permanent, indefinite)	71,239		
Housing and Urban Development:			
College housing loans (permanent)		300,000	300,000
Federal National Mortgage Association:			
Loans to secondary market operations (current)	110,000		
Special assistance functions:			
Current	500,000		
Permanent		550,000	525,000
Management and liquidating functions (permanent, indefinite)	16,037	82,708	
Trust funds:			
Current	3,822,510		
Permanent	108,762	536,655	159,000
Veterans' Administration: Direct loan revolving fund (permanent)	1,100,000		
Other independent agencies:			
District of Columbia: Advances to sinking fund, Armory Board (permanent, indefinite)	757	506	506
Export-Import Bank of Washington fund (permanent, indefinite)	778,610	865,100	608,000
Federal Home Loan Bank Board revolving fund	13,200		
Tennessee Valley Authority fund	1,000,000		
Trust funds (permanent)	188,594	484,514	540,596
Total, authorizations to spend debt receipts:			
Federal funds	2,589,843	1,798,314	1,433,506
Trust funds	4,119,866	1,021,169	699,596
Contract authorizations:			
Military assistance: Trust fund (permanent, indefinite)	1,479,471	1,350,000	1,320,000
Agriculture:			
CCC: Price support and related programs (permanent, indefinite)		988,860	
Forest roads and trails:			
Current	170,000		125,000
Permanent		170,000	
Commerce: Maritime Administration:			
Operating-differential subsidies (permanent, indefinite)	196,936	213,000	213,000
State marine schools (permanent, indefinite)		1,275	1,275
Defense—military (all permanent, indefinite):			
Army stock fund	123,672		
Navy stock fund	77,045		
Marine Corps stock fund	30,671		
Air Force stock fund	13,504		
Defense stock fund	233,654		
Interior:			
Public lands development roads and trails:			
Current	3,000		3,500
Permanent		5,000	
Indian education and welfare services (permanent indefinite)	910	1,300	1,300
Indian road construction:			
Current	19,000		20,000
Permanent		23,000	
Parkway and road construction:			
Current	34,000		
Permanent		41,000	
Trust funds (permanent)	6,019	11,670	
Transportation:			
Highway beautification		85,000	85,000
State and community highway safety programs:			
Current	167,000		50,000
Permanent		100,000	
Forest highways:			
Current	33,000	{ 33,000	
Permanent		{ -33,000	
Public lands highways:			
Current	14,000	{ 16,000	
Permanent		{ -16,000	
Trust funds:			
Current	4,450,000	150,389	1,049,000
Permanent	5,591	4,850,000	3,650,000
Civil Aeronautics Board: Payments to air carriers (permanent indefinite)	59,576	53,061	53,211
Total, contract authorizations:			
Federal funds	1,175,968	1,681,496	552,186
Trust funds	5,941,081	6,362,059	6,019,000
Total, budget authority (excluding appropriations) provided in substantive bills:			
Federal funds	3,765,811	3,479,821	1,985,792
Trust funds	10,060,947	7,383,228	6,718,596
Total	13,826,758	10,863,049	8,704,388

¹ This authorization was subsequently rescinded in an appropriation bill.

The next chart is the familiar flow chart on the relationship of new authority, and previous balances to outlays in 1969 and future years. The only thing different this year is that these numbers are significantly larger because the trust funds are in here now; this increases substantially the levels compared with the ones that I am sure you have been familiar with in the past.

OBLIGATIONS AND EXPENDITURES (OUTLAYS) FROM CARRYOVER BALANCES

1969 Budget - Relation of Authorizations to Outlays

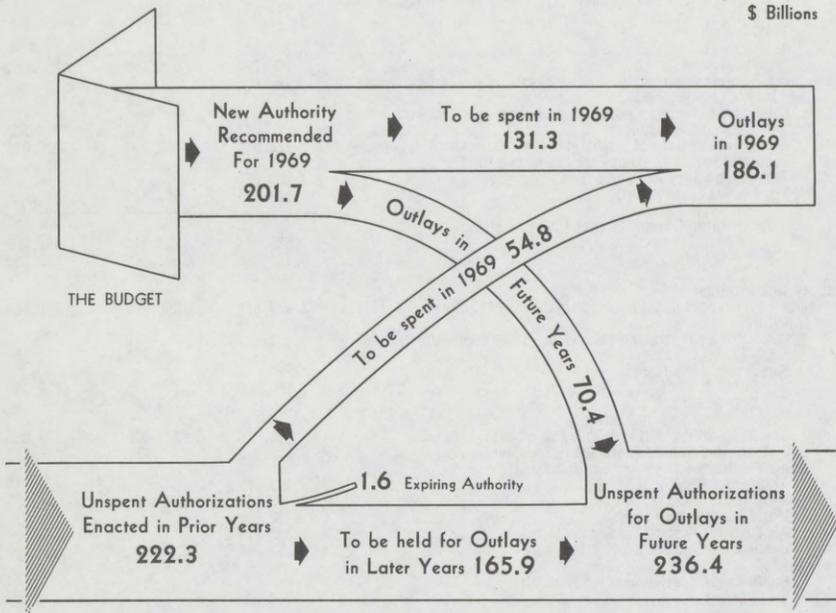


CHART 7

Mr. ZWICK. Basically the chart says that of the \$186.1 billion of outlays that we are forecasting for 1969, 70 percent will come from new authority we are requesting for fiscal year 1969. Thirty percent of it will come from prior balances already authorized. Then, of course, the remainder of the authority requested for 1969 will become available for next year and a small amount of the unused balances will be expiring—this is estimated at \$1.6 billion. But as you carry over balances into 1970 and further years, this chart gives you one picture of the relationship between new budget authority, outlays, and prior balances.

There is another chart behind this one which I think is a complicated chart, but it tells the story even better than this one.

Relation of Authority to Outlay Hypothetical Major Equipment Contracts

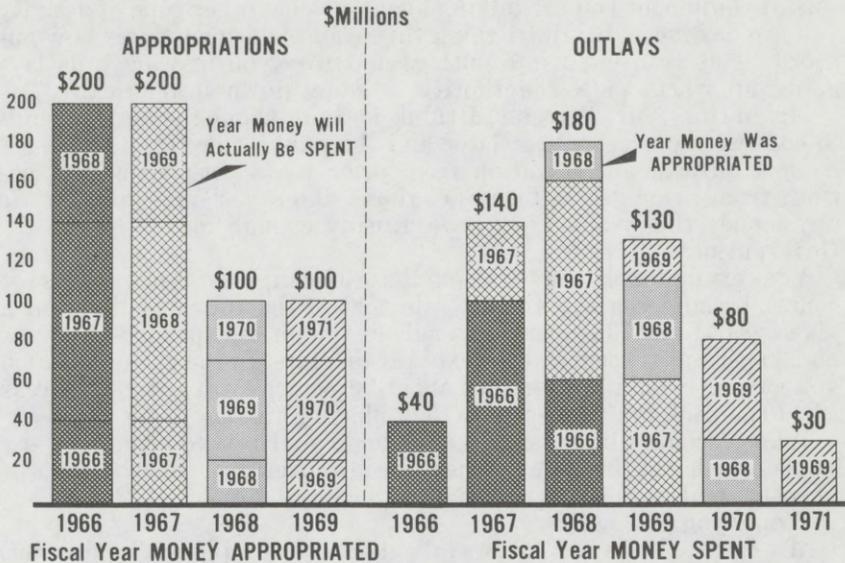


CHART 8

MR. ZWICK. Last year, you may remember, Director Schultze had a chart which described the procurement cycle for an aircraft program, involving procurement of several hundred aircraft and showing how the outlays were made over time. We thought we would try a different approach to it this year. We have used the procurement of hypothetical major equipment as an example, involving the appropriation of \$200 million in fiscal years 1966 and 1967, and then a major decrease in appropriations in 1968 and 1969, to \$100 million in both of those years.

On the right hand side of the chart we try to show you how the expenditures relate to these annual amounts of budget authority.

You see then in fiscal year 1966, you spend \$40 million of the \$200 million that you appropriated in 1966. Then, of that \$200 million appropriated in 1966, a large amount shows up in fiscal year 1967 expenditures, and the remaining amount appropriated in 1966 shows up in 1968 expenditures. Similarly in 1967, you appropriated \$200 million. Some of it was spent in 1967, the major portion of it is being spent in 1968, and the last portion will be spent in 1969. In 1968, you appropriated \$100 million. Again, some of that is being spent in 1968, the major portion will be spent in 1969, and the remaining quantity in 1970. Then we have the 1969 appropriations showing up as outlays in 1969, some in 1970, and some in 1971.

I think that while this chart is complicated, it does make the point that even though budget authority was reduced in fiscal year 1968 from \$200 to \$100 million, expenditures in that year go up from \$140 to \$180 million. Essentially it illustrates the lags that are built into the system and why. Even when you cut budget authority or obligations,

as we did in the current fiscal year, by \$10 billion, you get a lesser effect in terms of outlays. There are lag effects, if you like, that are built into this system. The time involved in the lag depends on what sort of equipment you are talking about or what other type of activity you are dealing with. But I think this example demonstrates how authority gets translated into outlays and why you may have outlays going up when, indeed, authority is going down dramatically.

Mr. MAHON. Mr. Director, I think nothing about the budget tends to confuse the average legislator and the public more than this business of unspent authorization from prior years, unspent appropriations from prior years. There are those who say, "Why appropriate any money this year? They have already enough money to run the Government."

Your example relating to the purchase of equipment is not typical, of course, because you had already said that of the appropriations for a given year, some 70 percent, as a rule of thumb, is expended that year and 30 percent is spent in the next year or years. In the example which you gave, it would appear that about 30 percent was spent in 1 year and 70 percent, roughly, spent in the following years.

What I would like for you to do is to do your best to bring an essay or dissertation at this point in the record to cover this whole business of unspent funds carried over from previous years.

Would you do that?

Mr. ZWICK. Yes, sir. When we talk about a major piece of equipment, the outlays are spread through time in a certain pattern. Other outlays have a different time pattern. A major Corps of Engineers project, for example, would be at one extreme where you are making commitments for a long period of time. At the other extreme, you have appropriations that are paid out in the year that they are made.

Mr. MAHON. When the record comes to you, do the best that you can.

Mr. ZWICK. We will.

UNEXPENDED CARRYOVER BALANCES

Mr. MAHON. While we are on this subject, Mr. Director, last year, in connection with the protracted battle of the budget, some Members expressed concern about the size of carryover balances of spending authority and the fact that Congress does not directly regulate or control them by law each year. There are reasons, of course. I would expect that the subject may arise again this year.

I have in hand a statement of balances, going back to fiscal 1953, which the committee staff has prepared. It shows the obligated portion, the unobligated portion, and the total carryovers, and it shows budget expenditures for each year, and relates the size of the carryover balances to the size of the budget expenditures. It shows that the relationship has been fairly constant for several years—carryover balances have ranged in the 90-percent area in relation to budget expenditures, although, of course, they have grown in absolute size as the budget grew. The percentage was much higher back in the midfifties.

Under the new budget concept, which incorporates the trust funds, some of which have large book balances accumulated to help meet obligations in years to come, the carryover grand total rises somewhat more than does the budget outlay total; thus, the percentage relation to which I made reference also changes.

I am going to insert this table in the record, and when you get it I wish you would extend your remarks and explain, in a general way at least, what review, what examination, is given to and what account is taken of these carryovers when the new budget requests are being made up.

UNEXPENDED CARRYOVER BALANCES, FISCAL YEAR 1953-68¹

(Of appropriations; contract authority; loan and public debt financing authority)

[In billions of dollars]

Fiscal year	Carryover balances at beginning of fiscal year (Taken from annual budgets)			Budget expenditures outlays	Carryover as a percentage of expenditure
	Obligated	Unobligated	Total		
New budget concept:					
1969.....	82.2	140.1	222.3	186.1	1 119
1968.....	79.0	134.5	213.5	175.6	122
1967.....	69.4	121.2	190.6	158.4	1 120
Old ("Adm.") budget concept:					
1966.....	49.6	47.4	97.0	107.0	91
1965.....	42.6	46.7	89.3	96.5	93
1964.....	42.5	45.3	87.8	97.7	90
1963.....	41.0	39.0	80.0	92.6	86
1962.....	36.9	39.5	76.4	87.8	87
1961.....	34.9	37.6	72.5	81.5	89
1960.....	37.1	34.7	71.8	76.5	94
1959.....	37.1	34.9	72.0	80.3	90
1958.....	35.3	33.5	68.8	71.4	96
1957.....	37.4	35.6	73.0	69.0	106
1956.....	37.8	41.8	79.6	66.2	120
1955.....	48.9	45.3	94.2	64.4	146
1954.....	69.7	33.1	102.8	67.5	152
1953.....	69.7	29.7	99.4	74.1	134

¹ Sudden jump over earlier years is due largely to folding in trust funds with large balances.

(The following information was later supplied for the record:)

BALANCES OF OBLIGATIONAL AUTHORITY

The principal reason for the rise in the absolute level of carryover balances from year to year is the fact that the level of Federal programs has grown over time. This fact is clearly demonstrated by the statement of balances prepared by the committee staff. An example will serve to clarify this concept.

In the chart describing hypothetical major equipment contracts, \$200 million was appropriated in the fiscal year 1966. Of this sum, \$40 million was paid out in that year, and the balance (\$160 million) was carried forward to be spent in later years. Suppose, for purposes of illustration, that the program level for major equipment purchases had been twice as high. Then \$400 million might have been appropriated. Assuming that the factors causing a lag in expenditures remained unchanged, one would expect that the balance carried forward would increase in proportion—to about \$320 million.

The aggregate balances carried forward in any year are, of course, the sum of the balances for hundreds of individual appropriation accounts. The factors causing various degrees of expenditure lag in these accounts are of many types, depending on the nature of each program, the timing of contracts during the fiscal year, et cetera. The essential point is that, at any given moment in time, a higher general level of Federal activities will of necessity mean a higher general level of funds which have been obligated, but which have not yet been spent. And the "balances carried forward" shown in the budget are nothing more nor less than a statement of this level—as of June 30 each year.

Since so many interacting factors determine the level of balances, the proportion these balances represent of budget outlays will differ from year to year—sometimes more, sometimes less. As shown on the committee's table, at the beginning of the fiscal year 1967, balances represent 120 percent of outlays; at the start of 1968, they were 122 percent; at the start of 1969, they are estimated to be 119 percent.

The level of balances is, indeed, given careful attention when the new budget requests are being prepared. This is particularly true in the case of unobligated balances. To cite a hypothetical example, suppose that the President had deter-

mined that an appropriate program level for a particular Federal activity, in his view, was \$300 million for a particular fiscal year. If there were no unobligated balances brought forward into that year, this decision would lead to a request in his budget for \$300 million in budget authority. If, however, there had been \$100 million in unobligated balances brought forward into that year, the President's request to Congress for budget authority could be only \$200 million. The same program would be provided in both cases—the only difference being that in the latter example, part of the program would be financed by balances of funds provided by the Congress in earlier years.

It should be noted, however, that unobligated balances are often not available for program needs of the budget year. The Congress often appropriates obligating authority for specific projects, such as construction, with the expectation that funds will be obligated over a period of several years. In such cases, the unobligated balances are earmarked for specific purposes and are not always available to be applied to programs not previously contemplated.

BUDGET EXPENDITURES (OUTLAYS)

Mr. ZWICK. That finishes the group of charts we have on budget authority.

What we would like to do now is move to outlays and give you a feel for what is happening in 1969 in terms of outlays. The first chart in this group shows what is expected to happen to outlays in the 3 fiscal years 1967, 1968, and 1969, using the new budget format. Outlays are estimated to go from \$158.4 billion in 1967 to \$175.6 billion in 1968, up \$17.2 billion. They are up \$10.4 billion in fiscal year 1969 over fiscal year 1968.

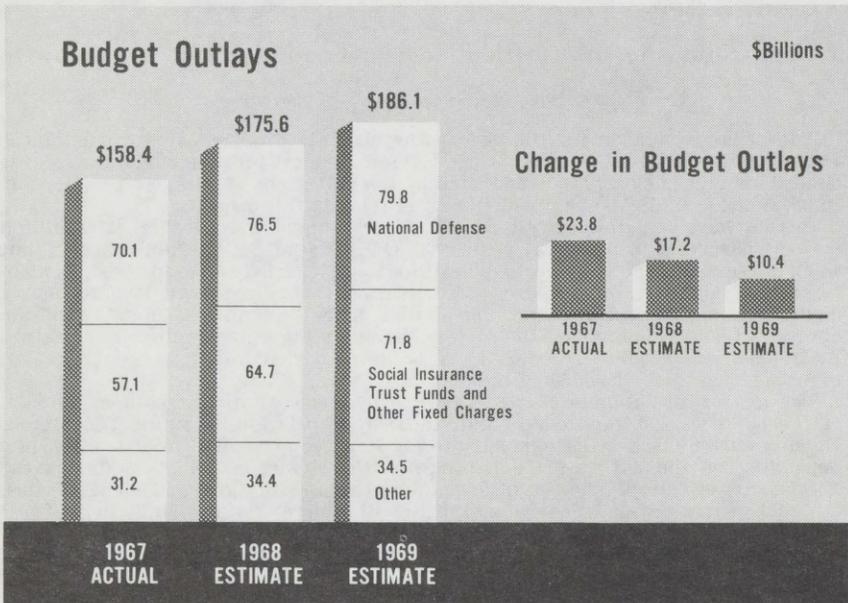


CHART 9

As you will note, a major increase between 1967 and 1968 was Defense. Defense is up by a smaller amount between 1968 and 1969. I will go through a chart which gives you more detail on that. The main

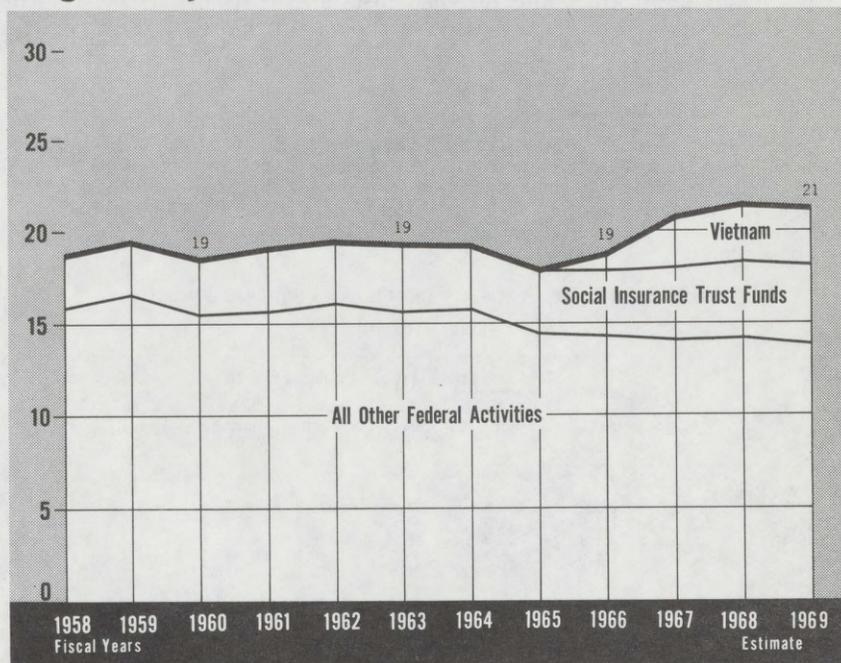
thing I would like to show on this chart is that the year-to-year increase in budget outlays—and Secretary Fowler has already alluded to this point—is declining substantially over these 3 years. The increase in 1967 over 1966 was \$23.8 billion. The increase in 1968 over 1967 is \$17.2 billion. The increase in 1969 over 1968 is \$10.4 billion.

If you subtract out of these totals the outlays for national defense, the comparable numbers would come out about \$10½, \$11, and \$7 billion. So that no matter whether you look at total outlays or outlays minus Defense, you find that the increase in 1969 over 1968 is much smaller than it was in 1968 over 1967 or in 1967 over 1966.

Let me now go to the next chart. Obviously one way to look at how large Federal spending is in relation to the economy, and the ability of the economy to afford these expenditures, just as every one of us in figuring our own budgets has to look at our income when we calculate our expenditures.

BUDGET EXPENDITURES AS PERCENT OF GNP

Budget Outlays as a Percent of Gross National Product



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CHART 10

This chart points out that apart from the social insurance trust funds, which are largely self-financed—for example, social security and health insurance, which are financed mainly through payroll taxes—and apart from the special costs of Vietnam, for all other Federal activities, budget outlays as a percentage of gross national product have been going down.

In 1969, outlays exclusive of Vietnam and social insurance trust funds stand at roughly 13.9 percent of the estimated gross national product. In the last 3 years of the 1950's they stood at 16 percent. "All other" Federal outlays, as shown on the chart, have gone down as a percent of gross national product over the course of this period.

If you add the self-financed social insurance trust funds back in, the percentage declines slightly. It was 19 percent in 1960 and about 18 percent in 1965. It has not declined very much. Then the chart shows the recent added costs of Vietnam, which have moved the Federal sector to roughly 21 percent of the gross national product, just about the level that we reached during the Korean war. That gives you a feel for some benchmarks here.

With Vietnam and the social insurance trust funds, we are about at the Korean war level. We can enter into debate on whether to subtract these trust funds out, but they are self-financing. All other outlays, excluding Vietnam, have clearly been declining through time and stand at their lowest point in some time—at 13.9 percent in 1969.

Mr. MAHON. Mr. Director, when this transcript comes to you I wish that you would give us some percentage figures with respect to the gross national product and defense costs and costs otherwise for the period of World War II and also for the war in Korea, so that we can make comparisons.

Mr. ZWICK. Yes, sir; we certainly will.

(The information follows:)

Comparable data on the new unified budget basis are not as yet available prior to fiscal year 1958. The information requested has therefore been prepared on a consolidated cash basis (i.e., the older concept of Federal finance which is closest to the new concept). Also, during World War II, consolidated cash figures were not functionalized. Therefore, the break shown for that period is approximate.

CONSOLIDATED CASH PAYMENTS AND THE GROSS NATIONAL PRODUCT

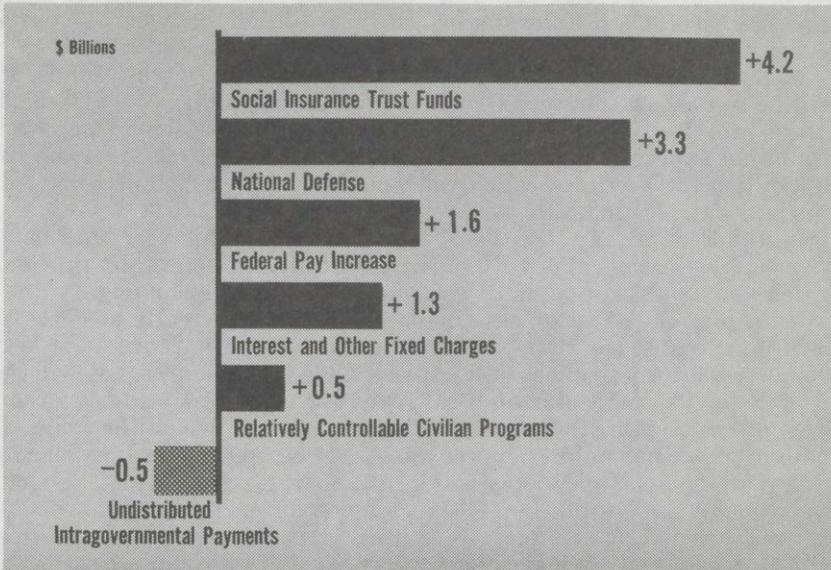
[Dollar in billions]

Fiscal year	Gross national product	Total cash payments to the public		National defense		All other	
		Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP
World War II:							
1942.....	\$139.2	\$34.5	24.8	\$22.9	16.5	\$11.6	8.3
1943.....	177.5	78.9	44.5	63.4	35.7	15.5	8.8
1944.....	201.9	94.0	46.6	76.0	37.6	18.0	9.0
1945.....	216.8	95.2	43.9	80.5	37.1	14.7	6.8
1946.....	201.6	61.7	30.6	45.0	22.3	16.7	8.3
Korea:							
1951.....	310.5	45.8	14.7	22.7	7.3	23.1	7.4
1952.....	337.2	68.0	20.2	44.2	13.1	23.8	7.1
1953.....	358.9	76.8	21.4	50.6	14.1	26.2	7.3
1954.....	362.1	71.9	19.8	47.1	13.0	24.8	6.8

CHANGES IN BUDGET EXPENDITURES (OUTLAYS), 1969 OVER 1968

Mr. ZWICK. The next chart shows where the \$10.4 billion that we are up, 1969 over 1968 goes.

Change in Budget Outlays 1968-1969



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CHART 11

Of the total increase, \$4.2 billion is for social insurance trust fund expenditures and \$2½ billion of that \$4.2 billion is a result of last year's social security legislation. \$1.7 billion is the normal growth in the expenditures out of these trust funds as they mature and population increases; \$2½ billion of this \$4.2 billion is for the new social security legislation.

National defense is up \$3.3 billion, of which \$1.3 billion is additional costs for Vietnam. \$2 billion is additional costs in defense outside of Vietnam.

The next step in the Federal pay increase, which was enacted last year by Congress, will take effect on July 1 of this calendar year, and will add \$1.6 billion to the outlays in fiscal year 1969.

Interest and other fixed charges are up \$1.3 billion. Of that \$1.3 billion, interest is \$900 million. The other \$400 million is the sum of various items. It includes public assistance, which is up half a billion dollars. CCC payments will be up about \$100 million. On the other hand, the postal deficit will be down \$400 million. So there is an increase of \$900 million for interest and \$400 million, net, for all other fixed charges.

Relatively controllable civilian programs are up half a billion dollars and it turned out because of this netting process that we have to deduct certain intragovernmental payments that just offset the increase in the controllable programs. This summarizes where the \$10.4 billion increase is.

Let me make one other set of observations.

Even though the \$10.4 billion is a much smaller increase than we had between 1967 and 1968, and 1966 and 1967, there are some unusual increases in 1969. For example, the \$2.5 billion increase in social security—you will not, unless you have a new social security bill this year, have that same sort of growth next year in these trust funds. It will be somewhere between \$1.7 billion and \$2 billion; you have \$2.5 billion worth of growth here from last year's legislation which you would not expect next year. Then, you have in Defense an increase of \$1.3 billion for Vietnam, which you would normally not expect, so that this is an extraordinary expense.

On the Federal pay increases, we had last year, this year, and next year major increases in pay which are essentially a catching-up process, which you would not think of as a normal increase in budgetary outlays. In fact, the effect of pay increases in 1969 will really be close to \$2 billion because the 1968 pay increase, the one the employees got last October, was only in effect in fiscal year 1968 for 9 months, but will be in effect for 12 months during fiscal year 1969. That really adds another \$400 million to this \$1.6 billion for pay increases shown on the chart.

Similarly, you wouldn't expect interest to be up \$900 million year to year if we had the tax increase and interest rates were lower. So that even though the \$10.4 billion is a very much lower number in terms of past experience, it includes some very extraordinary expenditures which would not normally be conceived of as normal growths in expenditures.

CHANGES IN BUDGET EXPENDITURES (OUTLAYS) FOR "CONTROLLABLE"
CIVILIAN PROGRAMS

Mr. MAHON. With respect to this—

Mr. ZWICK. I was going to go on and break out what this half-a-billion-dollar increase in controllable civilian programs is for.

Mr. MAHON. Go ahead; break it out.

Mr. ZWICK. On this next chart.

Mr. MAHON. With respect to this chart, you should make it clear for the record that you are talking about an increase in expenditures next year of some \$10.4 billion. You are talking about an increase in expenditures, not the increase in new appropriations—new budget obligational authority—is estimated at \$15.2 billion, not \$10.4 billion?

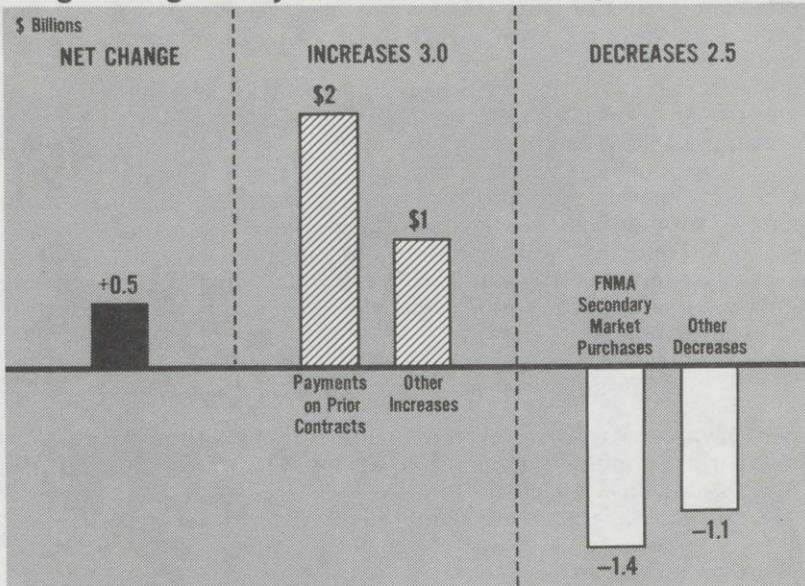
Mr. ZWICK. That is correct.

Mr. MAHON. We will be acting on the basis of the \$15-billion concept, not the \$10 billion?

Mr. ZWICK. You will be acting on some part of the \$15 billion, because some of it is already authorized by previous actions; that is correct.

I would like to turn now to the increase of half a billion dollars in relatively controllable programs and see what it consists of.

Change in Budget Outlays Controllable Civilian Programs 1968-1969



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CHART 12

MR. ZWICK. The \$0.5 billion net increase consists of gross increases of \$3 billion and decreases of \$2.5 billion. It is in this area where much of the debate on the budget will come; \$2 billion of the \$3 billion gross increases are payments on prior contracts. The biggest items of increase in controllable civilian outlays are the model cities program and urban renewal, other HUD activities. The supersonic transport, I think, is up \$250 million, if I remember the numbers correctly.

To sum up, as chart 12 shows, there are payments on prior contracts of \$2 billion and other increases of \$1 billion, making an increase of \$3 billion, offset by \$2.5 billion of decreases, with a net of \$0.5 billion. The major decrease is a reduction in FNMA market purchases of \$1.4 billion.

As you know, we are proposing in legislation—the cities message has not come up, so we have not yet spelled it out in detail—several reforms: (1) a removal of the interest rate ceilings; and (2) a conversion of the Federal National Mortgage Association secondary market operations to a private instrument as was anticipated in the legislation setting it up. We only have in the budget, therefore, for fiscal year 1969, \$1 billion worth of mortgage purchases under these operations of FNMA. In contrast, in fiscal 1968, with the very tight money conditions that we have had, FNMA purchases of mortgages in support of the homebuilding industry are estimated at \$2.4 billion. Thus, there is a major reduction in FNMA. All other decreases, together, add up to \$1.1 billion. These decreases are detailed on pages 20, 21, and 22 of the budget, in terms of program levels. They repre-

sent budget cutbacks or program reforms. They cut across almost every agency of the Government and every sector of the economy. They are going to be, I am sure, painful. We are going to have a lot of dialog about them.

I think the point that we are trying to make here is that we are going to increase selectively some programs, your prime programs—for example, the crime prevention program will be up more than 25 percent. As you know, the President sent up a message on crime yesterday. Another example is manpower training, in which we are trying to provide jobs for hard-core unemployed; appropriations for 1969 for manpower training are up \$442 million. If we are going to selectively increase programs, we have got to make room through decreases. I think much of the debate will range on where the decreases should come.

EXPENDITURE REDUCTION OF \$1.4 BILLION

Mr. MAHON. Mr. Director, you made reference to a certain statement in the budget with regard to removing interest rate ceilings?

Mr. ZWICK. That is correct.

Mr. MAHON. I wish you would place that in the record at this point.

Mr. ZWICK. Yes, sir.

(The requested information follows:)

A statement regarding removing interest rate ceilings is found in the President's budget message (p. 33 of the Budget), together with a discussion of related proposals. The President said:

"Specific steps * * * are being proposed to the Congress, including authority to lift the ceiling on interest rates for FHA and VA mortgages, which currently discourages savers from investing in mortgages."

Mr. MAHON. You are making the point that unless legislation is passed with respect to FNMA, as indicated by your chart, all else being equal, the budget deficit would not be \$8 billion, but \$1.4 billion more?

Mr. ZWICK. Yes, sir. That is one of two possibilities: (1) the budget deficit would be \$9.4 billion or; (2) we could abandon the home-building industry—in other words, by administrative action we could just not make any more money available. When that happened, as it did in 1966, Congress voted over \$1 billion worth of special funds. One way or another I suspect that these expenditures would be made and that the deficit would be closer to \$9.4 billion than \$8 billion.

PROGRAM CUTBACKS AND REFORMS PROPOSED IN THE 1969 BUDGET

Mr. MAHON. Insert the list that you referred to with respect to the cutbacks and reforms.

Mr. ZWICK. We will do that.

(The information follows:)

BUDGET PROGRAM REDUCTIONS AND REFORMS

[Fiscal years, In millions]

Agency and program	Cuts below 1968 program level, as funded
	1969
Budget Reductions	
Agriculture:	
Farm operating loans.....	-\$50
Rural electrification loans.....	-45
Forest roads and trails.....	-29
Sewer and water loans.....	-22
Water and sewer grants.....	-3
Watershed protection program.....	-17
Flood prevention program.....	-11
Agriculture research.....	-15
Forest protection and utilization.....	-2
Great plains conservation program.....	-2
Other.....	-1
Subtotal, Agriculture.....	-197
Commerce:	
Ship construction.....	-156
Research—Maritime Administration.....	-7
Subtotal, Commerce.....	-163
Health, Education, and Welfare:	
College facility grants.....	-224
Books, equipment, guidance, and testing grants.....	-120
Health research facilities construction.....	-29
School aid to federally impacted areas.....	-17
Medical library construction grants.....	-10
Subtotal, Health, Education, and Welfare.....	-400
Housing and Urban Development:	
Grants for basic water and sewer facilities.....	-\$25
Public facility loans.....	-10
Special assistance for market rate mortgages—Federal National Mortgage Association.....	-27
Subtotal, Housing and Urban Development.....	-62
Interior:	
Reclamation program.....	-27
Indian construction programs.....	-22
Road programs.....	-6
Sport fisheries construction.....	-5
Commercial fisheries construction.....	-1
Subtotal, Interior.....	-61
Justice: Elimination of new prison construction.....	-1
State: Educational exchange.....	-1
Atomic Energy Commission:	
Production of special nuclear materials.....	-12
Nuclear rocket program.....	-10
Space electric power.....	-8
Civilian application of nuclear explosives (Plowshare).....	-6
Subtotal, Atomic Energy Commission.....	-36
General Services Administration: Construction.....	-143
National Aeronautics and Space Administration: Manned and unmanned exploration and other programs.....	-447
National Science Foundation: Institutional science programs.....	-31
Small Business Administration:	
Business loans.....	-40
Economic opportunity loans.....	-25
Investment company loans.....	-25
Subtotal, Small Business Administration.....	-90
Total, budget reductions.....	-1,632

	1969	1970
PROGRAM REFORMS		
Agriculture: Agricultural conservation program—limit to practices with long-term benefits . . .	-\$120	-\$120
Health, Education, and Welfare: School aid to federally impacted areas—tie payments more closely to Federal burden		-100
Housing and Urban Development: Private housing—place greater reliance on the private market (requiring change in statutory interest rate ceilings)	-669	-669
Labor: Institute user charges to recover expenses under Longshoremen and Harbor Workers Compensation Act	-3	-3
Transportation:		
Airway services—increase taxes on users	-40	-55
Waterways—impose tax on users	-7	-14
Highway trucking—increase tax on diesel fuels and apply graduated use tax by weight	-239	-250
Subtotal, transportation	-286	-319
Veterans' Administration:		
Compensation—eliminate statutory payments for cases of arrested tuberculosis	-54	-54
Burial benefits—eliminate duplication with social security	-46	-46
Pensions—count railroad retirement benefits as part of income in setting amount of veterans pension	-7	-7
Subtotal, Veterans' Administration	-107	-107
Small Business Administration: Disaster loans—employ more equitable and rigorous criteria	-50	-50
Water resources projects of several agencies—raise the interest rate used for evaluating projects	(1)	(1)
Total, program reforms	-1,235	-1,368
Grand total, budget program reductions and reforms, 1969	-2,867	

¹ While no immediate savings are realized, the long-term effect could be substantial.

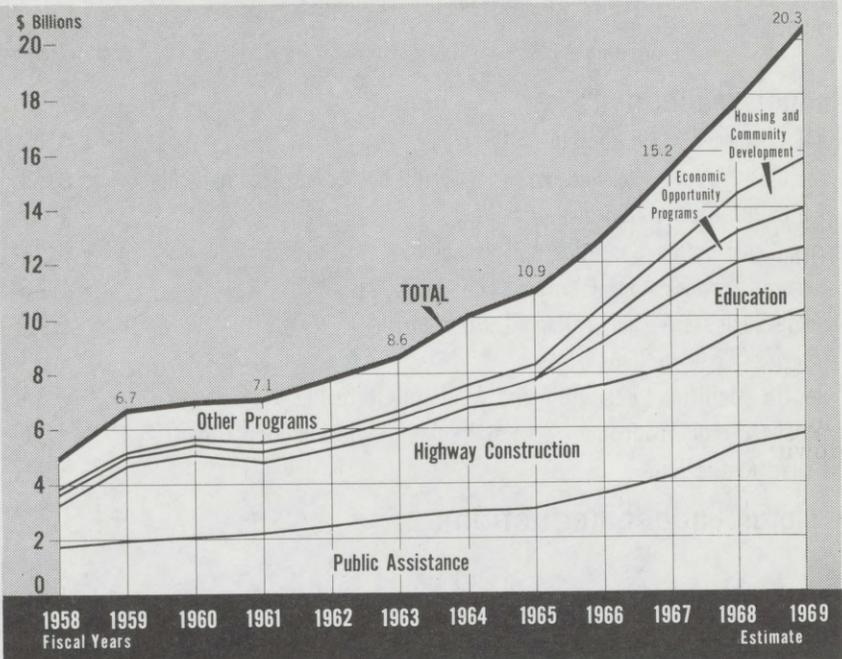
Mr. ZWICK. This gives you a general feel for where the \$10.4 billion increase in the budget is to go, and breaks out the half billion dollar increase in controllable outlays into the increases and decreases.

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

I have just a couple more charts. One I thought you might be interested in is the relationship of the cuts and increases to Federal aid to State and local governments, an issue that we are all vitally interested in.

Federal Aid to State and Local Governments

Federal Fund and Trust Fund Expenditures



Executive Office of the President • Bureau of the Budget

CHART 13

Mr. ZWICK. I think the moral of the message shown on Chart 13 is that even though we held the budget down significantly in 1969, and it did not show the same absolute growth rate as we had in 1968 over 1967 and 1967 over 1966, we are continuing a vigorous program of aid to State and local governments. It is up roughly \$2 billion in 1969 over 1968. It was up \$3 billion in 1968 over 1967. The point we are trying to make here is that we have continued a significant increase in Federal aid. If you think of it in terms of the \$3 billion gross increase within the roughly half a billion dollar net increase in controllable outlays we talked about earlier, an almost \$2 billion increase is going to be in terms of aid to State and local governments.

I think in the setting of priorities and support of specific programs we have given priority to aiding State and local governments.

I have two final charts which summarize the cutbacks that you find on pages 20, 21, and 22 of the budget document. First there are budget reductions of \$1.6 billion below the 1968 program levels as appropriated by Congress.

BUDGET PROGRAM REDUCTIONS

(Fiscal Year - in Millions)

<u>Program</u>	Cuts Below 1968 Program Level, as Funded 1969
Budget Reductions:	
NASA (Manned Space Flight and Other).....	-\$ 447
Education Programs (Mainly Books and Equipment and College Facility Grants) ..	- 361
Agriculture (Loan Programs and Other).....	- 197
Ship Construction Subsidies and Research	-163
General Services Administration (Construction).....	-143
Small Business Administration (Loan Programs).....	-90
Interior (Construction).....	-61
Health Facilities (Research and Medical Library).....	-39
Atomic Energy Programs (Special Nuclear Materials and Other)...	-36
Other Reductions	-95
Total Budget Reductions	-1,632

CHART 14

Mr. ZWICK. NASA has the largest reduction—\$447 million. Education programs, primarily construction and books and equipment, are down \$361 million. Agriculture, primarily loan programs is down \$197 million. Ship construction subsidies and research are down \$163 million. You can read them in detail on pages 20 through 22 of the Budget. We just wanted to give you the flavor of it.

You will see running through this list two priorities: One, a deferment, a stretchout, a holdback on construction activities. Similarly we have kept a tight rein on lending programs because of the tremendous pressures we are putting on the financial market that Secretary Fowler spoke about earlier. You will find in the loan programs in 1968, net lending is \$5.8 billion and in 1969 net lending will be \$3.3 billion. So you have had a significant holddown in construction activities and loan activities spreading across all programs.

In addition to the program reductions, we have proposed a number of program reforms.

Mr. MAHON. Mr. Director, before you go into the program reforms, you were talking about budget reductions. You did not make it clear whether you were talking about expenditures or new obligational authority.

Mr. ZWICK. I am sorry. It is program level on the chart, mainly obligations, but including some new obligational authority, or budget authority, as we use it in the new concept. This might be a good time to mention that we have developed a new nomenclature with the new budget format. The one you have probably heard already is "budget outlays". We have used "outlays" to mean the sum of expenditures in the expenditure account plus net lending in the loan account. So rather

than saying "expenditures minus net lending" or some phrase like that, we are now using the word, "budget outlays" to mean the sum of expenditures plus net lending. That is what we used to call "expenditures" in the old budget. We are using the words "budget authority" to include new obligational authority for the expenditure account and loan authority for the lending account. So you have total budget authority being NOA in the expenditure account plus loan authority in the loan account. It is very similar to the old concept, but just a slightly different nomenclature.

BUDGET PROGRAM REFORMS

(Fiscal Years - in Millions)

Program	Cuts Below 1968 Program Level, as Funded	
	1969	1970
Program Reforms:		
Private Housing - Place Greater Reliance on the Private Market....	-\$669	-\$669
Transportation - Charge Users for Benefits Received	-286	-319
Education - Tie Impacted Aid More Closely to Federal Burden..		-100
Veterans - Eliminate Overlapping and Outmoded Benefits...	-107	-107
Agricultural Conservation Program - Limit to Long-Term Benefits.....	-120	-120
SBA Disaster Loans - Employ More Equitable and Rigorous Criteria..	-50	-50
Water Resources Projects - Raise Interest Rate Used for Project Evaluation	1/	1/
Other Reforms	-3	-3
Total Program Reforms	-1,235	-1,368

1/ No Immediate, but Substantial Long-Term Savings

CHART 15

Mr. ZWICK. As you can see, the reforms include user charges, primarily in the transportation area. The housing item includes FNMA special assistance programs and also involves removal of the statutory interest rate ceiling on FHA insured mortgages. We are proposing to eliminate some overlapping outmoded benefits in VA, to reduce the agricultural conservation program, to set up new criteria for water resource projects, et cetera. The detail, again, is spelled out on pages 20 through 22 of the budget.

I think that gives you a quick overview of the contours of the 1969 budget. Secretary Fowler and I, of course, will be happy to try to answer any questions you may have.

Mr. MAHON. I wish you would state when the record comes to you, or now, whether all of these reforms to which you referred require action by Congress in the legislative field.

Mr. ZWICK. No, sir; all of them do not require legislation. The majority of them require legislative action, but not all of them. For example, the institution of tighter criteria in the disaster loan program of the Small Business Administration is an executive action and

we can take that directly. But the major proportion of the reforms will require legislative action, that is correct.

QUESTION OF RESTRAINT IN PREPARING THE 1969 BUDGET

Mr. MAHON. Thank you, Mr. Director, for a very excellent statement which will, of course, be available to us throughout the year.

I would like to ask each of you to give your views as to whether or not you regard this as a so-called "tight" budget. I would like for you to explain whether or not there was considerable restraint used in the preparation of the budget.

Mr. Secretary, you spoke of the difficulty of getting a tax increase. I think one good byproduct of the difficulty has been focused on the expenditure side. So will you, Mr. Secretary, tell us whether or not there was restraint used and, if so, document it.

Then I wish you would answer the same question, Mr. Zwick.

Secretary FOWLER. I will make mine very short, Mr. Chairman. Since the transfer of the Bureau of the Budget from the Treasury Department in the mid-1930's to the Executive Office of the President, the Secretary of the Treasury and his staff have had quite limited responsibility and participation in the review of the individual expenditure programs that go into the budget. Therefore, I do not have any fingertip acquaintance with the appraisals that went on. These are matters that are reviewed intensively by the Bureau of the Budget with each individual department and agency and thereafter reviewed by the President with the Bureau of the Budget.

My participation in that process is limited to the general dimensions. I am usually there exhorting in very general terms to hold everything down and cut everything that can be cut, but I am not a daily participant in the exercise.

My main impressions of this go to the closing months of last year when my major participation was in trying to forge what were hopefully two titles in the tax bill—title I having to do with increase in taxes, and title II the across-the-board reduction in expenditures. Title II was lopped off and became the basis for the continuing appropriation act, with which this committee is familiar.

Mr. MAHON. Will you respond, Mr. Zwick?

Mr. ZWICK. Yes, sir, Mr. Chairman.

I think, obviously, we view it as a very stringent budget and I would illustrate that in four different ways.

First, the \$10.4 billion increase between 1968 and 1969 is smaller than the increases we have had in recent years. I think that is one indication.

Second, that smaller increase, \$10.4 billion compared to \$17.2 billion between 1967 and 1968 and \$23.8 billion between 1966 and 1967 was accomplished after we had a cutback program in fiscal 1968. It is one thing to talk about how big the increase is from year to year, but we want to know whether we are doing it from a very tight level or after we have just had a big year of appropriations. In this case the smaller increase is on top of the 1968 cutback. I think that fact adds weight to the tightness of the budget.

The third observation I would make is one I made a few moments ago; as you go through that \$10.4 billion increase you find a large number of extraordinary costs and growth in expenditures which you would normally not expect to find. For example, there is the \$2.5

billion increase in social security because of the new law, and you do not enact social security legislation every year. You would not have showing up next year the \$1.3 billion increase for Vietnam, or the \$1.6 billion for pay. You add these together and you have something like \$5 or \$6 billion which I would call extraordinary, not normal growth, in expenditures.

Let me be clear. I cannot imagine a year in which you would not have some extraordinary expenditures, but you would not expect to have \$6 billion or so extraordinary expenditures in 1 fiscal year. They make up a large part of that \$10.4 billion growth.

And then, fourth, if you compare that growth of \$10.4 billion to what we call normal growth in revenue—what are sometimes called the fiscal dividend, the additional revenues that come to the Government with an unchanged tax structure, which just result from a larger economy with higher profits and higher personal income—our estimate is that the normal growth in revenue in fiscal 1969 would be \$11.5 billion. Therefore, the growth in expenditures, including the special costs of Vietnam, is less than the normal growth in revenue—we have held expenditures down, even in the face of Vietnam, to a growth which is less than the normal growth in revenue. I think those are the four ways to look at this question of a tight budget.

Mr. MAHON. You have talked now about restraint in expenditures. I wish you would also address yourself to restraint used in making up the requests for additional appropriations. Of course, there is some relationship between the expenditure increase of \$10.4 billion estimated and the appropriations, but I wish you would, in revising your remarks, point that out.

As was pointed out a few moments ago, you are requesting an increase in appropriations of about \$15.2 billion.

Mr. ZWICK. Yes.

Mr. MAHON. And relate that to the previous years at this point. You do not have to give that testimony at the moment.

(The information follows:)

BUDGET AUTHORITY

[In millions]

Fiscal year		Increase over preceding fiscal year
1969 estimate.....	\$201,723	\$15,224
1968 estimate.....	186,499	3,937
1967 actual.....	182,562	(1)

¹ Time has not yet permitted computation of budget authority for fiscal years prior to 1967 in terms of the unified budget concept.

It should be noted that comparisons of budget authority from year to year can be very misleading in a short time span. As the President pointed out in his budget message, current action by the Congress to provide budget authority varies widely from year to year because in several large programs—highways, TVA electric power construction, college housing loans, and secondary market functions of the Department of Housing and Urban Development, for example—budget authority is provided in one year to cover a number of succeeding years. In fiscal year 1968, there is a considerable variation in the amount of such multi-year authority, netting to a sizeable decrease as shown by the following examples:

[Budget authority in millions]

	1967	1968	1969
Tennessee Valley Authority, borrowing authority for power construction.....	1,000		
Housing and Urban Development:			
FNMA—secondary market operations.....	3,931	537	159
College housing loans.....	600	1,900	585

PROPOSALS FOR ADVANCE APPROPRIATIONS

Mr. MAHON. Now, Mr. Director—and I would like for the committee to be particularly alert to this problem—what about advance appropriations or authorizations?

As I understand, you ask that we appropriate, at this session, \$1.2 billion for elementary and secondary education for fiscal 1970. We have been following a similar advance financing policy in respect to airport grants aid, mass transit grants, and urban renewal grants. I wish you would expand with respect to this elementary and secondary education appropriation for fiscal 1970.

Also, what is the total and tell us whether it is in the \$201 billion.

Mr. ZWICK. The advance funding would not be in the \$201 billion budget authority for fiscal 1969.

Mr. MAHON. But you are asking for the appropriation this year.

Mr. ZWICK. That is right.

Mr. MAHON. Why is it not? Of course it is not for fiscal year 1969 but the action, if we follow your recommendation, we would be granting the obligational authority during fiscal 1969. So why would it not be counted that way?

Mr. ZWICK. Because the funds would not be available for obligation until 1970. I think I will turn to Mr. Cohn, the Assistant Director, for the technical explanation, but let me first make an observation on what gave rise to this problem.

As the appropriation actions have come later and later in the calendar year, it has become very difficult for state and local governments, particularly school districts, to do their planning on a school year cycle. And we have been under tremendous pressure to give some indication, some assurance, to them of the funds that will be available, so they can have orderly planning. What has happened in the past—and I cannot document this so I guess it is in the form of hearsay—is that when these appropriations have come in late, the local school districts have had to have very conservative estimates of what they were going to get. Then, when they got more money than they anticipated or budgeted, this went into equipment and so forth.

Mr. MAHON. You can elaborate for the record. We are all familiar with the hardships and the unbusinesslike situation that the previous system has brought about. I think we are all interested in seeing that the schools know in adequate time how to plan their programs if they do not know how much money they are going to get.

Are there other items than elementary and secondary education where you follow this technique in this budget?

Mr. ZWICK. There are one or two others. This is where a 10-day-old budget director stalls.

Mr. MAHON. Mr. Cohn, would you comment?

Mr. COHN. I think you have ticked off the ones I recognize, Mr. Chairman: the airport grants, mass transit, urban renewal, and elementary and secondary education.

I might add, in answer to your first question, that the treatment of this advance authority as 1970 budget authority rather than 1969 is consistent with the practice we have used in the past.

For example, for airport grants, that money will not be available for obligation until the year ahead and therefore we count it as budget authority in the year ahead. We do this too—and I think it is safe to pick an example from another committee—in contract authority for highways. Several years ago the Public Works Committee enacted contract authority for highways, which was so much for 1967, so much for 1968, so much for 1969, so much for 1970, and then said these amounts could be available for obligation in the year preceding. In this case, we have counted in 1967 the amount enacted for 1968 because the legislation said it could be available in 1967.

Mr. MAHON. You may elaborate on that for the record.

(The information follows:)

Proposed provisions of advance budget authority for fiscal year 1970, by 90th Congress, second session

	<i>Millions</i>
Health, Education, and Welfare: Office of Education: Elementary and secondary educational activities-----	\$1, 200
Housing and Urban Development:	
Urban renewal programs:	
Contract authorization-----	1, 400
Appropriation to liquidate contract authorization-----	(1, 400)
Urban mass transportation fund-----	230
Transportation: Federal Aviation Administration: Grants-in-aid for airports-----	65
Total-----	2, 895

NOTE.—Advance contract authorizations to be available for fiscal year 1970 will also be proposed for road construction programs in the Departments of Agriculture, Interior, and Transportation and for the highway beautification and State and community highway safety programs in the Department of Transportation. The amounts to be proposed are still under consideration.

There is a single rule of long standing that is followed in the budget presentation of proposed or enacted budget authority. Budget authority is always shown under the fiscal year in which it becomes available for obligation. Since the above authority is intended to become available in fiscal year 1970, it is not shown as 1969 authority. Similarly advance budget authority for elementary and secondary education activities proposed to be enacted in fiscal year 1968 for 1969 is shown as 1969 funding.

PROPOSED 1968 FY SUPPLEMENTAL REQUESTS

Mr. MAHON. Let us refer to the proposed requests of some \$3.3 billion in supplementals for the current fiscal year 1968, ending this June 30th. Tell us something of the character of this total. And are we going to have a continuing number of supplemental requests, or do you think you are going to have one principal package and chop it off at that?

Mr. ZWICK. We anticipate four, perhaps five supplementals of the following character: The President has what we call the zero supplemental for Defense. This requests no new money for Defense, but it allows Defense to transfer moneys from some accounts to other accounts, roughly \$1.7 billion between accounts. Secondly, it allows them to transfer within accounts moneys that were reserved under

Public Law 90-218, under the 2-10 formula, for non-Southeast Asia purposes over to Southeast Asia. So you will be getting momentarily what we call the zero defense supplemental which does nothing but transfer money within the totals they already have.

Mr. MAHON. All right, that is one.

Mr. ZWICK. Second, you should be getting, hopefully this week, what we have called an urgent supplemental. It involves four items, three of which are mandatory under law. One, payments of prior claims and judgments; two, public assistance; three, unemployment compensation for Federal employees and ex-servicemen. A fourth item is grants for rehabilitation services and facilities, and if they do not get these moneys by March 1, they are going to have to close down some operations and we are going to stand a chance of losing \$5 million worth of Federal investment.

So you are getting what we call an urgent supplemental, things that have to be acted upon very quickly. There are only four items in it. I would hope it would be up in the next several days.

We expect then, within two or three weeks, to come up with what you would consider your normal supplemental, with the major program change items that we are talking about. In addition, there should be a supplemental for pay increases only. Finally, there may or may not be at the end of the session a clean-up supplemental.

This is the pattern as we anticipate it now. A zero increase Defense supplemental which allows transfers and reprogramming, an urgent supplemental which should be up in the next few days with four items in it, the regular program supplemental, and then another supplemental on pay will be coming up. Within three weeks we would hope to have all of the supplementals up except for the possibility of any clean-up supplemental at the end of the session.

QUESTION OF BALANCING THE BUDGET IN FISCAL YEAR 1969

Mr. MAHON. Mr. Director, let us assume for the purposes of discussion that Congress passes the surtax increase as requested in the new budget; that Congress approves all of the new user charges and all other revenue raising measures proposed in that budget; and therefore place ourselves in the position, if your present estimate holds up, of having an \$8 billion deficit for fiscal 1969.

Now, having done that, suppose Congress should say, "Well, in order to do better, and to achieve a balanced budget in 1969, we will cut *expenditures* by \$8 billion at this session and achieve that long-sought but elusive balance in the budget. How would you analyze that?"

Mr. ZWICK. I have two reactions.

One, we looked long and hard at that budget and we concluded in terms of the needs and requirements, both internationally and domestically, that this country faces, it would not be prudent to cut the budget that severely. From a program emphasis, needs of the country, point of view, we just could not do that. Perhaps Congress can find ways of doing that.

Point two, as a fiscal policy argument, is this good policy? I think we would be somewhat concerned, and Secretary Fowler may want to elaborate on this, to have this violent swing from a Federal sector which has had a huge deficit into a balanced position within a short period of time.

As I indicated as I went through the charts, we will be going from a deficit position of \$14 billion to a \$4.7 billion deficit in the expenditure account. In the Federal sector of the national income accounts, which ties in with data the Department of Commerce generates for the national income accounts for the entire Nation, and which most economists look at in viewing fiscal policy, there will be a deficit of \$2.5 billion for fiscal 1969. By the turn of calendar 1969, we expect to be roughly in balance on the national income account basis, and if you went into balance, you would be in a surplus position on the national income account basis in the first half of 1969.

Now, your proposal would be a severe turnaround in Federal activities, and I would want to go back and meditate with our staff to know exactly what it would do. But my offhand reaction would be that such a severe turnaround in Federal spending policy might be inappropriate from a fiscal policy point of view.

Mr. MAHON. You do not mean to say that a balanced budget would be so shocking it would upset the economy's appletart, do you?

Mr. ZWICK. No, sir. We think we are going to have a balanced budget starting in the second half of fiscal 1969, the first half of calendar 1969. We are saying that the rate at which you approach these things is a relevant consideration.

Mr. MAHON. I do not think you got quite the point that I was seeking to make, and perhaps did not make very well.

How much would we have to reduce the appropriation requests in order to achieve the \$8 billion reduction in the expenditure estimates?

Mr. ZWICK. I missed your question completely.

Mr. MAHON. Your response was helpful.

Mr. ZWICK. If we take the 1968 experience, we cut appropriations \$10 billion and got \$4.4 billion of expenditure reductions. That was after the year started. If you took these actions early in the session—I would guess the 50 percent rule is not too bad—you would have to cut appropriations \$16 billion.

Mr. MAHON. In order to achieve—

Mr. ZWICK. —an \$8 billion cut in expenditures, depending on where you take it. If you take it from construction programs, it has to be a deeper appropriation cut. If you take it out of current, fast spending, programs for salaries or grants to State and local governments, you could do it with a smaller reduction in appropriations. But I would guess a \$16 billion reduction is the order of magnitude you are talking about.

FEDERAL AIDS TO THE POOR

Mr. MAHON. I would like to get some figures in the record on Federal aid to the poor. The budget message classifies, on page 36, the total in Federal aid to the poor as something like \$27.7 billion—estimated—for fiscal 1969. Do you have a more detailed table you could insert with whatever accompanying explanation of its concept or dimensions that may be necessary that would be helpful to us in this respect?

Mr. ZWICK. Yes, we do, Mr. Chairman. I can readily tick off the major headings: education, \$2.5 billion; work and training, \$1.6 billion; health, \$4.7 billion; cash benefit payments, \$15.9 billion; others, which include food programs under Agriculture, public housing, and

Appalachia programs, \$2.9 billion. We can give you the detail within these categories of the total.

(The information follows:)

TOTAL FEDERAL AID TO THE POOR

NOTE.—The tabulation prepared by the Bureau of the Budget does not encompass all programs which affect the poor, but only those that have special impact on them qua poor. The following are the criteria used in selecting the programs for inclusion in the tabulation.

1. Programs which are aimed at the *poor* in general or at a specific group of the population who are poor (example, Indians) or at a particular region which is considered poor (example, Appalachia). Major programs in this category include:

- Title I of ESEA
- Economic Opportunity grants
- Work study
- Adult basic education
- Head Start
- Indian health, education, and welfare
- Job Corps
- Work incentive activities
- Neighborhood Youth Corps
- Concentrated Employment Program
- Public assistance
- Food stamp program
- Appalachian program
- Aid to depressed areas and regions
- Comprehensive health centers
- Day care centers
- All other OEO programs

2. Programs which are aimed principally at *low income* groups of which the poor constitute a significant proportion. Major programs in this category include:

- NDEA student loans
- Health insurance for the aged
- Medicaid
- Veterans disability pensions
- Veterans survivor pensions
- Direct distribution and removal of surplus agricultural commodities
- Minimum wage enforcement
- Grants for maternal and child health and welfare
- Low rent public housing
- Comprehensive city demonstration program
- 10-year housing program

3. Programs which are open to *all* regardless of income but which are taken advantage of most by low income groups. Major programs in this category include:

- Vocational education
- MDTA
- Selective Service System rejectee program
- VA hospital, nursing, domiciliary and outpatient care
- Grants for vocational rehabilitation service
- Grants for neighborhood facilities

4. Programs which are open to *all* regardless of income but which contain specific benefits to the poor or to the very low income groups. Major programs in this category include:

- OASDI
- Railroad retirement program
- Unemployment insurance
- Veterans survivor compensation
- School lunch and special milk programs
- Rural housing loan program

Programs in the first category are included in the tabulation at 100 percent. For the remaining categories only that portion of a program which is estimated to relate to poor beneficiaries is included. It should be emphasized that this tabulation relates to *outlays* of the Federal Government assisting the poor and should not be taken to measure the *benefits* that the poor derive from these programs.

ESTIMATED FEDERAL FUNDS FOR PROGRAMS ASSISTING THE POOR, FISCAL YEARS 1960-69

(Billions of dollars)

Category and program	1960 actual	1963 actual	1967 actual	1968 estimate	1969 estimate
Education:					
Health, Education, and Welfare: ESEA Act of 1965, title I	(1)	(1)	1.1	1.2	1.2
Other			.4	.6	.7
Office of Economic Opportunity: Headstart, Followthrough, etc.			.4	.4	.5
Interior: Indian education	0.1	0.1	.1	.1	.1
Subtotal	.1	.1	2.0	2.3	2.5
Work and training:					
Health, Education, and Welfare: Work incentive activities				(1)	.1
Office of Economic Opportunity			.8	.8	1.1
Labor: ^b MDTA, etc.	(1)	(1)	.2	.3	.4
Subtotal	(1)	(1)	1.0	1.1	1.6
Health:					
Health, Education, and Welfare:					
Health insurance for the aged ^a			1.3	1.7	2.0
Public assistance medical care	.2	.4	.9	1.4	1.7
Other	.1	.1	.3	.3	.3
Veterans' Administration: Hospital and domiciliary care	.3	.4	.5	.6	.6
Office of Economic Opportunity			.1	.1	.2
Subtotal	.6	.9	3.2	4.1	4.7
Cash benefit payments:					
Health, Education, and Welfare:					
OASDI ^a	4.0	5.3	6.7	7.9	8.9
Public assistance	1.8	2.3	3.0	3.5	3.6
Railroad retirement ^a	.4	.3	.3	.4	.4
Veterans' Administration: Compensation and pensions	1.6	2.0	2.3	2.4	2.5
Labor: Unemployment insurance ^a	.5	.6	.4	.5	.5
Subtotal	8.3	10.4	12.8	14.6	15.9
Other social, welfare, and economic services:					
Agriculture:					
Food programs	.2	.3	.3	.4	.5
Other	(1)	.1	.1	.2	.2
Commerce: EDA		.1	.2	.2	.2
Office of Economic Opportunity			.3	.4	.5
Department of Health, Education, and Welfare	.1	.1	.4	.4	.5
Housing and Urban Development:					
Public housing and rent supplements	.1	.1	.2	.2	.3
Other			(1)	.1	.3
Interior: Services to Indians, etc. ^b	.1	.2	.4	.3	.3
Labor	(1)	(1)	(1)	(1)	(1)
Small Business Administration: Economic opportunity loans			(1)	(1)	(1)
Appalachian program (FAP)			.1	.1	.1
Subtotal	.5	1.0	2.0	2.4	2.9
Total	9.5	12.5	21.1	24.6	27.7

¹ Less than \$50 million.^a All trust funds.^b Includes some trust funds.

NOTES:

Totals may not add due to rounding.

The amounts shown in this table are (•) NOA's for regular budget accounts except where program level is the more meaningful concept, and (b) expenditures for trust funds.

QUESTION OF BALANCING THE BUDGET IN 1969

MR. MAHON. Mr. Secretary, you might give us your comment on the matter of a balanced budget in fiscal 1969, the issue which we discussed a few moments ago.

Secretary FOWLER. I have two observations to make, Mr. Chairman. I think it is most important to reverse the direction in which we

have been moving; to reverse sharply and decisively the trend toward increased fiscal deficit financing which began with our increased participation in hostilities in Southeast Asia in the fiscal year 1966. To move from that direction and to start back down the road to balances and surpluses in a sharp and decisive manner is a great deal more important than to reach there all in one fell swoop.

I will only cite one bit of historical experience in that regard. In fiscal year 1959 and 1960 there was a shift from a deficit of approximately \$13 billion in fiscal 1959 to a \$1.2 billion surplus in fiscal 1960, all in the compass of 1 year. That factor combined with certain other factors resulted in the recession of calendar years 1960 and 1961.

So my own concern would be that we reverse the direction we have been taking, not just a billion dollars or two by reducing expenditures to lower the deficit from \$21 billion to \$19 billion, but by taking a really substantial chunk out of the deficit.

As has been indicated by Mr. Zwick, in terms of expenditures—as distinct from lending, which has a different economic impact—you have a deficit of about \$4.7 billion. Of the so-called national income and products account basis, which is the measure that economists use most precisely to define a restrictive budget, it would be even smaller, closer to \$2.5 billion for the fiscal year.

Mr. MAHON. I wish you or Mr. Zwick in your testimony in this general area of discussion would make very clear for the record what we mean by the national income account budget.

Secretary FOWLER. We will, Mr. Chairman.

(Note: Additional information may be found beginning on p. 94.)

Secretary FOWLER. May I add one more thing?

Mr. MAHON. Yes.

Secretary FOWLER. I think we must also view the confluence of what is happening in the Federal side of the economy, Federal expenditures and deficit, with what is happening in the private sector at the same time. If the private sector were going right through the window, then we ought to go to a budget surplus rather than just trying to eliminate the deficit. The sharpness and the trajectory of the decline is something, as I think Mr. Zwick indicated, that would give us a little concern. Although this Secretary of the Treasury, if he had a free road, might have asked for a little bit larger tax increase than he did, in view of the lack of success he has been having in the last half year to get that 10 percent and in view of the economy and the prospects, I just do not think, as a practical matter, I could ask for a little more.

Mr. MAHON. Mr. Secretary, I believe you are a Virginian. Your discussion with respect to trends and to the direction toward a balanced budget reminds me of a statement once ascribed by former Senator Robertson, of Virginia, to the famous evangelist, Billy Sunday. With respect to trends, Billy Sunday is supposed to have said that he would rather be standing one foot from hell headed toward Heaven than be a thousand miles away headed in the wrong direction.

Secretary FOWLER. If you could look inside my heart, I would like to be moving in the direction of balance in very large steps both in terms of our budget deficit, our balance-of-payments deficit, and our economy. We want to have a balanced economy, not achieving restraint through strictly monetary measures, which means the housing

industry would be depressed while everything else goes along pretty well, but achieving a balanced economy. So balance in three terms is what is in my heart—toward balance in the budget deficit, toward balance in our international accounts, and toward balance in the economy.

Mr. MAHON. On that note, we will conclude until 2 o'clock.

NATIONAL INCOME ACCOUNT AND PRODUCT ACCOUNTS

(Note.—The following is supplied in response to an earlier request:)

SPECIAL ANALYSIS B

FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS

The budget is designed to serve many purposes:

- It represents a proposed *allocation of resources* to serve national objectives, between the private and public sectors, and within the public sector;
- It is an *economic document* which embodies the taxing and spending policies of the Government for promoting high employment, price stability, growth of the national economy, and maintainance of the Nation's balance of payments;
- It sets forth the *President's requests to Congress* for appropriation action on existing or new programs, and changes in tax legislation;
- It is a *report to the Congress and the people* on how the Government has spent the funds entrusted to it in past years.

No single budget concept can completely satisfy all purposes. The budget is designed to provide a unified picture of the Federal Government's finances, while other series—such as the Federal sector of the national income accounts (NIA)—focus on specific areas of concern for various other purposes.

In past years, the budget document included a special analysis which concentrated on explaining the relationship among the three most widely used measures of Federal financial transactions: (1) the administrative budget, (2) consolidated cash statement (receipts from and payments to the public), and (3) the Federal sector of the national income accounts. In accordance with the recommendations of the President's Commission on Budget Concepts, neither the administrative budget nor the consolidated cash will be utilized as major measures of Federal finances. The relationship between the new budget and these two older concepts is discussed in detail in Special Analysis A.

The budget document and related Treasury reports provide detailed information on the finances of the Federal Government. The national income accounts of the United States are the most widely used measures of aggregate economic activity in the country. This analysis is designed to explain the relationships of the budget to the Federal sector of the national income accounts, and to present the budget estimates in national income terms.

This analysis is divided into three major sections: (1) the size and trends of major components in the Federal sector; (2) the relationship between the Federal sector and the budget; and (3) definitions of the major categories of the Federal sector.

TRENDS IN FEDERAL SECTOR RECEIPTS AND EXPENDITURES

Total expenditures in the Federal sector accounts budget are estimated to rise by \$13.9 billion between fiscal 1968 and 1969, receipts by \$21.4 billion. As a consequence, the Federal sector deficit will decline by \$7.5 billion, from \$10 billion in 1968 to \$2.5 billion in 1969.

Trends in Federal sector receipts.—Rising levels of economic activity expand the Nation's tax base and provide increased sources of Federal revenues. Between 1952 and 1967, Federal sector receipts more than doubled despite major decreases in tax rates and liberalization of tax provisions. Receipts in the national income accounts increased from \$65.1 billion in fiscal 1952 to \$147.6 billion in 1967. Part of this growth, however, has resulted from increases in social security tax rates and wage ceilings. Consequently, Federal receipts have kept pace with the growth in the economy.

Two major factors account for most of the changes in Federal sector receipts in 1969:

(1) *The level of economic activity.*—Personal tax and nontax receipts consist mainly of income taxes and tend to increase as personal income rises. Since income tax rates are progressive, there is a larger than proportional increase in these receipts as more people enter the higher income brackets. Corporate profits taxes, which are closely related to corporate profits, are also influenced by the level of economic activity and the profitability of business corporations. Since business taxes consist mainly of excise taxes on certain goods and services, such as tobacco, alcohol, automobiles, and telephones, they depend largely on the level of purchases of these items. Social insurance contributions expand with the growth in employment and earnings.

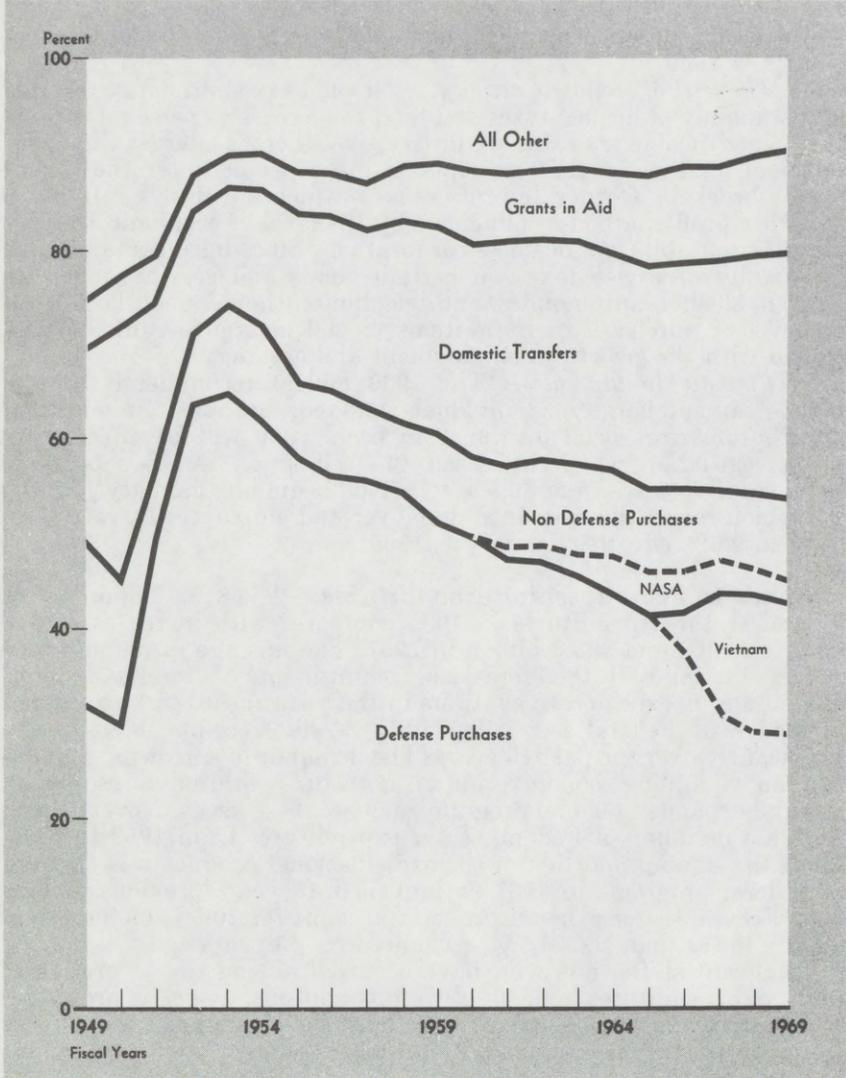
(2) *Changes in tax rates.*—The 1969 budget recommends a 10% income tax surcharge on individuals and corporations. In addition, contributions for social insurance in fiscal 1969 will be affected by recent legislation which increased the ceiling on wages subject to social security taxes from \$6,600 to \$7,800 beginning January 1, 1968, and which raised the combined employer and employee tax rate from 8.8% to 9.6% effective January 1, 1969.

Trends in Federal sector expenditures.—The \$13.9 billion rise in Federal sector expenditures in 1969 compares with increases of \$16 billion in 1968 and \$23.2 billion in 1967. The upsurge in defense purchases, starting with the large-scale commitments of American troops in Vietnam, is expected to continue in the year ahead, but at a much reduced rate. Federal sector expenditures, like receipts, have grown significantly over the past 15 years. The demands of a growing population, an expanding economy, and an unsettled world have resulted in new and expanded Federal programs to meet these needs. Nevertheless, despite a doubling of Federal sector expenditures from 1952 to 1967, about the same proportion of the gross national product was devoted to Federal programs in 1967 as prevailed 15 years previously. This year, Federal sector expenditures will account for 20.9% of the GNP, slightly lower than the 21.1% accounted for 15 years ago.

Significant shifts, however, have occurred among the several categories of expenditures, reflecting world conditions, domestic problems, and basic Government policy. As chart B-1 indicates, the largest proportion of Federal outlays is for national defense purchases of goods

and services, which increased rapidly early in the 1950's due primarily to the requirements of the Korean war. Since that time defense spending as a percent of the total declined to a low point of 7.5% in 1965, and has risen somewhat since as a result of the conflict in Vietnam; they are expected to reach 9.1% of GNP this year, compared with 13.6% in 1953.

Federal Sector Expenditures *Major Categories as a Percent of Total*



Aside from space, nondefense spending for goods and services has been a very stable proportion of total expenditures. Nondefense purchases have been subject to especially heavy economy efforts recently in order to mitigate inflationary pressures. Expenditures for space exploration have grown rapidly in recent years, rising from \$401 million in 1960 to a high of \$5.9 billion in 1966; they have declined somewhat since then, and are expected to total \$4.6 billion in 1969.

Grants-in-aid reflect Federal efforts to assist State and local governments in meeting pressing domestic needs. Most of the items included in the grants-in-aid category in the Federal sector accounts are also included in the discussion of Federal aids in Special Analysis K of this budget. Table B-1 shows both grants and domestic transfer payments—broken into several major groupings—for the past 10 years.

Table B-1. GRANTS-IN-AID AND DOMESTIC TRANSFER PAYMENTS
(In billions of dollars)

Fiscal year	Grants-in-aid			Domestic transfer payments			
	Public assistance	Highways	All other	Retirement and disability	Unemployment insurance	Hospital and supplemental medical insurance	All other
1960	2.1	2.9	1.9	16.5	2.6		1.5
1961	2.2	2.6	2.1	18.1	4.0		1.5
1962	2.4	2.8	2.4	20.1	3.5		1.5
1963	2.7	3.0	2.6	21.9	2.9		1.6
1964	2.9	3.6	3.3	23.1	2.8		1.4
1965	3.3	4.0	3.6	24.3	2.4		1.6
1966	3.5	3.9	5.3	28.1	2.0		1.7
1967	4.2	4.0	7.2	29.7	2.0	3.2	2.8
1968	5.2	4.3	8.5	32.5	2.4	4.8	3.3
1969	5.8	4.3	9.9	36.4	2.4	5.5	3.6

Domestic transfer payments (which are mainly pensions, unemployment benefits, and veterans benefits) account for the second largest share of total Federal expenditures—an estimated 25.9% in 1969. During the late 1950's there was a rapid decline in expenditures for the GI bill but recent legislation is providing benefits for veterans who were ineligible under the earlier programs, while social security benefits under both retirement and health programs have expanded rapidly in recent years. A significant part of the war on poverty is in the form of transfer payments. In general, the growth of these programs has been the result of efforts to meet the needs of the poor, sick, and elderly—an obligation that our Nation cannot afford to shirk.

Table B-2 shows Federal expenditures as a percent of total GNP, for alternate years, since 1952. These expenditures have been remarkably stable as a portion of our Nation's economy.

Table B-2. FEDERAL SECTOR NIA EXPENDITURES AS A PERCENT OF GNP

Fiscal year	Total expenditures	Purchases			Domestic transfer payments	Grants-in-aid	All other
		Defense	Nondefense				
			NASA	Other			
1952.....	19.6	12.4	(¹)	1.4	2.5	0.7	2.5
1954.....	20.5	12.6	(¹)	2.1	2.9	.8	2.1
1956.....	17.0	9.6	(¹)	1.5	3.1	.8	2.1
1958.....	18.9	10.2	(¹)	1.3	4.0	1.1	2.2
1960.....	18.4	9.1	0.1	1.5	4.2	1.4	2.2
1962.....	19.6	9.3	.2	1.7	4.6	1.4	2.4
1964.....	19.1	8.3	.7	1.7	4.5	1.6	2.3
1966.....	18.4	7.6	.8	1.6	4.4	1.8	2.2
1968.....	20.9	9.1	.6	1.7	5.3	2.2	2.1
Excluding Vietnam:							
1966.....	17.5	6.8	.8	1.6	4.4	1.8	2.2
1968.....	17.9	6.4	.6	1.7	5.3	2.2	2.1

¹ Less than 0.05%.

RELATIONSHIP OF THE BUDGET TO THE FEDERAL SECTOR OF THE NATIONAL INCOME ACCOUNTS

The national income accounts depict the Nation's current production, income, and spending in separate major categories which are designed to aid understanding of the operations of the economy and to facilitate useful economic analysis. These accounts attempt to include all current income and production activities and do not measure transactions—such as loans—which represent an exchange of assets rather than income or production. Loan transactions have a significant economic impact, affecting both income and output, but they are best analyzed as part of monetary rather than fiscal policy. Special Analysis E (Federal credit programs) and the means of financing statement (p. 61 of the budget) are both designed to facilitate a study of the monetary policy implications of the budget.

Budget outlays are divided into two major segments—the expenditure account and the loan account. All transactions included in the loan account are excluded from the Federal sector, so this discussion will focus exclusively on how the Federal budget expenditure account relates to the Federal sector account.

Table B-3 shows the major differences between the receipt-expenditure account in the budget and the Federal sector estimates. These differences are explained in the following paragraphs.

Employee retirement.—The Civil Service and Foreign Service retirement programs are financed by employer and employee contributions. Retirement benefits under these programs are recorded as expenditures in the budget and as transfer payments in the Federal sector

Table B-3. RELATIONSHIP OF THE RECEIPT-EXPENDITURE ACCOUNT TO THE FEDERAL SECTOR NIA (in billions of dollars)

	1967 actual	1968 estimate	1969 estimate
RECEIPTS			
Total budget receipts.....	149.6	155.8	178.1
Employer share, employee retirement (grossing).....	1.7	1.9	2.0
Other netting and grossing.....	1.1	1.2	1.2
Adjustment to accruals.....	-4.8	2.2	1.1
Other.....	(¹)	(¹)	(¹)
Federal sector, NIA receipts.....	147.6	161.1	182.5
EXPENDITURES			
Total budget expenditures (excludes net lending).....	153.2	169.9	182.8
Employer share, employee retirement (grossing).....	1.7	1.9	2.0
Other netting and grossing.....	1.1	1.2	1.2
Defense timing adjustment.....	-.4	.3	.4
Lending in the expenditure account.....	-1.4	-1.7	-2.1
Dollar expenditures to finance agricultural exports.....	-.8	-.7	-.5
Other.....	1.6	.2	1.1
Federal sector, NIA expenditures.....	155.1	171.1	185.0

¹ Less than \$50 million.

accounts. The contributions of Government agencies, as employers, to these retirement trust funds are deducted from total budget expenditures since these contributions represent intragovernmental transactions. However, the NIA accounts consider Government payments for employee retirement to be part of the compensation paid to Government employees who, in turn, make their trust fund contributions. Therefore, the Federal sector accounts include the Government's contributions to employee retirement funds in both receipts and expenditures. Likewise, Federal payments on behalf of its employees to the old-age and survivors disability insurance programs are included in Federal sector receipts and expenditures. These adjustments affect total receipts and expenditures equally and thus do not alter the budget surplus or deficit.

Other netting and grossing.—The budget normally counts as receipts only income from taxation or revenues due to the exercise of governmental power to compel. Money received in the course of business type transactions, therefore, are normally shown as offsets against expenditures. For instance, receipts from two major insurance programs operated by the Veterans Administration (National Service Life Insurance and United States Government Life Insurance) are

netted against expenditures in the budget since these programs are voluntary, business-type activities. However, in the NIA the receipts are treated in the same way as receipts from compulsory Government insurance programs. This adjustment also has no impact on the budget surplus or deficit.

Timing adjustments.—At the present time the budget counts receipts when the cash is collected, and most expenditures when the checks are issued to pay the bills. In the NIA receipts are counted when the income is earned or when the transaction giving rise to the receipt occurs, even though the cash may be received at a later point. Accrued expenditures record outlays when the production or work takes place rather than when the payment is made. This permits changes in receipts and expenditures to more accurately reflect the impact of the Government on the economy. Since the accrual concept is followed in the national income accounts receipts, they differ from budget receipts by the amount of estimated accruals which are not collected in the time period covered.

Defense purchases are recorded in the Federal sector at the time of delivery of goods instead of when they are paid for; work in process on fixed-price contracts is counted as change in business inventories. Both the budget and the Federal sector record public debt interest when it accrues.

Lending.—The loan account in the budget includes only those domestic credit transactions where there are definite requirements for full repayment of the loans, plus all foreign loans made on commercial terms. Those credit programs which do not meet these requirements are included in the expenditure account. The Federal sector, however, excludes not only all lending transactions included in the loan account, but also some credit programs included as expenditures in the budget—such as foreign loans in AID and tobacco and foreign loans in the Commodity Credit Corporation (CCC). Certain credit transactions in the expenditure account—like most CCC nonrecourse commodity loans—are treated as purchases of goods under the national income accounts concept.

Dollar expenditures to finance agricultural exports.—The Commodity Credit Corporation facilitates the export of agricultural products by acquiring the foreign currencies used to pay for such commodities. This expenditure of dollars is included in the budget but excluded from the Federal sector on the ground that it is an exchange of financial assets: dollars for foreign currencies. When the foreign currencies thus acquired are spent, they are then counted as Federal sector expenditures.

Other.—This category includes some of miscellaneous adjustments largely for certain specialized aspects of the national income accounts

such as purchases and sale of land, which are included in the budget but not in the national income accounts. Certain nondefense timing adjustments are included here because of the difficulty in separating them from other adjustment categories included herein. It also includes adjustments for the expenditure of foreign currency acquired as described in the paragraph above.

MAJOR CATEGORIES OF THE FEDERAL SECTOR OF THE NATIONAL INCOME ACCOUNTS

Federal sector receipts.—Federal receipts on a national income basis largely reflect the tax payments or liabilities of individuals and of corporations and other businesses arising out of incomes earned. They also include other tax and nontax receipts. These receipts are classified into the following four categories: (1) personal tax and nontax receipts, (2) corporate profits tax accruals, (3) indirect business tax and nontax accruals, and (4) receipts from contributions for social insurance.

1. *Personal tax and nontax receipts* consist mostly of individual income taxes, estate and gift taxes, fines, fees, and donations.

2. *Corporate profits tax accruals* comprise the Federal tax liability incurred and accrued on corporate earnings during the specified year or period. While the budget treats Federal Reserve payments of earnings to the Treasury as miscellaneous receipts, these are included in the corporate profit tax category in the Federal sector.

3. *Indirect business tax and nontax accruals* consist primarily of excise taxes, customs duties, and Federal receipts from rents and royalties.

4. *Contributions for social insurance* are composed chiefly of payroll taxes for retirement, disability, hospital, and unemployment insurance, plus employer and employee contributions to retirement funds of Federal Government employees and premiums for federally operated veterans and medical insurance programs.

Table B-4 shows the adjusted receipts and expenditures after reclassification into the national income accounts categories.

Table B-4. FEDERAL RECEIPTS AND EXPENDITURES IN THE NATIONAL INCOME ACCOUNTS (in billions of dollars)

Description	1967 actual	1968 estimate	1969 estimate
RECEIPTS, NATIONAL INCOME BASIS			
Personal tax and nontax receipts.....	64.6	71.0	83.8
Corporate profits tax accruals.....	31.4	34.3	37.2
Indirect business tax and nontax accruals.....	15.9	17.1	18.1
Contributions for social insurance.....	35.7	38.7	43.4
Total receipts, national income basis.....	147.6	161.1	182.5
EXPENDITURES, NATIONAL INCOME BASIS			
Purchases of goods and services.....	84.5	92.8	99.4
Defense.....	(67.6)	(74.4)	(78.8)
Nondefense.....	(16.9)	(18.4)	(20.6)
Transfer payments.....	39.8	44.9	49.9
Domestic ("to persons").....	(37.7)	(43.0)	(47.9)
Foreign.....	(2.1)	(1.9)	(2.0)
Grants-in-aid to State and local governments.....	15.4	18.0	20.0
Net interest paid.....	10.1	10.7	11.2
Subsidies less current surplus of Government enterprises.....	5.3	4.6	4.5
Total expenditures, national income basis.....	155.1	171.1	185.0
Surplus (+) or deficit (-), national income basis.....	-7.5	-10.0	-2.5

Federal sector expenditures.—Federal expenditures on a national income basis represent either purchases of goods and services or outlays which directly affect current levels of income. These expenditures are classified in the following five categories: (1) purchases of goods and services, (2) transfer payments, (3) grants-in-aid to State and local governments, (4) net interest paid, and (5) subsidies less current surplus of Government enterprises. The definitions of the categories have been developed by the Department of Commerce so that they are consistent with the framework of accounts used to cover all sectors of the Nation's economic activity.

1. *Purchases of goods and services* measure the value of the Nation's output (i.e., gross national product) bought directly by the Federal Government. Thus, Federal expenditures for goods and services represent the value of output taken by the Federal Government itself.

These purchases include the pay of active military and civilian employees of the Federal Government, employer contributions for retirement, insurance, and other benefits for Federal employees; deliveries of equipment and supplies for defense and other programs; construction put in place for the Government; payments on research and development contracts with corporations and on similar agree-

ments with private nonprofit institutions; expenditures for the purchase of commodities to be donated to schools or similar institutions; and, generally, the administrative expenses of Government programs.

Federal purchases, in turn, are classified in two major subcategories—defense and nondefense. The defense category includes purchases for those activities classified under the defense function of the budget. Purchases for all other types of activities are classified as nondefense.

2. *Transfer payments* consist of expenditures by the Federal Government for which no *current* services have been rendered. Examples of transfer payments are: veterans compensation, pensions, and benefits; retired pay to Federal civilian or military personnel; unemployment benefits; old-age, survivors, disability, health, and supplemental medical insurance; and nonrepayable outlays for scholarships and fellowships.

Although transfer payments do not directly enter gross national product as a Federal Government component, they are a part of personal income and are counted as part of national output when respent by the recipients.

3. *Grants-in-aid to State and local governments*, for purposes of the national income accounts, are Federal payments (other than for interest on the public debt) to State and local governments, including State and local educational institutions. Like transfer payments and net interest paid, Federal grants-in-aid are counted in the GNP when spent by recipients—in this case, as purchases by State and local governments or as consumption expenditures of individuals receiving State or local transfer payments.

4. *Net interest paid* consists of the interest outlays to residents (including State and local governments) minus the interest received from them.

5. *Subsidies less current surplus of Government enterprises* consists of two elements which are consolidated for statistical reasons: (a) subsidy payments to resident businesses and (b) the “current surplus” or “deficit” of Government enterprises.

(a) A subsidy is a monetary grant to a private business. By definition, therefore, subsidies are made only to businesses organized for profitmaking purposes (including farms). Examples of subsidies are Government payments to farmers for land retirement, payments to air carriers, and the operating differential subsidy of the Maritime Administration.

(b) Government enterprise is the term applied to those functions of the Government (usually appearing in the budget as public enterprise revolving funds) for which operating costs are to a great extent covered by the sale of goods and services to the public, as distinguished from those being financed by tax receipts. Government enterprises conduct operations which are of a business-type nature. The difference between their sales and current operating expenses constitutes the surplus or deficit of Government enterprises. The Post Office and the Tennessee Valley Authority are two of the largest enterprises.

Table 18. FEDERAL TRANSACTIONS IN THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 1958-1969
(Fiscal years. In billions of dollars)

Description	Actual										Estimate	
	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
RECEIPTS, NATIONAL INCOME BASIS												
Personal tax and nontax.....	36.3	38.2	42.5	43.6	47.3	49.6	50.7	51.3	57.5	64.6	71.0	83.8
Corporate profits tax accruals.....	17.8	21.5	22.3	20.3	22.9	23.5	25.7	27.8	31.0	31.4	34.3	37.2
Indirect business tax and nontax accruals.....	11.6	11.9	13.2	13.3	14.2	15.0	15.6	16.9	15.8	15.9	17.1	18.1
Contributions for social insurance.....	12.2	13.8	16.7	18.1	19.9	22.1	23.5	24.5	28.6	35.7	38.7	43.4
Total receipts, national income basis.....	77.9	85.4	94.8	95.3	104.2	110.2	115.5	120.6	132.9	147.6	161.1	182.5
EXPENDITURES, NATIONAL INCOME BASIS												
Purchases of goods and services.....	50.7	54.7	52.7	55.5	60.9	63.4	65.7	64.3	71.7	84.5	92.8	99.4
Defense.....	(44.8)	(46.4)	(45.0)	(46.7)	(50.5)	(50.4)	(50.9)	(48.8)	(54.5)	(67.6)	(74.4)	(78.8)
Nondefense.....	(5.9)	(8.3)	(7.8)	(8.9)	(10.4)	(13.0)	(14.7)	(15.5)	(17.3)	(16.9)	(18.4)	(20.6)
Transfer payments.....	19.5	21.6	22.4	25.6	27.2	28.5	29.5	30.4	34.1	39.8	44.9	49.9
Grants-in-aid to State and local governments.....	4.7	6.2	6.8	6.9	7.6	8.4	9.8	10.9	12.7	15.4	18.0	20.0
Net interest paid.....	5.7	5.9	7.0	6.8	6.8	7.5	8.1	8.5	9.0	10.1	10.7	11.2
Subsidies less current surplus of Government enterprises.....	2.5	2.4	2.3	3.2	3.8	3.6	3.8	4.1	4.5	5.3	4.6	4.5
Total expenditures, national income basis.....	83.1	90.9	91.3	98.0	106.4	111.4	116.9	118.3	131.9	155.1	171.1	185.0
Excess of receipts (+) or expenditures (-), national income basis.....	-5.1	-5.5	+3.5	-2.7	-2.1	-1.2	-1.4	+2.3	+9	-7.5	-10.0	-2.5

Source.—Actual data for 1958-67 are based on the estimates prepared by the Department of Commerce. Data for 1968 and 1969 are based on estimates by the Bureau of the Budget in cooperation with the Department of Commerce.

Table 20. FEDERAL SECTOR OF THE NATIONAL INCOME AND PRODUCT ACCOUNTS, 1940-1968 (in billions of dollars)

Fiscal year	Gross national product	Federal sector of the national income and product accounts					
		Receipts	Expenditures		Excess of receipts (+) or expenditures (-)	As a percent of GNP	
			Total	of which, purchases of goods and services		Total Federal expenditures	Federal purchases of goods and services
1940	95.0	7.6	9.1	5.3	-1.5	9.6	5.5
1941	109.4	12.1	13.4	9.6	-1.3	12.3	8.8
1942	139.2	19.6	33.6	29.9	-14.0	24.2	21.5
1943	177.5	28.9	76.8	72.3	-47.9	43.3	40.8
1944	201.9	43.1	91.3	85.6	-48.1	45.2	42.4
1945	216.8	43.0	98.2	89.7	-55.2	45.3	41.4
1946	201.6	38.4	55.5	40.1	-17.1	27.5	19.9
1947	219.8	42.7	29.5	13.0	+13.2	13.4	5.9
1948	243.5	43.6	30.9	13.2	+12.7	12.7	5.4
1949	260.0	40.0	39.6	19.3	+4	15.2	7.4
1950	263.3	42.0	42.4	19.0	-5	16.1	7.2
1951	310.5	60.8	44.6	25.1	+16.2	14.4	8.1
1952	337.2	65.1	66.0	46.6	-1.0	19.6	13.8
1953	358.9	69.3	75.8	56.1	-6.5	21.1	15.6
1954	362.1	65.8	74.2	53.2	-8.5	20.5	14.7
1955	378.6	67.2	67.3	43.9	-1	17.8	11.6
1956	409.4	75.8	69.8	45.2	+6.0	17.0	11.0
1957	431.3	80.7	76.0	47.7	+4.7	17.6	11.1
1958	440.3	77.9	83.1	50.7	-5.1	18.9	11.5
1959	469.1	85.4	90.9	54.7	-5.5	19.4	11.7
1960	495.2	94.8	91.3	52.7	+3.5	18.4	10.6
1961	506.5	95.3	98.0	55.5	-2.7	19.3	11.0
1962	542.1	104.2	106.4	60.9	-2.1	19.6	11.2
1963	573.4	110.2	111.4	63.4	-1.2	19.4	11.1
1964	612.2	115.5	116.9	65.7	-1.4	19.1	10.7
1965	653.5	120.6	118.3	64.3	+2.3	18.1	9.8
1966	718.7	132.9	131.9	71.7	+9	18.4	10.0
1967	763.1	147.6	155.1	84.5	-7.5	20.3	11.1
1968	817.0	161.1	171.1	92.8	-10.0	20.9	11.4

AFTERNOON SESSION

PROPOSALS FOR NEW LEGISLATION—AFFECTING REVENUE AND OUTGO

Mr. MAHON. Without objection, the committee will resume.

Mr. Director, this morning in your statements, and in certain charts that were presented, and to some extent in the discussion, various contingencies and legislative actions were discussed or alluded to. When you get your remarks, will you insert tabulations that will enumerate, both as to the revenue side and the outlay side of the budget, the various assumptions or the various amounts that hinge on specific legislative action. With respect to revenue, please list the tax proposals, the user charge proposals, and so forth. With respect to expenditures, please list the FNMA item that you mentioned that depends on legislative action; the propositions of legislation for new programs or new or expanded features of old programs. Show both outlays and new obligational authority, so we will have this information for ready reference.

Mr. ZWICK. Yes, sir.

(The information follows:)

1969 BUDGET—ITEMS PROPOSED FOR SEPARATE TRANSMITTAL, PROPOSED LEGISLATION

[In thousands of dollars]

	1968		1969	
	NOA	Exp.	NOA	Exp.
Funds appropriated to the President:				
Military assistance: Foreign military credit sales.....			120,000	6,000
International financial institutions:				
Inter-American Development Bank (callable capital).....			205,900	
Subscription to the International Development Association.....			240,000	10,000
Total.....			565,900	16,000
Agriculture:				
Agricultural Research Service: Salaries and expenses, self-supporting activities (user charges)....			-1,536	-1,536
Consumer and Marketing Service:				
Consumer protective, marketing, and regulatory programs—Establishment of revolving fund for user charges.....	4,766		-11,655	-11,030
Food stamp program.....			20,000	15,000
Removal of surplus commodities—Establishment of user charges.....				-1,500
Total, agriculture.....	4,766		6,809	934
Defense-military:				
Military personnel: Servicemen's group life insurance.....			23,000	23,000
Operation and maintenance: Federal employee status for civilian technicians, and increased travel allowances for military personnel.....			52,000	47,000
Total, defense-military.....			75,000	70,000
Health, Education, and Welfare:				
Office of Education:				
Higher educational activities.....			23,000	
Expansion and improvement of vocational education.....			15,000	7,000
Social and Rehabilitation Service: Juvenile delinquency prevention and control.....			25,000	20,000
Office of the Secretary: Public broadcasting program.....			20,000	20,000
Total, HEW.....			83,000	47,000

1969 BUDGET—ITEMS PROPOSED FOR SEPARATE TRANSMITTAL, PROPOSED LEGISLATION—continued

[In thousands of dollars]

	1968		1969	
	NOA	Exp.	NOA	Exp.
Housing and Urban Development:				
Housing and urban development programs (housing programs, services in public housing, and new towns).....			30,000	14,000
Metropolitan development incentive grants.....			10,000	3,000
Total, HUD.....			40,000	17,000
Justice: Control of crime (safe streets bill).....	30,000	10,000	80,000	39,000
Labor:				
Manpower administration:				
Salaries and expenses, Office of Manpower Administration, for labor mobility assistance.....			4,600	2,300
Trade adjustment activities.....			10,000	8,000
Wage and labor standards: Salaries and expenses.....			-3,475	-3,475
Total, Labor.....			11,125	6,825
Transportation:				
Federal funds:				
Federal Highway Administration:				
Highway beautification.....	85,000		85,000	51,000
Forest highways, current (finance from highway trust fund).....	-33,000	-34,115	-33,000	-35,000
Public lands highways, current (finance from highway trust fund).....	-16,000	-10,424	-16,000	-10,000
St. Lawrence Seaway Development Corporation: Rehabilitation of locks.....	13,105			
Subtotal, Federal funds.....	49,105	-44,539	36,000	6,000
Trust funds:				
Forest highways.....	110,065	44,539	(33,000) { 16,000 }	45,000
Public lands highways.....	40,324			
Subtotal, trust funds.....	150,389	44,539	49,000	45,000
Total, DOT (Federal and trust funds).....	199,494		85,000	51,000
Veterans' Administration:				
General and special funds:				
Liberalization of pension benefits and aid for returning veterans.....			115,500	88,500
Refinements in statutory veterans benefits.....			-106,600	-106,600
Total, Veterans' Administration.....			8,900	-18,100
Civil Service Commission: Intergovernmental personnel assistance program.....			20,000	12,000
District of Columbia: Federal payment to District of Columbia.....			10,200	10,200
Export-Import Bank: Authorization to spend debt receipts (the export expansion program).....				15,000
Grand total.....	234,260	10,000	985,934	266,859

In addition to the items included in the above listing, legislation will be required to effect \$400 million of the \$669 million program reform proposed in the budget message for the Department of Housing and Urban Development. (The remainder may be accomplished under existing law). This legislation, by lifting statutory interest rate ceilings, would have an impact on FNMA's (1) special assistance for rent supplement housing, and (2) management and liquidating functions fund financing of FHA purchase money mortgages.

REVENUE LEGISLATION

The estimated effect of proposed legislation on budget receipts is summarized in the following table:

[In millions]

Proposal	Fiscal year 1968	Fiscal year 1969
Income taxes:		
Proposed surcharge:		
Individual income taxes.....	\$930	\$6,920
Corporation income taxes.....	970	2,880
Acceleration of corporation tax payments.....	800	400
Subtotal, income tax proposals.....	2,700	10,200
Excise taxes—extension of present rates:		
Automobiles.....	190	1,500
Telephone service.....	116	1,160
Subtotal, excise extensions.....	306	2,660
User charges: ¹		
Transportation:		
Aviation services.....		40
Waterways.....		7
Highways—increase diesel fuel tax and apply graduated use tax on heavy trucks.....		239
Other.....		11
Subtotal, user charges ¹		297
Total, revenues under proposed legislation.....	3,006	13,157

¹ Excludes charges which are offset against the expenditures of the programs to which they apply.

VALIDITY OF ECONOMIC ASSUMPTIONS UNDERLYING REVENUE ESTIMATES

Mr. MAHON. With respect to the validity of your revenue assumptions, Mr. Secretary, we need not get into this in great depth, at the moment, but to the extent your charts and statements do not already do so, we want you to undertake to demonstrate for the record that the economic assumptions underpinning your revenue estimates are not too rosy, as some seem to suggest. For example, we note that the GNP for calendar 1968 is projected at \$61 billion higher than calendar 1967, although last year it was only about \$42 billion over the previous year, 1966.

On that point, we would be glad to have you briefly relate the rule of thumb relationship of GNP to Federal revenues. Is it something like \$150 million in revenues for every \$1 billion in GNP?

Mr. FOWLER. You want that for the record?

Mr. MAHON. Yes.

Mr. FOWLER. A very quick answer on the \$61 billion is, that it is grounded on the expectations of the economic report. The \$61 billion estimate is not an exceptionally optimistic assumption because GNP increased about \$32.5 billion in the last half of 1967, which is a rate of \$65 billion a year. Frankly, the \$61 billion is a projection which hopefully assumes that the impact of the fiscal, coming from the tax bill, and expenditure restraint measures will pull the economy back from the \$65 million a year rate of increase, at which it has been going, to a level closer to \$60 billion.

Mr. MAHON. So you would assume this is a conservative figure.

Mr. FOWLER. I am afraid so.

Mr. MAHON. Corporate profits for calendar 1968 are assumed to be up nearly \$7 billion over 1967 despite the fact that 1967 reflected a drop of nearly \$4 billion below 1966. Also, explain if there is a rule of thumb relationship here. Personal income in calendar 1968 is assumed to be up by \$48 billion over last year.

Last year was up about \$42 billion over 1966. You might give us some illumination on that issue.

Mr. FOWLER. In that connection, I would like to note for the record, in chart No. 3 of the charts on fiscal policy in perspective, that original revenue estimates compared with actual receipts show that in 1964, 1965, 1966, and 1967 the actual revenues exceeded the original estimates. That was not true in 1968—1968 revenues were short of the estimates because of the economic conditions that existed in the calendar year 1967, which were, as I have indicated in my earlier statement, a sharp inventory adjustment, causing the gross national product to increase by only about \$13 billion.

(Note. The following was supplied later:)

REVENUE ESTIMATES FOR FISCAL 1969

The budget revenue projections for the fiscal years 1968 and 1969 assume a continuation of the economic expansion that has characterized the past 7 years. GNP for the calendar year 1968, the period most important in determining fiscal 1969 receipts, is estimated at \$846 billion. The increase over 1967 is \$60.9 billion or 7.8 percent. The 1968 growth exceeds the 5.6-percent growth for 1967 but is less than the 8.7-percent growth experienced in 1966 and the 8.1-percent growth in 1965. Both of these years were years of expansion in which the economy made increasing use of its unutilized resources. Unemployment in 1968 is expected to continue at about the same rate that was experienced in the last part of calendar year 1967 and remain below 4 percent.

Incomes generally will rise with the expected gain in GNP. Personal income is estimated to increase from \$626.3 billion in calendar 1967 to \$675 billion in 1968. The projected rise of \$48.7 billion is greater than the \$42.3 billion increase experienced in 1967 and exceeds as well the 1966 and 1965 gains.

Corporate profits declined in the first two quarters of calendar 1967, but rose by a small amount in the third quarter and by a substantial amount, \$2.6 billion in the fourth quarter. For the entire year 1967 profits were \$80.1 billion, \$3.7 billion less than the 1966 total.

In calendar 1968 profits are estimated to rise to \$87 billion. The profits share of GNP in 1968 under the projections would be 10.28 percent, somewhat above the 10.20 percent in 1967, but substantially less than 11.3 percent and 11.2 percent shares for 1966 and 1965, respectively.

On the new unified budget basis, receipts in fiscal 1969 are estimated at \$178.1 billion. This is a rise of \$22.3 billion above the 1968 estimate. The projected increase is divided approximately equally between the rise in receipts due to economic growth and increases due to enacted or proposed change in tax rates. The proposed 10-percent income tax surcharges are estimated to amount to \$9.8 billion in fiscal 1969, \$7.9 billion more than the effect of the surcharge on 1968 revenues. Social security legislation enacted in 1967 increased the taxable wage base effective January 1, 1968, from \$6,600 to \$7,800 and increased the combined tax rate on employers and employees from 8.8 to 9.6 percent as of January 1, 1969. The effect of these changes is to increase tax receipts in fiscal 1969 over 1968 by \$3 billion. The combined effect of these two major legislation changes, therefore, accounts for \$10.9 billion of the total increase of \$22.3 billion. The remaining \$11.4 billion is accounted for entirely by the increase in revenues resulting from economic growth although there are several other factors which are virtually offsetting affecting the rise in fiscal 1969 revenues. The increase in revenues due to economic growth is \$11.5 billion which is 18.9 percent of the rise in GNP. This relationship will vary with the size of the gain in GNP and the relative sizes of the personal income and corporate profits shares.

The individual income tax is by far the most important source of revenue. It provides \$80.9 billion or 45.4 percent of the total receipts of \$178.1 billion estimated for fiscal 1969. The increase in individual income tax receipts, fiscal 1969 over 1968, is \$13.2 billion. The proposed income tax surcharge provides \$6 billion of the increase with the remainder being due primarily to economic growth.

Corporation income taxes are estimated at \$34.3 billion in fiscal 1969, a rise over 1968 of \$3 billion. This increase reflects the expected rise in profits and the full-year effect of the proposed surcharge offset in part by the fact that the

acceleration in corporation tax payments enacted in 1966 increased receipts in fiscal 1968 but not in 1969.

Employment taxes are estimated to increase from \$29.7 billion in fiscal 1968 to \$34.2 billion in 1969. Legislative changes account for \$3 billion of the increase and economic growth for the remaining \$1.5 billion.

Excise tax revenues in fiscal 1969 are expected to rise by \$0.8 billion in fiscal 1969 to \$14.7 billion. The extension of present excise rates on passenger automobiles and telephones accounts for \$2.7 billion of the total yield in 1969. Proposed user charges amount to approximately \$0.3 billion in 1969.

Other revenue sources are estimated to amount to \$14.1 billion in fiscal 1969. The rise over 1968 is \$0.8 billion. Estate and gift taxes account for \$0.3 billion of the increase, customs for \$0.1 billion, miscellaneous receipts for \$0.3 billion, and premiums for other insurance and retirement for \$0.2 billion. Unemployment tax receipts, the only major revenue sources to show a decline are estimated to drop \$0.1 billion in 1969.

PARTICIPATION SALES CERTIFICATE PROPOSALS

Mr. MAHON. We had a discussion this morning about the highly controversial subject of participation sales or participation certificates—PC's. What about the virtue of this method? There is, of course, as you know, much controversy about this technique. Certain premiums have been necessary in order to sell these certificates. Is that still true? Can you tabulate in one place the interest insufficiency items that are scattered in the several bills? Why should we continue to follow this method and why not just sell regular Treasury bills and notes? That question may arise again.

Will you give us further explanation of this?

Mr. FOWLER. Mr. Chairman, we have felt that the practice started in 1954 of disposing, in a regular manner on an annual basis, of a portion of the assets of the Government in good loans was a desirable practice. It is clear that the interest rates, the yield on the participation certificates, is higher than that of the regular Treasury securities. But we believe it a desirable practice, in those cases where the Government assumes the direct lending responsibility and in a sense displaces the commercial lending sources, to plow back those lending responsibilities to the private sector. I think the difference of opinion about the accounting, which was the major source of the dispute, has been eliminated in the new budget format by the classification of the participation certificates as a means of financing rather than a negative expenditure. I am hopeful that the practice, which has been in use for the last 10 or 12 years, will no longer be as objectionable as in the past.

Mr. JONAS. Mr. Chairman, would you yield for a question on PC's?

Mr. MAHON. Yes.

Mr. JONAS. Mr. Secretary, you have stated what is said on all occasions on the floor when this subject comes up, that this is not anything different than what was done under the previous administration. You have said this practice began in 1954. I wish at this point in the record you would have someone prepare and insert a statement showing the differences between what was done then and what we are doing now. My recollection is that in those years what we did was exchange bonds. We would exchange or trade mortgages that the government owned for outstanding bonds which would then be cancelled and this would result in reducing the national debt. That is my recollection. I do not believe we sold participation certificates in 1954 at a premium

discount. In order to have this clear for future reference, I would like to have, if it is all right with you, a statement showing the difference.

Mr. FOWLER. I will be glad to supply that either as a comparison or contrast as the facts indicate.

Mr. MAHON. Give us a clear picture of the historical background. (The information follows:)

1954 P/C SALES

In 1954 to dispose of smaller business loans in its portfolio, the Reconstruction Finance Corporation, with the cooperation of a committee of bankers appointed by the American Bankers Association and the Association of Reserve City Bankers, developed a plan for the creation of what was termed the "RFC Loan Pool." As of February 28, 1954, 2,848 loans were selected for the pool. All but two of these had outstanding balances under \$500,000. The aggregate amounts of the unpaid balances and commitments was \$73,381,000. Certificates of interest bearing interest at the rate of 3½ percent per annum, each representing an undivided share of the pool loans, were sold to nearly 1,000 banks and private investors. The certificates of interest totaled \$47,165,000, and their sale resulted in the immediate return of that amount to the Government, and a corresponding negative expenditure. The certificates of interest were completely retired on July 5, 1956. At the time of the sale, Treasury securities of comparable maturity were yielding about 1½ percent.

1959 AND 1960 "MORTGAGE BOND" EXCHANGE

On October 21, 1959, and again on February 9, 1960, FNMA announced that it was making 4 percent VA mortgages, held in its management and liquidating functions, available on a competitive basis in exchange for 2¾ percent Treasury bonds investment series B. In these two transactions \$311.3 million of FNMA mortgages were exchanged for \$316.4 million of bonds.

This transaction was in compliance with the President's statement in the budget for fiscal year 1960:

For the fiscal year 1960, the Association will endeavor to cover its expenditures for mortgage purchases by receipts from mortgage sales and other sources. To make this possible without diverting the flow of new funds from the mortgage market, an estimated \$335 million in Government-owned mortgages will be offered to investors in exchange for certain Government bonds which then will be retired.

The proposed exchange was viewed as a step toward carrying out the congressional directive in the FNMA Charter Act approved August 2, 1954, which stated:

(c) Manage and liquidate the existing mortgage portfolio of the Federal National Mortgage Association in an orderly manner, with a minimum of adverse effect upon the home mortgage market and minimum loss to the Federal Government.

In addition the operations were viewed as permitting the maintenance of a balanced budget without requiring additional reductions in other expenditures or increases in taxes. That these transactions were to be reported as negative budget expenditures is clearly set forth in the 1960 Annual Report of the Housing and Home Finance Agency which stated, "Such bond retirements are reflected in the budget as receipt items (credited against FNMA expenditures) just as the purchases of the mortgages were originally reflected in the budget as expenditure items." An extract from page 260 of the annual report follows:

"LIQUIDATION

"Exchange of FNMA Mortgages for U.S. Treasury Bonds"

"On October 21, 1959, FNMA announced that it was initially making available, on a competitive basis, \$150 million, or thereabouts, of its 4-percent VA-guaranteed management and liquidating functions mortgages in exchange for U.S. 2¾ percent Treasury bonds, investment series B, 1975-80. The exchange had, as a basic purpose, the accomplishment of one of FNMA's statutory objectives—the liquidation of a portion of the management and liquidating portfolio 'in an orderly manner, with a minimum of adverse effect upon the home mortgage market and minimum loss to the Federal Government.' An additional and

significant benefit accrued to the Government. This benefit was a reduction of Government debt through retirement of the bonds acquired by FNMA and surrendered to the Treasury for cancellation. Such bond retirements are reflected in the budget as receipt items (credited against FNMA expenditures) just as the purchases of the mortgages were originally reflected in the budget as expenditure items.

"Offers to exchange, which were opened December 1, 1959, aggregated \$282.9 million, and of that amount \$188.3 million was approved at an average exchange price of \$102.03 face amount of bonds for each \$100.00 unpaid principal amount of mortgages. Under the initial exchange transaction, which was completed in March 1960, \$186.6 million of FNMA mortgages was exchanged for \$190.3 million face amount of bonds.

"On February 9, 1960, FNMA provided for a second exchange transaction under which \$200 million, or thereabouts, of 4-percent VA-guaranteed management and liquidating functions mortgages were made available, on a competitive basis, in exchange for U.S. 2¾-percent Treasury bonds, investment series B, 1975-80. Offers to exchange, which were opened March 8, aggregated \$129.7 million. All of the offers were approved at an average exchange price of \$101.28. Under the second exchange transaction, which was completed in June, \$124.7 million of mortgages was exchanged for \$126.1 million face amount of bonds.

"As a consequence of the two exchange transactions, \$311.3 million unpaid principal amount of FNMA mortgages was exchanged for \$316.4 million face amount of bonds; all but \$0.1 million of the exchange transactions was effected in 1960."

In addition to the two types of participation sales mentioned above, in 1953 and 1954 the Commodity Credit Corporation sold participations in a pool of price support loans. This operation is described in the hearings before the Committee on Finance, U.S. Senate, July-August 1957—"Investigation of the Financial Condition of the United States", part 2, pages 899-900.

"During the fall of 1953, the Commodity Credit Corporation formed a pool of price support loans against which certificates of interest were sold to the commercial banks of the country. The initial issue of \$357 million was followed by a second issue, in December 1953, of \$449 million, and a third issue, in February 1954, of \$351 million. Of these certificates of interest, \$940 million was outstanding at the close of the fiscal year 1954. This meant that the budget deficit for that year, of \$3,117 million, would have been \$4,057 million if the certificates of interest had not been issued. The purpose of the certificates was to encourage greater private participation in Commodity Credit programs, and it was also of assistance to the Treasury in keeping within the debt limit of \$275 billion.

"All of these certificates of interest issued during the fiscal year 1954 were redeemed in August 1954, and in November 1954, \$1,169 million of similar certificates were issued to cover the pool of price support loans available at that time. Many of these were redeemed before maturity so that the total amount of Commodity Credit Corporation certificates of interest, on June 30, 1955, was \$538 million. Thus the fiscal 1955 deficit of \$4,180 million would have been \$3,778 million had it not been for the operations in these certificates.

"There were no further issues of Commodity Credit certificates of interest after November 1954. The budget surplus of \$1,626 million in the fiscal year 1956 would have been a budget surplus of \$2,164 million, if it were not for the fact that the Treasury had to redeem the remaining outstanding Commodity Credit certificates of interest during that year."

Mr. JONAS. Your statement about what happened in the 1959-60 Mortgage Bond exchange confirmed my understanding that the Government then traded Government-owned mortgages for outstanding Government bonds and the bonds received in exchange for the mortgages were retired and the national debt was reduced in a corresponding amount. That is quite different than what you are doing when you dispose of capital assets and use the proceeds for general operating expenses instead of in reducing the national debt.

Mr. JONAS. Mr. Chairman, there is another question you asked that the Secretary did not answer. Will you state, Mr. Secretary, the full amount of insufficiencies you contemplate will arise if you dispose of

\$4 billion of PC's. Is that figure in the budget at any one particular place, or do you have to go through the whole budget to see what the insufficiencies will be on the \$4 billion.

Mr. ZWICK. It is scattered by agency.

Mr. JONAS. Can you pull that together and put in the record at this point the total insufficiencies if you sell the \$4 billion?

Mr. ZWICK. Yes, sir.

(The information follows:)

As indicated by the following table, the estimated 1969 insufficiencies related to the \$4 billion of 1969 participation sales amounts to \$32 million, requiring appropriations of \$12.1 million. When the 1969 insufficiencies related to participation sales in prior years are added to this, total insufficiencies are estimated at \$160 million, requiring \$89.4 million of appropriations.

ESTIMATE OF INSUFFICIENCIES—PARTICIPATION CERTIFICATE SALES, FISCAL YEAR 1969

[In thousands of dollars]

	Total	Veterans' Administration	Small Business Administration	Department of Agriculture	Department of Housing and Urban Development	Export-Import Bank
Insufficiencies.....	31,983	3,400	1,450	2,354	24,779	.....
Financed by—						
Investment income from participation sales fund (—).....	-3,781	-275	-1,450	-1,000	-1,056	.....
Retained earnings reserved to meet insufficiencies (—).....	-16,150	-1,050	.....	-1,354	-13,746	.....
New obligational authority.....	12,052	2,075	.....	.....	9,977	.....
Estimated sales.....	4,000,000	600,000	200,000	500,000	1,850,000	850,000

ESTIMATE OF TOTAL INSUFFICIENCIES—PARTICIPATION CERTIFICATES OUTSTANDING, FISCAL YEAR 1969

[In thousands of dollars]

	Total	Veterans' Administration	Small Business Administration	Department of Agriculture	Department of Health, Education, and Welfare	Department of Housing and Urban Development	Export-Import Bank
Insufficiencies.....	159,976	13,360	9,348	17,800	15,000	114,468	.....
Financed by—							
Investment income from participation sales fund (—).....	-28,221	-2,125	-7,701	-12,252	.....	-6,143	.....
Retained earnings reserved to meet insufficiencies (—).....	-45,732	-2,840	.....	-5,548	.....	-37,344	.....
Insufficiencies brought forward from prior year.....	23,360	3,185	.....	.....	175	.....	.....
New obligational authority.....	89,383	11,580	1,647	.....	5,175	70,981	.....

¹ No sales are planned for 1969. All amounts apply to prior years sales.

² These amounts are the portions of the 1968 insufficiencies which exceeded the 1968 appropriations for insufficiencies.

Mr. JONAS. I have one other question on that. We fought this battle out last year in Congress, and the result was that it was decided that Congress, at least, wanted to go to direct appropriations for these insufficiencies. But I notice the budget contemplates now going back to your original proposition of indefinite appropriations. Is that correct?

Mr. ZWICK. That is correct.

Mr. JONAS. We will have to fight that out again just as we did last year.

Mr. ZWICK. The reason for this, of course, Mr. Jonas, is that our people who handle these certificates tell us it costs us more money when we go to annual appropriations.

Mr. JONAS. I do not think that can possibly be so because the limitation was not to "exceed" a certain amount. That seemed to Congress to be more desirable than to give the administration a blank check to pay any amount of subsidy that it sees fit to do. We could not figure any other way to keep any kind of control on it.

I for one had thought that issue had been resolved with the Congress speaking specifically to it on several rollcalls. But if you have any argument to make in support of the claim that this is a better way of doing it, which I refer to as giving you an open end to spend any amount that you think the market justifies rather than tying it down to a definite appropriation item, I think it would be proper to have it at this point in the record.

Mr. MAHON. Be sure to supply adequate responses to the questions.

Mr. ZWICK. Yes, sir.

(The information follows:)

PARTICIPATION SALES INSUFFICIENCIES

For the 1967 participation sales, as recommended by the President, permanent indefinite appropriations to cover insufficiencies were provided. This procedure was contemplated under the original Participation Sales Act of 1966, and was also recommended by the President in the 1968 budget.

Appropriation acts for 1968, however, in every case, provided a definite appropriation with a specific amount intended to cover the payments necessary for 1 year alone on sales authorized in those acts—and did not provide for the long range of years the certificates are outstanding. If definite appropriations are continued in 1969, they will have to cover insufficiencies accruing on sales authorized in 1968 acts as well as those authorized in the 1969 acts.

Insufficiencies arise primarily from the fact that in most cases the interest rates payable on the certificates of participation will exceed the interest received from those placed in the pool, since many of these loans carry statutorily authorized interest rates well below market levels.

The sales authorizations represent the point of control over the sales program by the Appropriations Committees and the Congress. Under the new concepts, these authorizations are reported as new obligational authority. Once the sales are made, the insufficiencies will automatically accrue. The definite appropriation does not limit the amount of these insufficiencies in later years, and therefore provides no congressional control. There is no advantage for the Congress in going through the process of making specific new appropriations each year.

It is almost impossible to predict with accuracy, for any one year, the amount of the insufficiency which will materialize under new participation sales activities. The amount required depends upon (1) the timing of sales within the year, (2) the interest rate to be earned on the loans in the pool, and (3) the interest rates required to be paid in order to sell the participation certificates. Market conditions, of course, are a major factor on all three of these conditions. Interest rates on loans and securities of all types advanced sharply in 1966, then after a short period of decline, rose again in 1967. There have been wide fluctuations in 1968.

Examples of the inability to forecast these requirements in the 1968 estimates are an underestimate of \$3.2 million, requiring additional appropriations for the Veterans' Administration, and an overestimate of \$7.9 million for the Department of Housing and Urban Development, which will lapse.

With respect to the insufficiency requirements payable on certificates in later years, neither the Congress nor FNMA has any flexibility. Like interest on the public debt, these payments must be provided on schedule to preserve the credit standing of the Federal Government. It would be most unfortunate if investors in participation certificates were to get the impression that there is any doubt of the payments being made in full at the time when they are called for.

In view of the various methods available for covering any temporary shortages of the funds required to make principal and interest payments on participation sales certificates, there is no reason, in our judgment, to doubt that these pay-

ments will be made. Nevertheless, prospective buyers want absolute assurance that funds will be made available in sufficient amount and on time. Unwillingness to provide such assurance in advance by indefinite appropriations has caused some bond counsel to express doubts on the certainty of timely payment. To the extent such doubts arise, the terms on which participation certificate sales can be made would be less favorable; in other words, interest rates paid could be perceptibly higher. Such higher interest rates would automatically increase payments for insufficiencies. This is an unnecessary risk which can be avoided by enacting indefinite appropriations.

The President in 1968, and again this year, recommends the permanent indefinite appropriations like those enacted in 1967. The basic control over participation certificates would, of course, still remain with the Appropriations Committees of the Congress through the annual appropriation process which annually authorizes the amounts which may be sold.

(The following information was supplied for the record by the Treasury Department:)

The questions raised by Mr. Jonas strike at the merits of (1) an annual appropriation vs. a permanent appropriation and (2) a fixed appropriation vs. an indefinite appropriation.

The marketability of participation certificates can be somewhat reduced if the interest insufficiency appropriation needs to be acted upon annually by the Congress. The increase in cost, however, cannot be accurately justified. While the market reaction may be somewhat irrational in view of the guarantee of timely payment by FNMA backed by borrowing authority from the Treasury, there can be little question but that the marketability of participation certificates would be somewhat improved if assurance were provided through a permanent appropriation that funds would be automatically available as needed to meet interest and principal interest payments without any additional congressional or administrative action required.

When the Congress by appropriation action fixes a maximum amount of interest insufficiency payments that may be made in conjunction with the issuance of participation certificates, it thereby simply adds an additional, contingent limitation on the amount of participation certificates that may be sold. Such action does not limit the interest rate which must be paid in order to sell participation certificates in the market. Moreover, the amount of insufficiency payments does not directly increase or decrease the cost to the Federal Government of participation sales in any one to one manner. The Federal Government can finance loans by issuing additional Treasury obligations or by selling participation certificates. If the second route is followed, the additional cost incurred is simply the difference between rates of interest on the participation certificates and on the Treasury obligations. If the loans themselves were made at below market interest rates, the Federal Government will suffer a loss on that account no matter how it finances the loan transactions.

THE CIVIL SERVICE TRUST FUND

Mr. MAHON. Mr. Director, now that the trust funds are folded into the new budget concept, and treated as part and parcel of the budget rather than separately as heretofore, what is the situation in something like the civil service retirement fund, where I believe the fund is actuarially short, so to speak, over the long haul perhaps \$50 billion or so in its funded ability to meet estimated claims of covered workers in future retirement benefits? Is the projected budget deficit for 1969, of \$8 billion, ostensibly lower by the excess of income over outgo for 1969 in this retirement fund; that is, is there an apparent "windfall" in 1969 that reduces the deficit, but at the same time can it in reality be argued that the general fund takes on a big deficit that in fact exists in this trust fund as I have briefly stated it?

I wonder if you would comment on that generally when you extend your remarks, and if there are similar considerations in any of the other trust funds being incorporated into the unified budget, you could

touch that aspect. Of course, we realize that adoption of the concept does not in any sense change the applicable trust fund statutes at all. (The following information was supplied for the record:)

The trust funds show receipts in excess of outlays in each of the 3 years shown in the budget, as follows (see table C-4 on page 488 of the 1969 budget for more detail):

[In millions of dollars]

	1967 actual	1968 estimate	1969 estimate
Trust fund receipts.....	44,725	47,814	53,839
Trust fund outlays.....	38,589	43,946	46,469
Excess of receipts.....	6,136	3,868	7,370

This excess of receipts makes the budget deficit lower than it would be if the trust funds were excluded from the computation. However, the new budget deficit correctly reflects the Government's total transactions with the public. The trust funds are a part of those transactions.

In the case of trust funds whose liabilities, computed on an actuarial basis, exceed their resources, similarly computed—like the civil service retirement and disability fund—the change in budget presentation makes no change at all in the general fund's responsibility or liability. The integrity of each fund is still preserved. The general fund owes neither more nor less than it would have owed otherwise. Nor is there any change in the liabilities of all funds added together.

The President's Commission on Budget Concepts clearly recommended the inclusion of trust fund receipts and outlays in the computation of the budget surplus or deficit (pp. 5, 25, 26-27, and 102 of the report).

Mr. MAHON. Mr. Bow has some questions.

BUDGET SITUATION WITHOUT THE 10-PERCENT SURTAX PROPOSAL

Mr. Bow. Thank you, Mr. Chairman.

Mr. Secretary, your statement as the chairman has indicated relates a great deal to the necessity of passage of the surtax bill, so that we can have some fiscal responsibility. That is not, of course, the prerogative of this committee. Our committee is one that has to do with appropriations and spending. I should like to ask you this question, Mr. Secretary: In case there is no tax increase, could you tell this committee, then, what its responsibility would be with respect to further reductions in the budget, or would the administration be prepared, if there is no tax increase, to submit a new budget to us at a lower figure to try to prevent some of the things that might happen without a tax increase?

Mr. FOWLER. I could not answer the latter question, as to whether the administration would be prepared to submit a new budget or not. I would say that if there is no tax increase that every effort should be made to reduce the level of expenditures and to reduce the deficit.

Mr. Bow. You are not in a position to say at this time whether we would receive budget priorities from the administration.

Mr. FOWLER. I think that is a question that would be better addressed to the Director of the Budget.

Mr. Bow. Could you respond to that, Mr. Zwick?

Mr. ZWICK. We are obviously here fighting for the budget we have just presented to you in the last month.

Mr. Bow. On the basis of a tax increase?

Mr. ZWICK. Yes.

Mr. Bow. I note again today there have been suggestions that there won't be a tax increase. That puts an added responsibility, if no tax increase should come about, upon this committee. Are you prepared, if that should come about, to submit to us either a new budget or revised budget indicating to us some priorities where cuts could be made?

Mr. ZWICK. We have no specific contingency plan at the moment on that, Mr. Bow.

Last fall, as you know, we worked with these committees to enact Public Law 90-218, whereby we did cut back in a joint enterprise between the Congress and the executive. We have no specific plans at the moment.

Mr. Bow. But would you not agree that if such a situation should develop it would then put an additional responsibility upon this committee to make further and drastic cuts in the budget?

Mr. ZWICK. If our forecast about the behavior of the private economy is correct, and we get no tax increase and expenditures continue as we forecast, we clearly have a joint problem, both the executive and the legislative.

PROPOSED REDUCTIONS AND CUTBACKS

Mr. Bow. Thank you. In the budget message of the President and your charts, as I read them, you show that there is curtailment in certain programs as regards 1969 activities of \$1.6 billion of obligations and small reductions in 1969 expenditures.

You gave a list of those.

Mr. ZWICK. That is correct; those are the items on pages 20, 21, and 22 of the budget.

Mr. Bow. In determining that \$1.6 billion, what figures did you use to reduce the budget by that amount?

Mr. ZWICK. You mean what numbers are these subtracted from? We have a table which gives you the program level before and after the proposed reductions. I could submit it for the record.

Mr. Bow. I have seen that. In that connection, did you take into consideration House Joint Resolution 888—Public Law 90-218—and what the appropriations were last year?

Mr. ZWICK. These are cutbacks from the level that was appropriated before the resolution which cut back.

Mr. Bow. If you were to take House Joint Resolution 888 into consideration, your actual reduction would be about \$900 million rather than the \$1.6 billion. Am I correct in that?

Mr. ZWICK. It certainly would be less and that sounds about right, but I do not have that specific calculation. That sounds about right.

Mr. Bow. So actually, from the budget figures and the amounts appropriated the cut would be somewhere around \$900 million considering House Joint Resolution 888?

Mr. ZWICK. From the amounts appropriated minus the 2-10 cutback, yes, sir.

ADDITIONAL CIVILIAN EMPLOYEE POSITIONS

Mr. Bow. That was the result after we passed House Joint Resolution 888. I have only one other matter, Mr. Chairman. I was somewhat surprised in the reading of this budget to see that you anticipate in 1969 over 1968, 45,600 new employees. Can you discuss that a little? I have a list of where they are. There are 17,800 in Post Office, 3,400 in

Defense, 3,400 in Health, Education and Welfare, 1,400 in Housing and Urban Development, 2,400 in Interior, 1,000 in Labor, 1,900 in Transportation, 3,500 in Treasury. In fact, in the last 4 years ending with fiscal year 1969 full-time employment in the executive branch will have increased by 454,747. Tell us something about the need for these additional employees in view of what was done in House Joint Resolution 888 last year.

Mr. Zwick. Yes, sir. I will take 1969 over 1968 as we are now forecasting, or do you want to go back to 1968?

Mr. Bow. I think you might take that. If this is a tight budget, if you exercised real restraint, how do we get 45,600 new employees?

Mr. Zwick. Let me indicate the workload items that are involved here. As a prolog to that, let me point out again that in terms of either the Nation's population or as a percentage of the labor force these numbers are not going up. Again, you are getting the same reflection that you get when you look at expenditures as a percentage of gross national product. As your country gets bigger, it is almost inevitable that you have increased workload. Let me give you the specifics. Of the total 45,600 increase, the first and largest single increase is 17,800, or 39 percent of the total, for the Post Office Department to service a 3.8-percent increase in mail volume. Another 3,000 is for the Department of Defense for the support of the operations in Vietnam. Then there is an increase of 3,500 for the Treasury Department, for the Internal Revenue Service to stay abreast of 112 million tax returns, which will be up 3 million in 1969, and for the Bureau of Customs, which expects a 7-percent increase in foreign cargo entries. The Department of HEW will be up 3,400, reflecting a rise in the number of claims processed for old-age and survivors insurance, and an estimated 3 million increase in the number of bills and claims received under the supplementary medical insurance plan.

The Department of the Interior will be up 2400; first, for more teachers to educate Indians on reservations; second, for continued construction and operation of new power facilities initiated in prior years, again the implication of prior commitments; third, for work on water pollution control, including the staffing of new laboratories; and fourth, for handling an estimated 9-percent increase in visitation to national parks. The Department of Transportation is up 1900, reflecting additional workload of FAA as a result of increased aviation activity, such as an increase of roughly 15 percent in landing and take-offs at our major airports. Clearly, we have to add air traffic controllers as the workload increases.

The Veterans' Administration is up 1900, for the same reasons as the increase in 1968: to enlarge and improve hospital and medical services. The major objective is to provide better, more intensive medical care to shorten the patient's stay.

The Department of Housing and Urban Development is up 1400, covering a workload growth of 100,000 FHA mortgage insurance applications, and the new and expanded activity of the model cities and urban renewal programs. As you remember, that is one area where we have a significant expansion in the 1969 budget.

Mr. Bow. I will assume that the subcommittees will check very carefully on the question of new employees. We cannot go into that in detail today. I would hope we would check carefully the increases because we

have had increases greatly in excess of increases in population. The Department of Health, Education, and Welfare has had an increase in the last 4 years of 33 percent. Small Business: Up 31 percent: International Development: Up 23 percent. Peace Corps is up 50 percent. The Post Office, up 23.2 percent.

NUMBER OF FEDERAL EMPLOYEES RELATED TO POPULATION AND LABOR FORCE

Mr. ZWICK. I will be happy to submit for the record Federal civilian employment as a percent of population and as a percent of the civilian labor force. Both of those have been fairly constant.

I would like to say that we welcome intense scrutiny by the subcommittees. If they can cut further, we would be happy.

(The following table was later supplied for the record:)

FEDERAL CIVILIAN EMPLOYMENT RELATED TO POPULATION AND THE CIVILIAN LABOR FORCE

Year	Federal Government employment (thousands)	Average civilian labor force (age 16 and over) (thousands)	Federal employment per 1,000 population	Federal employment per 1,000 civilian labor force
1947	2,082	59,350	14.4	35.0
1948	2,044	60,621	13.9	33.7
1949	2,075	61,286	13.9	33.8
1950	1,934	62,208	12.7	31.0
1951	2,456	62,017	15.9	39.6
1952	2,574	62,138	16.3	41.4
1953	2,532	63,015	15.8	40.1
1954	2,382	63,643	14.6	37.4
1955	2,371	65,023	14.3	36.4
1956	2,372	66,552	14.0	35.6
1957	2,391	66,929	13.9	35.7
1958	2,355	67,639	13.5	34.8
1959	2,355	68,369	13.2	34.4
1960	2,371	69,628	13.1	34.0
1961	2,407	70,459	13.1	34.1
1962	2,485	70,614	13.3	35.1
1963	2,490	71,833	13.1	34.6
1964	2,469	73,091	12.9	33.7
1965	2,496	74,455	12.8	33.5
1966	2,664	75,770	13.5	35.1
1967	2,877	77,347	14.4	37.1

Mr. Bow. It is rather interesting to note on page 75 of the "Special Analysis," your chart on "Government-Civilian Employment"; and then to take a look at your chart in the 1969 budget charts on new budget concepts and compare the two. This shows the Federal employment and State and local employment. The one on page 75 is a special analysis.

Mr. ZWICK. That is right.

Mr. Bow. The Federal aid to States and local government is on the other chart that I have shown you.

Would you comment on the fact that increases in two charts look almost identical? Are we, by our grants and payments to the States, beginning to increase their employment? That is, are Federal funds going to increase the employment in State and local governments as well?

Mr. ZWICK. I presume so, sir, to some extent, as we are increasing grants. The chart I did show you indicates that we have continued the increase of grants to State and local governments. They are up \$2 billion in the 1969 budget. Presumably State and local governments are adding to the labor force to meet workloads.

Mr. Bow. Our grants of Federal funds are one of the reasons for this great increase of 77 percent since 1942.

Mr. ZWICK. Yes. Federal grants to State and local governments, as a portion of their total revenues, have gone up. Given the nature of the increased employment, they would have added to their labor force even if we did not increase our grants. But it is true, if you look historically at the revenues of the State and local governments, the proportion of their revenues that are coming from the Federal Government has trended up over time.

Mr. Bow. If you look at aid to States and local governments and Government-civilian employment, the charts look almost identical.

Mr. ZWICK. That is right.

Mr. MAHON. Would you yield at that point?

Mr. Bow. I would be glad to, Mr. Chairman.

Mr. MAHON. I wish you would discuss, Mr. Zwick, in detail for the record the charts to which reference has been made in these questions. I wish when you get this record that you would explain as fully as you can this much sharper increase in State and local civilian employment than in the Federal personnel figure.

Mr. ZWICK. Yes; sir.

(The information follows:)

Special analysis F of the 1969 budget contains a great deal of information on civilian employment in the executive branch. Much of the information which follows was drawn from that source.

Since the end of World War II, a number of pressures have been exerted on both the quality and scope of services at all levels of government. Among the most important are: increased population, rapid urbanization, growing incomes—providing a heightened awareness of those left behind in the general economic advance, as well as the resources to cope with the problems so revealed—the backlog of needs accumulated during wartime periods, and continued world tensions.

While the latter factor especially has had the greatest influence on employment in the Federal Government, most of the others have placed the heaviest demands on the more than 80,000 units of State and local government throughout the country. This is especially true of education, where the required increase in employment alone since 1950 exceeded total Federal civilian employment in 1967.

The outcome of these various forces has caused Federal civilian employment in the executive branch to rise from 2.1 million in 1947 to 2.9 million in 1967, or 38 percent. State and local employment over the same two decades has risen from 3.6 million to 8.9 million, nearly 150 percent. As a result, the Federal Government employs less than one-fourth of all civilian government employees. The table below shows the relative growth of total civilian employment since 1942.

GOVERNMENT EMPLOYMENT AND POPULATION, 1942-69

Year	Government employment				Population	
	Federal executive branch ¹ (thousands)	State and local governments (thousands)	All governmental units (thousands)	Federal as percent of all governmental units	Total United States (thousands)	Federal employment per 1,000 population
1942	2,272	3,310	5,582	40.7	135,361	16.8
1943	3,274	3,184	6,458	50.7	137,250	23.9
1944	3,304	3,092	6,396	51.7	138,916	23.8
1945	3,787	3,104	6,891	55.0	140,468	27.0
1946	2,666	3,305	5,971	44.6	141,936	18.8
1947	2,082	3,568	5,650	36.8	144,698	14.4
1948	2,044	3,776	5,820	35.1	147,208	13.9
1949	2,075	3,906	5,981	34.7	149,767	13.9
1950	1,934	4,078	6,012	32.2	152,271	12.7
1951	2,456	4,031	6,487	37.9	154,878	15.9
1952	2,574	4,134	6,708	38.4	157,553	16.3
1953	2,532	4,282	6,814	37.2	160,184	15.8
1954	2,382	4,552	6,934	34.4	163,026	14.6
1955	2,371	4,728	7,099	33.4	165,931	14.3
1956	2,372	5,064	7,436	31.9	168,903	14.0
1957	2,391	5,380	7,771	30.8	171,984	13.9
1958	2,355	5,630	7,985	29.5	174,882	13.5
1959	2,355	5,806	8,161	28.9	177,830	13.2
1960	² 2,371	6,073	8,444	28.1	180,684	13.1
1961	2,407	6,295	8,702	27.7	183,756	13.1
1962	2,485	6,533	9,018	27.6	186,656	13.3
1963	³ 2,490	6,834	9,324	26.7	189,417	13.1
1964	³ 2,469	7,236	9,705	25.4	192,120	12.9
1965	2,496	7,700	10,196	24.5	194,592	12.8
1966	2,664	8,320	10,984	24.2	196,920	13.5
1967	2,877	8,898	11,775	24.4	199,118	14.4
1968 (estimated) ⁴	2,932	-----	-----	23.8	-----	14.6
1969 (estimated) ⁴	2,987	-----	-----	23.0	-----	14.7

¹ Covers total end-of-year employment in full-time permanent, temporary, part-time, and intermittent positions except for summer workers under the President's Youth Opportunity Campaign; member employees of the Soldiers' Home; and various merchant seamen on vessels under Federal shipping contracts:

	1967 actual	1968 estimate	1969 estimate
Youth Opportunity Campaign	82,923	83,000	83,000
Merchant seamen	7,464	6,500	6,400
Member-employees of the Soldiers' Home	250	250	260

² Includes piece-rate census workers employed for the decennial census.

³ Excludes 7,411 project employees in 1963 and 406 project employees in 1964 for the public works acceleration program.

⁴ An official projection of population and of State and local government employment for 1968 and 1969 is not available. The percentages and ratios shown for these years are consistent with a range of reasonable estimates based on recent trends in population and State and local employment.

The surge in State and local employment is largely the result of heavy requirements for education—which now constitutes more than half of the total—as shown in the following table. Since 1960, alone, total employment in State and local governments has risen from 6.1 million to 8.9 million, or 2.8 million. Of the increase, education accounts for 1.8 million—or 62 percent of the total.

STATE AND LOCAL EMPLOYMENT

[In June of selected years. In thousands]

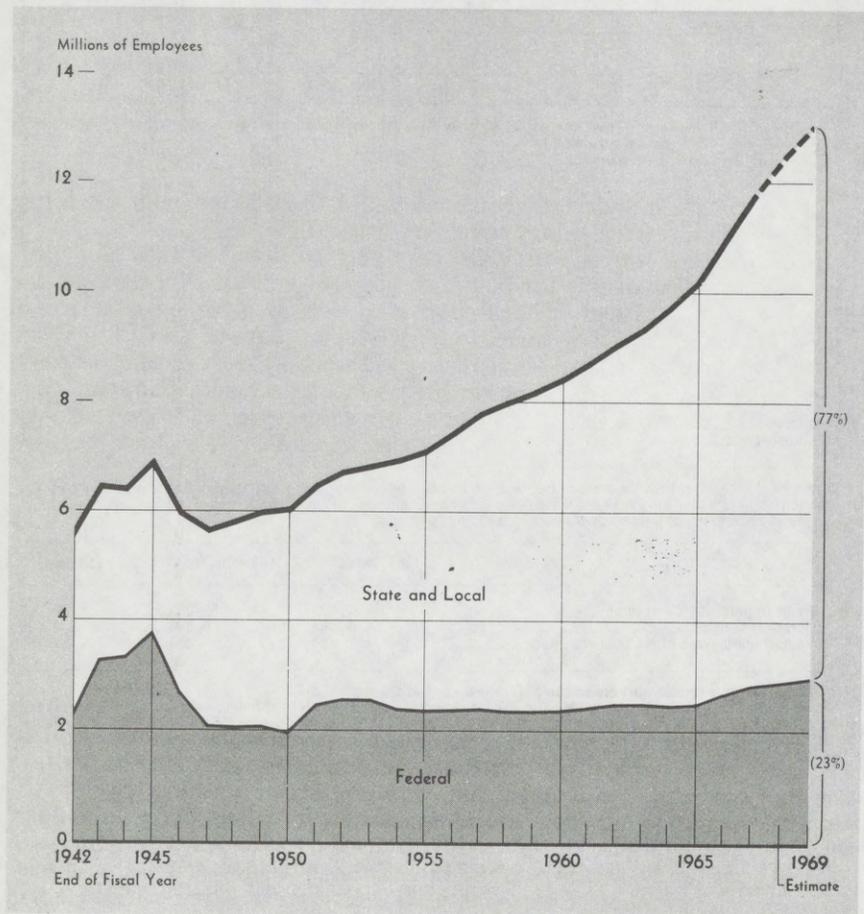
	1960	1965	1966	1967	Increase, 1960-67		
					Absolute amount	Total percent	Annual percent
Total	6,073	7,700	8,320	8,898	2,825	46.5	5.6
Education	(2,749)	(3,722)	(4,144)	(4,504)	(1,755)	(63.8)	(7.3)
Other	(3,324)	(3,978)	(4,176)	(4,394)	(1,070)	(32.2)	(4.1)

The balance of State and local employment, and the increase therein, is spread among a number of programs. For example:

Hospitals account for about 10 percent of the total ;
Highways employ another 8½ percent ; and
Police constitute nearly 5 percent.

The following chart graphically illustrates the increase in government civilian employment :

Government Civilian Employment



Mr. Bow. I believe that is all I have at this time, Mr. Chairman. I will yield to my colleagues.

THE CAUSES OF INFLATION

Mr. MAHON. Mr. Whitten has some questions.

Mr. WHITTEN. Mr. Secretary, so far we have largely dealt with this subject as though it was an individual instance or something that might require a little belt tightening in getting appropriations and taxes. Briefly for the record, what is the primary reason for inflation?

Mr. FOWLER. The primary cause?

Mr. WHITTEN. Yes.

Mr. FOWLER. There are two causes and they interact together, Mr. Whitten. I am a lawyer and not an economist, but my economist friends tell me that we have come to accept two concepts called cost-push inflation and demand-pull inflation. The demand-pull inflation is the one we more commonly know as too much money chasing too few goods. Cost-push inflation is the tendency for increases in wage and labor costs, particularly on a unit basis, to push up prices whenever the demand situation is such that a price increase can be made to stick, in terms of the competitive forces that are at work. This in turn increases the cost of living, which in turn causes new increases in wages and labor compensation, giving rise to a price spiral. These two things, as I say, interact together. I think it is quite difficult to take any given pattern of price increase, whether it be in the consumer price index or the wholesale price index, and identify one and say so much is due to demand-pull inflation and so much is due to cost-push inflation. Both, I think, are contributing very substantially to the rate of price increase which marked the last 6 months of the calendar year 1967 when the so-called price deflator moved up around 4 percent.

BALANCE-OF-PAYMENTS SITUATION

Mr. WHITTEN. As you can imagine, I am asking two or three questions here to lead up to the question that I have that I would like to explore. I do not want to limit you, may I say, to an offhand description here. I hope you will feel free with the record to fully explain the question. Now we come to this matter of dollar balances. If I understood you correctly this morning, a big part of our problem is that we are buying too much and selling too little, in a nutshell. Without tying you to that, would you explain what that situation is with regard to our problem on dollar balance?

Mr. FOWLER. It is not that we are buying too much and selling too little, because the level of our sales in the export market exceeds the level of our imports. However, I think that the so-called trade surplus that we have is not large enough to compensate for the other elements in the account, for which we have a deficit. This has to do with a number of items that enter into our balance-of-payments account.

I am trying to search for a paper here from which I can illustrate that. But suffice it to say that on the exchange of goods our trade surplus in 1967 was about \$4 billion. It was \$4.1 billion on the census basis. This is the mainstay, you might say, of our international financial position. Personally, I would think it would be a much healthier situation if that trade surplus were running at the rate of \$5 to \$6 billion rather than \$4 billion. Indeed, in 1964 we had a trade surplus, using comparable figures, of around \$7 billion. I think in order to carry the other elements in the balance-of-payments account, in which we are on the minus side, we need a much more substantial trade surplus than the one we had in 1967 or in 1966.

Mr. WHITTEN. Thank you, Mr. Secretary. What I am leading to is this: I have been on the committee several years, and I recall when Mr. Humphrey occupied your position, if I recall correctly, our Government was making a push to get the United States to make foreign investments. In fact, it was testified then, or perhaps later, that we had about \$60 billion which we had promoted into investment in for-

eign countries, long-term investments. I read where part of our problem comes from the fact that we have these long-term investments abroad, promoted by the Government, which are not due, and we in turn are in difficulty because we have short-term obligations.

Carrying this one step further, for years—and I think it is fairly well known here—I think our foreign policy has reached the point where we have to review it from start to finish. I think it is more or less bankrupt. With that background I am trying to describe why. In foreign aid we have done three or four things. In the first place, the money is expended and they get the goods and we get the money added to our money, which increases that type of inflation that you mentioned earlier, with more money chasing less goods. Not only that, but we have promoted many of our customers into becoming competitors when it comes to maintaining this increased trade balance which you mentioned. Recently I heard in a meeting where this recent *Pueblo* incident was discussed. That is not an incident, but it is one step in a continuing series of events. I was in Mexico two different years, and the foreign markets that we said we were building up through foreign aid, it seems that American corporations are going to Mexico and other countries, doing their production there, and selling from there, and we, instead of getting the new markets in the United States, U.S. capital is going abroad and furnishing those built-up markets from someplace outside the United States. There are other indications that much of these imports from several countries we could name really is American industry taking advantage of cheap foreign labor because the labor costs here are so high. I made a series of statements here and I am not going to prolong it.

Would you give us your comment as to any of these being factors [are] involved in this problem and whether this is not the time to review our overall situation instead of trying to handle it with just two slight instruments here—one is decreased appropriations, the other is increased taxes. Haven't we got to look at all these series of happenings that may have been gradually leading us to this situation. I am taking one more step. It has already led us to a good many things. If you read the "Decline of the Roman Empire," it is very, very similar, taking the silver out of our currency so we can spend it; mortgaging our notes through the PC's; now looking at this bill you are asking us to cut back attention to our natural resources so that we will be kind of living on the improvements we have made in our natural resources in the last few years. I realize that is a pretty big package but I would like to have your comment on whether this is a local and one-shot type of thing or whether we have been building up to it somewhat in the line that I have mentioned.

Mr. FOWLER. Mr. Whitten, I think I should comment in these terms: That in the blue book that was presented to you this morning, we, in the Treasury Department, have tried to analyze as best we could for Members of Congress and all interested persons all the factors that have led to a decision, expressed in the President's January 1 message, that the time has now come for us to eliminate what has become a chronic deficit in our balance of payments, a deficit which is a major contributing factor to an instability in the international monetary system, and a deficit which if left untended and uncorrected can disrupt the matchless pattern of progress that has occurred in world trade and development since World War II.

I think I would like to underscore what you have said, that this is not the result of a single factor or one or two factors. It does require an analysis of the entire pattern of international payments. In the picture we must take into account that although the amount of our exchanges over the borders in money terms is not very large in terms of our gross national product, it nonetheless is very important and very vital.

On page 2 of the summary and conclusions of this blue book you will find that in 1966 our total international payments, insofar as they can be measured, amounted to \$49 billion, while our foreign receipts were nearly \$48 billion. The resulting deficit in our balance of payments was \$1.3 billion. In 1967 this deficit increased to about \$3.6 billion. Although this is only a fraction of our gross national product, which was running around \$750 billion during that period of time, it is a very vital and important element. I think the American people and the American Congress can no longer ignore the challenge to take decisive action. Meeting that challenge has three elements:

First, it includes managing our own internal economy in such a way that we will not, by an excessive rate of growth, suck in large quantities of imports. Imports tend to come in at a much higher rate, when we are growing at an excessive rate of speed, than they do when we are traveling on a fairly stable, consistent, sustainable pattern. For example, when our rate of growth in money terms is in excess of 8 percent, it seems that we suck in imports at a much higher percentage of our gross national product than when our rate of growth in money terms is ranging between 5 and 6 percent. The figures in 1965 and 1966 will amply illustrate this point. The maintenance of a stable, sustained rate of growth in money terms is a key element in maintaining and improving a healthy trade surplus.

This brings me back to the pertinence of the problem of fiscal restraint in the period ahead because the economy is running at an excessive rate of speed and threatens to continue at excessive rates unless there is a mix of appropriate fiscal restraint and monetary restraint. This will also undermine our long-range competitive position unless wage and price decisions are more closely related to increases in productivity than has been the case in the last year. That is one element.

The second element is to take long-term measures, dealing with other aspects of the balance-of-payments accounts, which promise to eliminate disparities in those aspects of our accounts. For example, a long-range program to encourage foreign tourism in the United States is the appropriate permanent way to deal with the so-called travel deficit. Last year this deficit exceeded \$2 billion. In 1966 it was \$1.6 billion, which was more than 120 percent of our total deficit for that year.

In addition to long-range measures, we must employ some temporary measures to cope with the emergency of the problem while the longer range measures are getting under way. Let me illustrate this third element, short-term measures, with the area of direct investment and bank lending abroad, which you referred to in your statement. Looked at from a long-term point of view, this is one of the elements of strength in our balance-of-payments system because of the returns from our overseas investments. But it is also true that each year we have a balance-of-payments deficit our liquidity position has been

eroded to that extent. Looked at as a business proposition, our private investments abroad have been very profitable for us. These investments have increased from \$13.5 billion in 1946 to \$86 billion in 1966. Netting that against what foreigners have invested over here, our net investment position with reference to the rest of the world has been substantially improving each year we have had these deficits. However, when looked at from the standpoint of the United States as a banker—and we play both of these roles—our liquidity position has been steadily deteriorating.

While the quick reserves we have at hand to deal with foreign claims that might be presented used to exceed the total of outstanding short-term foreign claims on us, this situation was reversed, beginning, I think, about 1960. The total of these foreign short-term claims has now grown to be twice the amount of our reserves. I do not think that all these short-term credits are going to be presented to the bank at the same time, you understand. That is not in the cards. But we have reached a point where our liquidity position as a banker has eroded to the extent that we must call a halt to it. Despite the fact that we have in this overseas investment a profitable business for the long pull, we have as a temporary measure imposed some rather drastic restraints on the outflow of funds for private investment overseas, whether it be direct investment involving plant and equipment or whether it be in the nature of bank lending.

These are all direct measures—dealing with direct investment, with bank lending, and with travel—and we also have direct measures dealing with another very important component of this picture, namely, Government expenditures overseas. And we must have specific measures to deal with these specific areas. However, these are only the fingers of the hand, whereas the thumb—and you must use that thumb to get complete control of the situation—is internal management of our own affairs. This balance-of-payments problem and that of the budget, I think, present the two most important financial problems we have confronting us today.

It can't be dealt with by a single slice here or a single slice there. It really requires a rather composite approach.

Mr. MAHON. Mr. Secretary, you stated that you had to go meet the head of the Common Market for a few minutes, and you would then return.

Secretary FOWLER. I will be right back.

Mr. MAHON. What is your situation?

Secretary FOWLER. I am going to be a little bit late now but I will be back about 3:30 this afternoon.

Mr. WHITTEN. May I make one comment at this point.

Mr. MAHON. Then you can resume when he gets back.

Secretary FOWLER. If you excuse me, I will be right back. I happen to be host and must leave for a minute to greet him. I will come right back.

Mr. MAHON. I want to express my pleasure over the fact that apparently we seem to have very good attendance of the 51-member Appropriations Committee here today.

Everyone has obviously been highly interested and we certainly have had very good attention to the presentations made by the Secretary and by the Director.

Are there further questions on my left?

NUMBER OF PEOPLE IN POVERTY STATUS—AND AIDS TO THE POOR

Mr. ANDREWS. Mr. Director, on page 36 of the budget you state that between 1963 and 1967 the number of people living in poverty fell from over 35 million to less than 29 million, and from 19 percent of our population to under 15 percent. But 29 million poor people are still far too many.

In the table that follows on that page, you show that projected for 1969, you have an expenditure, estimated in Federal aids to the poor, of \$27.7 billion, which I assume is the highest in history.

Mr. ZWICK. That is correct.

Mr. ANDREWS. Why is it that while the trend of the number of poor goes down, the trend of expenditures before goes up? For instance, in the 1963 column, you show \$12.5 billion and in 1969, \$27.7 billion. One of the biggest items listed is for cash benefit payments, which rose from \$10.4 billion in 1963 to a projected \$15.9 billion in 1969.

The trend is that as the number of poor people goes down, the cost goes up. Would you explain that?

Mr. ZWICK. Yes, sir. Two comments.

First, there is some price-level adjustment that has to be done. But, even after adjusting for the price changes, your point is still well taken. I think it represents a clear commitment on the part of this country to do more about this unfortunate group. The Nation has been getting wealthier and in this process this has been a group that has been left behind. I think we are doing more on the average per person, which is what you are talking about.

Secondly, as the group gets smaller, presumably it will reach a point where the group gets so small that the totals could turn around and start going down. However, I think it is important to recognize that the costs per person will probably go up. As you get to the harder and harder cases to work with, the cost of trying to move them out of this poverty posture into a place where they are self-sustaining members of our society goes up. I would expect through time the cost per person in poverty would go up. But as the number in poverty goes down, at some point the total cost would level off and then go down.

Mr. ANDREWS. Thank you.

Mr. MAHON. Are there further questions on my left?

POST OFFICE AND GSA PUBLIC BUILDING PROJECTS

Mr. EVINS. Mr. Secretary, I noted that the Wall Street Journal carried an article yesterday to the effect that the Budget includes \$88,200,000 for 34 public buildings projects to be constructed by the Post Office Department under its separate construction authority obtained by delegation last year from GSA. I understand a large part of this is for planning, but three of these are being initially funded for construction. This is a substantial increase over the \$50 million for nine projects appropriated in the current year.

The General Services Administration has the primary responsibility as construction agent for the entire Government, including all departments, yet, its new public buildings construction projects have been deleted entirely from the budget.

I must say that some view this decision with considerable concern, insofar as the overall construction requirements of the government are concerned.

How did you arrive at this decision?

Mr. ZWICK. The overall level of actual Post Office construction remains fairly constant. You are raising the question of the distribution between Post Office Department and GSA construction. There has been an apparent shift from GSA to Post Office construction, as such. Your question referred to this?

Mr. EVINS. GSA made some proposals to the budget for construction, but no part of the request was approved. Yet you approved 34 for the Post Office Department.

Mr. ZWICK. We do have in GSA—

Mr. EVINS. There is a little inconsistency in that decision in the Bureau.

Mr. ZWICK. First, to be clear, we have Post Office activities in GSA in 1969. As I count them, there are four such projects. We ought to be clear on that issue. Clearly there has been an apparent change in mix. I do not have the details as to why it came out specifically that way.

Mr. MAHON. Mr. Cohn, can you give us a further elaboration on this question?

Mr. COHN. As to change in mix; no, sir. I would like to point out that a little higher priority was given to postal buildings than other buildings because of the problem the Post Office has with the increasing mail volume. So that it was necessary, in order to handle and process and move the mail efficiently, to put in some post office buildings, whereas we would not have given office buildings the same priority.

Mr. EVINS. I have a further question, Mr. Chairman, for the Director on another subject.

Mr. MAHON. Will you please amplify your answers to be as specific as possible?

Mr. ZWICK. Yes, sir.

(The following information was supplied for the record:)

COMPARISON OF GSA AND POST OFFICE CONSTRUCTION PROGRAMS

The following information explains why the appropriation for construction proposed in the 1969 budget for the Post Office Department is greater than that proposed for General Services Administration construction.

Differences in format of construction appropriations between the two agencies should be noted. GSA construction funding is in two appropriations, one covering the site and design phase, and the other the construction phase. Post Office construction funding is in one appropriation covering both phases. Both phases should be considered, not only to make relevant comparisons between construction programs, but also as a basis for meaningful budget review within each program. On a combined basis, the \$88.3 million appropriation request for Post Office compares to \$11 million for GSA.

Consideration of appropriation levels should also take into account unobligated balances of prior year appropriations, since the backlog still to be obligated influences decisions on providing new obligating authority. The following table shows new authority, unobligated balances, obligational programs and expenditures for the two agencies for 1968 and 1969 as set forth in the 1969 budget.

	Post Office		GSA	
	1968	1969	1968	1969
1. New authority:				
Site and design	15.1	51.2	20.3	11.0
Construction	34.9	32.1	63.8	-----
Purchase of buildings		5.0		-----
Total	50.0	88.3	84.1	11.0
2. Unobligated balances, start of the year:				
Site and design			40.2	35.5
Construction			225.9	235.6
Total			266.1	271.1
3. Unobligated balances, end of year:				
Site and design			35.5	25.5
Construction			235.6	199.2
Total			271.1	224.7
4. Obligational program:				
Site and design	15.1	51.2	25.0	21.0
Construction	34.9	32.1	54.0	36.4
Purchase of buildings		5.0		-----
Total	50.0	88.3	79.0	57.4
5. Expenditures	16.0	53.2	148.3	103.0

Note: Item 1+2-3=4.

The two programs outlined in the table above reflect the consensus on the part of the President, the Congress, and the public that Federal expenditures should be reduced to the maximum extent possible consistent with orderly and efficient operation of the Government. The following factors were considered in arriving at the budget totals shown above:

1. The General Services Administration has large unobligated balances, caused in large measure by a construction slowdown in 1967, for which obligations in large part had to be deferred if any significant reduction in expenditures was to be achieved. This accounts for the sharply reduced obligational program scheduled for GSA in 1968 and 1969. Despite this reduced obligational program, 1968 expenditures are only \$29 million lower than in 1967 because of expenditures from obligated balances carried forward to 1968.

2. With obligation of a large part of the unobligated balance for GSA construction being deferred, it would serve no purpose to request new obligational authority which would only add to the unobligated balance carried forward to future years. However, to maintain continuity in the program, \$11 million in new obligational authority is requested for site and design work on new projects.

3. Since the Post Office Federal construction program is just getting started in 1968, it would be relatively easy to restrict the program to very low levels of obligation and expenditure in 1968 and 1969. However, consideration has to be given to the urgent need for the large special purpose mail-handling facilities which comprise the Post Office construction program. These facilities are needed as soon as possible to permit the mechanization of mail-processing functions and the efficient handling of a rapidly increasing volume of mail. Present facilities in many cities are inadequate to handle current volumes of mail, and are not suitable for conversion to mechanization. Therefore, despite the overall need for reduced expenditures, operational needs of the Post Office require that continued progress be made in acquiring these facilities. Since the Post Office has no unobligated balances, further progress depends on the appropriation of additional obligating authority in 1969.

4. Considering balances carried forward as well as new appropriations for 1969, and the amount actually planned for obligation, the Post Office construction program is not much different from the GSA program. Post Office will obligate \$37.1 million to start construction on three new buildings and to purchase two buildings currently under lease; GSA will obligate \$36.4 million to start construction on six buildings as well as provide for cost increases for buildings already under contract.

5. While the amount of site and design funds, including carry forward balances, available for 1969 are roughly comparable—POD \$51.2 million and GSA \$46.5 million—the amount planned for obligation by GSA in 1969 is considerably less than in the Post Office Department. This is because the Post Office program is just getting underway, while GSA already has a large number of projects under site and design contract; there will be enough projects ready for construction, when present restrictive budgetary policies can be modified, without entering into many additional design contracts in 1969.

Mr. MAHON. Proceed.

BUDGET PROPOSALS TO LIFT INTEREST CEILINGS ON FHA AND VA LOANS

Mr. EVINS. Mr. Director, on page 3 of the budget, under housing and community development, specific steps are being proposed to overcome the competitive disadvantages of housing funds in the market, including authority to lift the ceiling on VA and FHA loans, which is 6 percent now. We all know of the condition of the mortgage market: What effect will lifting the ceiling on interest rates have? The sky may be the limit. What do you have in mind?

Mr. ZWICK. Two things. I will first comment on lifting the interest rate. I do not think the actual interest costs to the homeowner will change. In fact, you can make an argument that it may go down. The homebuyers are paying those interest costs today through points. These are then absorbed into the price of the house. So I do not think the total interest costs will be any higher; you can argue that by lifting an artificial ceiling the interest costs may be lower. We are saying that you should be putting the interest cost where you see it and not hiding it in points and artificially inflating prices of homes.

Mr. EVINS. You have a 6-percent level on interest rates for VA and FHA loans now. Is it a wise policy to lift the ceiling on interest rates now when they are this high?

Mr. ZWICK. Right now what you have are deep discounts of 7 or 8 points that people are paying. When you translate that into the actual interest costs to the homeowner, the situation is no different from when you raise the interest ceiling.

I think that we can argue you are no worse off—and people might argue you are better off—but I do not want to make that strong an argument.

Mr. EVINS. The great pressure is to raise interest rates all along. I think we ought to try to hold interest rates down.

Mr. ZWICK. On that point I am in complete agreement with you. I think the best way is to have our proposed tax surcharge and allow fiscal policy to carry the load rather than monetary policy, as much as it is now doing. I think in terms of the interest rate, the argument is this: when you have this artificial limit on interest rates it means that the Federal Government is picking up these mortgages either through FNMA's secondary market operation—as I indicated earlier, it is running at a level of \$2.4 billion in this fiscal year, the highest level in recent years—or you are picking it up in FNMA's management and liquidation activities, and so forth. In other words, these mortgages are not competitive in the market and therefore the Federal Government is picking them up. We think by lifting an artificial interest rate ceiling we will improve the mortgage market, not increase the costs to the homeowner, and reduce this mortgage burden on the budget.

The second point is spinning the secondary market part of FNMA off into a private operation with a public purpose. As I am sure you know, the original legislation setting up the FNMA secondary market operation clearly stated that when the Government stock was retired this would become a fully privately owned and operated corporation.

Mr. MAHON. You can elaborate on that for the record.

Mr. ZWICK. Yes, sir.

(The information follows:)

TRANSFERRING FNMA'S SECONDARY MARKET OPERATIONS TO PRIVATE OWNERSHIP

The Housing Act of 1954, which established the Federal National Mortgage Association in its present form, contained the following provision:

"As promptly as practicable after all of the preferred stock of the association held by the Secretary of the Treasury has been retired, the Housing and Home Finance Administrator (now the Secretary of Housing and Urban Development) shall transmit to the President for submission to the Congress recommendations for such legislation as may be necessary or desirable to make appropriate provisions to transfer to the owners of the outstanding common stock of the association the assets and liabilities of the association in connection with, and the control and management of, the secondary market operations of the association under section 304 of this title in order that such operations may thereafter be carried out by a privately owned and privately financed corporation."

Experience since 1954 has shown that the capitalization and borrowing provisions of the 1954 act will not permit the retirement of preferred stock under existing law, primarily because of the volume of mortgages sold to FNMA.

The housing needs for the future, including the elimination of presently occupied substandard housing, will require a larger volume of mortgage credit than has been available in the past few years. Adequate institutions must be available to channel funds from the capital market into mortgage investments. FNMA, in its secondary market operations, is already performing this function in a limited way under Federal Government auspices. It borrows money from the private market and uses the proceeds to purchase mortgages.

The President announced in the budget message that legislation would be proposed to provide "an orderly transfer of ownership of the Government's activities in the secondary market to private hands, so that private capital can be raised and mortgages purchased as required by market conditions." This legislation will enable FNMA to meet the mortgage market conditions as they exist today, not as they were anticipated in 1954. It will structure FNMA along the lines of other agencies, such as the Federal Land Banks and the Federal home loan banks, which have no Government ownership and depend on private capital to finance their programs.

INTERNATIONAL BALANCE OF PAYMENTS

Mr. EVANS. Mr. Secretary, alluding again to our balance-of-payments situation, the United States has had a balance-of-payments deficit almost continuously since 1950 and, according to the President's Economic Report, our payments position in the fourth quarter of 1967 deteriorated sharply.

Is there any expectation that this situation will be corrected and improved at any time soon? Suppose you supply some comment on that.

Mr. ZWICK. The recently published Treasury booklet "Maintaining the Strength of the United States Dollar in a Strong Free World Economy" discusses on pages 2-5 the evolution of the U.S. payments position over these years since 1950.

Following the devaluation of sterling in November, 1967 and the deterioration of our own position a drastic reduction in our balance-of-payments deficit was necessary to defend the dollar and insure against a breakdown of the international monetary system.

The program President Johnson announced January 1, 1968, was designed to bring about a sharp reduction in the U.S. payments deficit in the year ahead, bringing it into—or close to—equilibrium.

INDEBTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES

Mr. MAHON. Mr. Secretary, I think we may have discussed this matter briefly in other years during these annual hearings, but there is, as you know, an increasing reservoir of interest in the country and the Congress in the matter of debts owed to us by foreign countries, especially arising from the First World War, and more especially in relation to France. I believe the total of such World War I debts may range over \$21 billion, of which the French portion may approach \$7 billion. I am speaking, in those figures, only to World War I. A number of Members of the House have introduced a bill or resolution on the matter. It is, of course, a quite complicated matter, with a number of considerations attached.

I have here a general, nontechnical statement of December 20, 1967, which I understand your department gives out to people who inquire about this, and I think we might insert it, or you can insert an updated version. And we would ask you to insert some tables covering both World War I and World War II figures at some recent date, by countries.

It might be helpful, Mr. Secretary, if you would also elaborate on the matter for the record.

Secretary FOWLER. I would like very much to see World War I debts settled. I am not aware of anything in the record which indicates that the debtors have ever contested the juridical validity of their obligations to the United States growing out of World War I. Within the framework of international law, it is clear that these obligations are not conditional upon the debtors' receipt of German obligations payments, and the highest officials of our Government have consistently denied any such relationship. However, there have been assertions on the part of the debtors that there is a de facto connection between their obligations and the receipt of German reparations payments. There does not seem to be any possibility of reaching an agreement on repayment of these obligations in the absence of any overall settlement of the World War I reparations problem with its wide ranging political ramifications.

(Additional information provided in attachments:)

GOLD LOSSES AND DEBT REPAYMENT

REPAYMENT OF WORLD WAR I AND II DEBT

In its effort to halt the loss of gold the administration has given special attention to the potential contribution of debt repayment. Virtually all of the loan agreements and settlements made with foreign countries since the beginning of World War II established fixed amortization schedules which call for regular payments over a period of years. We expect both principal and interest on post-World War II obligations to be paid in accordance with these schedules, and with relatively few exceptions these payments are being made. Receipts from such scheduled debt repayments amounted to more than \$800 million in 1966. Only in a few cases has it become impossible for debtor nations to meet scheduled payments, making it necessary to negotiate a rescheduling of the obligation. Some of the loan agreements provide for postponing payments under certain circumstances. Where disputes arise resulting in payment delays, efforts are

made to reach agreement in order that payments may be resumed. There have been a few instances, notably in the case of the Republic of China and the USSR, where it has not yet been possible to reach agreement involving comprehensive settlement of World War II lend-lease and related accounts. (The U.S.S.R. is making payments on lend-lease items which were in production or storage in the United States before V-J Day.)

The United States has encouraged the governments of nations which are in a strong financial position to make payments in advance of the schedule due dates and since 1959 advance repayments of nearly \$3 billion have been collected. Several countries, among them Germany, Italy and Sweden, have now prepaid all or nearly all of their World War II and postwar debt obligations to the United States.

The situation is different with respect to World War I debts. Most governments fulfilled their commitments under their World War I debt agreements until the depression. Debtor governments stopped making payments in 1932, following the expiration of the 1-year moratorium on debts owed to the United States negotiated by President Hoover in an effort to mitigate the effect of these debt obligations on Europe's economic health. Although some countries made token payments until the beginning of World War II, Finland is the only country which is presently meeting its obligations in full.

While the countries which have large World War I obligations to the United States have never denied the juridical validity of their debts, there is a view widely accepted among them that the payment of these debts should be dependent on reparation payments by Germany. Resolution of the problem of governmental claims against Germany arising out of World War I was deferred "until a final general settlement of this matter" by the London Agreement of 1953, to which the United States is a party.

The Government of the United States has never recognized that there was any connection between the World War I obligations of those countries and their reparations claims on Germany. While the London Agreement would not prevent the United States from raising, on a bilateral basis, the question of payment of any of the debtor countries' World War I obligations (except in the case of Germany), it must be recognized that any effort on the part of the United States to collect these obligations would undoubtedly raise the problem of German World War I reparations. From the practical viewpoint, therefore, there does not seem to be any possibility of reaching an agreement on repayment in the absence of an overall settlement of the World War I reparations problem, with its wide-ranging political ramifications.

FRENCH DEBT

The French hold to the generally prevailing view with regard to their debts to the United States. They not only have been servicing debts incurred after World War II regularly but have paid more than \$880 million in advance of the due date. As of June 30, 1967, France's obligations to the United States (excluding World War I debts) were roughly \$300 million.

The World War I indebtedness of the Government of France due and unpaid as of June 30, 1967 was \$5,077 million, including \$2,091 million of the principal sum and \$2,986 million on interest arrearages. Unmatured principal was \$1,773 million. No payments have been made since 1931. The total obligation which might be said to have been outstanding on June 30, 1967, including both matured and unmatured principal and interest arrearages to that date, was \$6,850 million.

The French Government has never contested the juridical validity of its obligation to the United States growing out of World War I. Within the framework of international law, it is clear that this obligation is not conditioned upon France's receipt of German reparation payments, and the highest officials of our Government have consistently denied any such relationship. The argument has been made, however, that there is a direct connection between the French World War I obligation to the United States and the receipt of German reparation payments. When the French Chamber of Deputies authorized the ratification of the 1926 agreement on funding the World War I debt to the United States, it also passed, as a separate action, not affecting the validity of the unconditional ratification, a resolution stating that the French debt to the United States was to be paid exclusively by the sums that Germany shall pay France. Furthermore, that body passed a resolution on December 14, 1932, deferring payment of the installment due to be paid to the United States the following day and inviting the convocation of a general conference with Great Britain and other debtors for

the purpose of adjusting all international obligations and putting an end to all international transfers for which there was no compensating transaction.

U.S. GOLD POLICY

The established policy of the United States is to buy and sell gold to foreign governments and monetary authorities for legitimate monetary purposes at the fixed price of \$35 per ounce. This policy provides the foundation for the international position of the dollar and the maintenance of its value in world markets. The stability of the dollar and its convertibility into gold at the fixed price has also resulted in its widespread use as a world trading currency and as the principal currency held along with gold in reserves of other countries. Any restriction on the convertibility of the dollar for monetary purposes or changed in its value in terms of gold would create serious difficulties in world financial and exchange markets and consequently undermine the stability of the entire world monetary system.

If the United States placed conditions on its willingness to sell gold to a foreign monetary authority, however merited the condition might seem in an individual instance, the result would be to make the dollar only a partially convertible currency. This would inevitably shake confidence in its continued convertibility for other purposes at a fixed price, and it would no longer be considered, by the bulk of the world, to be "as good as gold". Thus the decision to convert dollars into gold has to remain that of the monetary authority concerned, each of which should be fully aware of the responsibility it shares in maintaining an effective and stable international payments system within the framework of international monetary cooperation.

The accumulation of dollar balances by foreigners and thus their ability to buy gold is a consequence of our balance-of-payments deficits. The best way to stop gold losses by the United States is, therefore, to have both deficit and surplus countries get back into balance-of-payments equilibrium. This is the course of action which the United States is pursuing, both in formulating its own policies and in the framework of international cooperation. President Johnson, in his New Year's Day message to the Nation on the balance of payments, made the position clear. He said:

"The time has come for decisive action designed to bring our balance of payments to—or close to—equilibrium in the year ahead.

"The need for action is a national and international responsibility of the highest priority."

His message, a copy of which is attached, outlined a comprehensive program, beginning with enactment of the anti-inflation tax proposals now pending before Congress, for the achievement of this objective.

MESSAGE TO THE NATION ON THE BALANCE OF PAYMENTS

WHERE WE STAND TODAY

I want to discuss with the American people a subject of vital concern to the economic health and well-being of this Nation and the free world.

It is our international balance-of-payments position.

The strength of our dollar depends on the strength of that position.

The soundness of the free world monetary system, which rests largely on the dollar, also depends on the strength of that position.

To the average citizen, the balance of payments, and the strength of the dollar and of the international monetary system, are meaningless phrases. They seem to have little relevance to our daily lives. Yet their consequences touch us all—consumer and captain of industry, worker, farmer, and financier.

More than ever before, the economy of each nation is today deeply intertwined with that of every other. A vast network of world trade and financial transactions ties us all together. The prosperity of every economy rests on that of every other.

More than ever before, this is one world—in economic affairs as in every other way.

Your job, the prosperity of your farm or business, depends directly or indirectly on what happens in Europe, Asia, Latin America, or Africa.

The health of the international economic system rests on a sound international money in the same way as the health of our domestic economy rests on a sound domestic money. Today, our domestic money—the U.S. dollar—is also the money

most used in international transactions. That money can be sound at home—as it surely is—yet can be in trouble abroad—as it now threatens to become.

In the final analysis its strength abroad depends on our earning abroad about as many dollars as we send abroad.

U.S. dollars flow from these shores for many reasons—to pay for imports and travel, to finance loans and investments and to maintain our lines of defense around the world.

When that outflow is greater than our earnings and credits from foreign nations, a deficit results in our international accounts.

For 17 of the last 18 years we have had such deficits. For a time those deficits were needed to help the world recover from the ravages of World War II. They could be tolerated by the United States and welcomed by the rest of the world. They distributed more equitably the world's monetary gold reserves and supplemented them with dollars.

Once recovery was assured, however, large deficits were no longer needed and indeed began to threaten the strength of the dollar. Since 1961 your Government has worked to reduce that deficit.

By the middle of the decade, we could see signs of success. Our annual deficit had been reduced two-thirds—from \$3.9 billion in 1960 to \$1.3 billion in 1965.

In 1966, because of our increased responsibility to arm and supply our men in Southeast Asia, progress was interrupted, with the deficit remaining at the same level as 1965—about \$1.3 billion.

In 1967, progress was reversed for a number of reasons:

Our costs for Vietnam increased further

Private loans and investments abroad increased.

Our trade surplus, although larger than 1966, did not rise as much as we had expected.

Americans spent more on travel abroad.

Added to these factors was the uncertainty and unrest surrounding the devaluation of the British pound. This event strained the international monetary system. It sharply increased our balance-of-payments deficit and our gold sales in the last quarter of 1967.

THE PROBLEM

Preliminary reports indicate that these conditions may result in a 1967 balance-of-payments deficit in the area of \$3.5 to \$4 billion—the highest since 1960. Although some factors affecting our deficit will be more favorable in 1968, my advisors and I are convinced that we must act to bring about a decisive improvement.

We cannot tolerate a deficit that could threaten the stability of the international monetary system—of which the U.S. dollar is the bulwark.

We cannot tolerate a deficit that could endanger the strength of the entire free world economy, and thereby threaten our unprecedented prosperity at home.

A TIME FOR ACTION

The time has now come for decisive action designed to bring our balance of payments to—or close to—equilibrium in the year ahead.

The need for action is a national and international responsibility of the highest priority.

I am proposing a program which will meet this critical need, and at the same time satisfy four essential conditions:

Sustain the growth, strength and prosperity of our own economy.

Allow us to continue to meet our international responsibilities in defense of freedom, in promoting world trade, and in encouraging economic growth in the developing countries.

Engage the cooperation of other free nations, whose stake in a sound international monetary system is no less compelling than our own.

Recognize the special obligation of those nations with balance-of-payments surpluses, to bring their payments into equilibrium.

THE FIRST ORDER OF BUSINESS

The first line of defense of the dollar is the strength of the American economy.

No business before the returning Congress will be more urgent than this: To enact the anti-inflation tax which I have sought for almost a year. Coupled with our expenditure controls and appropriate monetary policy, this will help

to stem the inflationary pressures which now threaten our economic prosperity and our trade surplus.

No challenge before business and labor is more urgent than this: To exercise the utmost responsibility in their wage-price decisions, which affect so directly our competitive position at home and in world markets.

I have directed the Secretaries of Commerce and Labor, and the Chairman of the Council of Economic Advisers to work with leaders of business and labor to make more effective our voluntary program of wage-price restraint.

I have also instructed the Secretaries of Commerce and Labor to work with unions and companies to prevent our exports from being reduced or our imports increased by crippling work stoppages in the year ahead.

A sure way to instill confidence in our dollar—both here and abroad—is through these actions.

THE NEW PROGRAM

But we must go beyond this, and take action to deal directly with the balance-of-payments deficit.

Some of the elements in the program I propose will have a temporary but immediate effect. Others will be of longer range.

All are necessary to assure confidence in the American dollar.

1. *Direct investment*

Over the past 3 years, American business has cooperated with the Government in a voluntary program to moderate the flow of U.S. dollars into foreign investments. Business leaders who have participated so wholeheartedly deserve the appreciation of their country.

But the savings now required in foreign investment outlays are clearly beyond the reach of any voluntary program. This is the unanimous view of all my economic and financial advisers and the Chairman of the Federal Reserve Board.

To reduce our balance-of-payments deficit by at least \$1 billion in 1968 from the estimated 1967 level, I am invoking my authority under the banking laws to establish a mandatory program that will restrain direct investment abroad.

This program will be effective immediately. It will insure success and guarantee fairness among American business firms with overseas investments.

The program will be administered by the Department of Commerce, and will operate as follows:

As in the voluntary program, overall and individual company targets will be set. Authorizations to exceed these targets will be issued only in exceptional circumstances.

New direct investment outflows to countries in continental western Europe and other developed nations not heavily dependent on our capital will be stopped in 1968. Problems arising from work already in process or commitments under binding contracts will receive special consideration.

New net investments in other developed countries will be limited to 65 percent of the 1965-66 average.

New net investments in the developing countries will be limited to 110 percent of the 1965-66 average.

This program also requires businesses to continue to bring back foreign earnings to the United States in line with their own 1964-66 practices.

In addition, I have directed the Secretary of the Treasury to explore with the Chairmen of the House Ways and Means Committee and Senate Finance Committee legislative proposals to induce or encourage the repatriation of accumulated earnings by U.S.-owned foreign businesses.

2. *Lending by financial institutions*

To reduce the balance-of-payments deficit by at least another \$500 million, I have requested and authorized the Federal Reserve Board to tighten its program restraining foreign lending by banks and other financial institutions.

Chairman Martin has assured me that this reduction can be achieved—

without harming the financing of our exports;

primarily out of credits to developed countries without jeopardizing the availability of funds to the rest of the world.

Chairman Martin believes that this objective can be met through continued cooperation by the financial community. At the request of the Chairman, however, I have given the Federal Reserve Board standby authority to invoke mandatory controls, should such controls become desirable or necessary.

3. *Travel abroad*

Our travel deficit this year will exceed \$2 billion. To reduce this deficit by \$500 million—

I am asking the American people to defer for the next 2 years all non-essential travel outside the Western Hemisphere;

I am asking the Secretary of the Treasury to explore with the appropriate congressional committees legislation to help achieve this objective.

4. *Government expenditures overseas*

We cannot forego our essential commitments abroad, on which America's security and survival depend.

Nevertheless, we must take every step to reduce their impact on our balance of payments without endangering our security.

Recently, we have reached important agreements with some of our NATO partners to lessen the balance-of-payments cost of deploying American forces on the Continent—troops necessarily stationed there for the common defense of all.

Over the past 3 years, a stringent program has saved billions of dollars in foreign exchange.

I am convinced that much more can be done. I believe we should set as our target avoiding a drain of another \$500 million on our balance of payments.

To this end, I am taking three steps:

First, I have directed the Secretary of State to initiated prompt negotiations with our NATO allies to minimize the foreign exchange costs of keeping our troops in Europe. Our allies can help in a number of ways, including—

The purchase in the United States of more of their defense needs;

Investments in long-term U.S. securities.

I have also directed the Secretaries of State, Treasury and Defense to find similar ways of dealing with this problem in other parts of the world.

Second, I have instructed the Director of the Budget to find ways of reducing the numbers of American civilians working overseas.

Third, I have instructed the Secretary of Defense to find ways to reduce further the foreign exchange impact of personal spending by U.S. forces and their dependents in Europe.

LONG-TERM MEASURES

5. *Export increases*

American exports provide an important source of earnings for our businessmen and jobs for our workers.

They are the cornerstone of our balance-of-payments position.

Last year we sold abroad \$30 billion worth of American goods.

What we now need is a long-range systematic program to stimulate the flow of the products of our factories and farms into overseas markets.

We must begin now.

Some of the steps require legislation:

I shall ask the Congress to support an intensified 5-year, \$200 million Commerce Department program to promote the sale of American goods overseas.

I shall also ask the Congress to earmark \$500 million of the Export-Import Bank authorization to—

Provide better export insurance;

Expand guarantees for export financing; and

Broaden the scope of Government financing of our exports.

Other measures require no legislation.

I have today directed the Secretary of Commerce to begin a Joint Export Association program. Through these associations, we will provide direct financial support to American corporations joining together to sell abroad.

And finally, the Export-Import Bank—through a more liberal rediscount system—will encourage banks across the Nation to help firms increase their exports.

6. *Nontariff Barriers*

In the Kennedy round, we climaxed three decades of intensive effort to achieve the greatest reduction in tariff barriers in all the history of trade negotiations. Trade liberalization remains the basic policy of the United States.

We must now look beyond the great success of the Kennedy round to the problems of nontariff barriers that pose a continued threat to the growth of world trade and to our competitive position.

American commerce is at a disadvantage because of the tax systems of some of our trading partners. Some nations give across-the-board tax rebates on exports which leave their ports and impose a special border tax charge on our goods entering their country.

International rules govern these special taxes under the General Agreement on Tariffs and Trade. These rules must be adjusted to expand international trade further.

In keeping with the principles of cooperation and consultation on common problems, I have initiated discussions at a high level with our friends abroad on these critical matters—particularly those nations with balance-of-payments surpluses.

These discussions will examine proposals for prompt cooperative action among all parties to minimize the disadvantages to our trade which arise from differences among national tax systems.

We are also preparing legislative measures in this area whose scope and nature will depend upon the outcome of these consultations.

Through these means we are determined to achieve a substantial improvement in our trade surplus over the coming years. In the year immediately ahead, we expect to realize an improvement of \$500 million.

7. *Foreign Investment and Travel in United States*

We can encourage the flow of foreign funds to our shores in two other ways:

First, by an intensified program to attract greater foreign investment in U.S. corporate securities, carrying out the principles of the Foreign Investors Tax Act of 1966.

Second, by a program to attract more visitors to this land. A special task force headed by Robert McKinney of Santa Fe, N. Mex., is already at work on measures to accomplish this. I have directed the task force to report within 45 days on the immediate measures that can be taken, and to make its long-term recommendations within 90 days.

MEETING THE WORLD'S RESERVE NEEDS

Our movement toward balance will curb the flow of dollars into international reserves. It will therefore be vital to speed up plans for the creation of new reserves—the special drawing rights—in the International Monetary Fund. These new reserves will be a welcome companion to gold and dollars, and will strengthen the gold exchange standard. The dollar will remain convertible into gold at \$35 an ounce, and our full gold stock will back that commitment.

A TIME FOR RESPONSIBILITY

The program I have outlined is a program of action.

It is a program which will preserve confidence in the dollar, both at home and abroad.

The U.S. dollar has wrought the greatest economic miracles of modern times. It stimulated the resurgence of a war-ruined Europe.

It has helped to bring new strength and life to the developing world.

It has underwritten unprecedented prosperity for the American people, who are now in the 83d month of sustained economic growth.

A strong dollar protects and preserves the prosperity of businessman and banker, worker and farmer—here and overseas.

The action program I have outlined in this message will keep the dollar strong. It will fulfill our responsibilities to the American people and to the free world.

I appeal to all of our citizens to join me in this very necessary and laudable effort to preserve our country's financial strength.

JUNE 30, 1967 SUPPLEMENT TO MEMORANDUM COVERING THE WORLD WAR INDEBTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES (1917-21)

Part I. Statement showing indebtedness, also payments of foreign governments to the United States.

Part II. Payments made since July 1, 1932.

Part III. Summary of receipts by fiscal years.

Part IV. Status of German World War I indebtedness.

PT. I.—INDEBTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES ARISING FROM WORLD WAR I AS OF JUNE 30, 1967

	Original indebtedness	Interest through June 30, 1967	Total	Cumulative payments		Total outstanding	Unmatured principal	Principal and interest due and unpaid
				Principal	Interest			
Armenia.....	\$11,959,917.49	\$28,587,070.35	\$40,546,987.84	\$17.49	-----	\$40,546,970.35	-----	\$40,546,970.35
Austria ¹	26,843,148.66	44,058.93	26,887,207.59	862,668.00	-----	26,024,539.59	\$882,626.31	25,141,913.28
Belgium.....	419,837,630.37	318,884,720.47	738,722,350.84	19,157,630.37	\$33,033,642.87	686,531,077.60	197,580,000.00	488,951,077.60
Cuba.....	10,000,000.00	2,286,751.58	12,286,751.58	10,000,000.00	2,286,751.58	-----	-----	-----
Czechoslovakia.....	185,071,023.07	111,060,093.17	296,131,116.24	19,829,914.17	304,178.09	275,997,023.98	86,355,000.00	189,642,023.98
Estonia.....	16,466,012.87	21,869,780.01	38,335,792.88	2,429,999.97	1,248,432.07	37,087,360.81	9,007,000.00	28,080,360.81
Finland.....	8,999,999.97	11,476,565.96	20,476,565.93	226,039,588.18	260,036,302.82	4,707,000.00	4,707,000.00	-----
France.....	4,089,689,588.18	3,246,978,853.39	7,336,668,441.57	434,181,641.56	1,590,672,656.18	6,850,592,550.57	1,772,868,667.43	5,077,723,883.14
Great Britain.....	4,802,181,641.56	6,980,131,958.11	11,782,313,599.67	983,922.67	3,143,133.34	9,757,459,301.93	2,433,000,000.00	7,324,459,301.93
Greece.....	3,341,918,433.67	3,230,509.84	37,550,353.51	73,995.50	482,924.26	33,423,297.50	21,205,921.00	12,217,376.50
Hungary ⁴	1,982,555.50	2,775,445.76	4,758,001.26	37,464,319.28	63,365,560.88	4,201,081.50	1,095,545.00	3,105,536.50
Italy.....	2,042,364,319.28	339,839,470.22	2,382,203,789.50	9,200.00	752,349.07	2,281,373,909.34	1,166,900,000.00	1,112,473,909.34
Latvia.....	6,888,664.20	9,250,660.91	16,139,325.11	26,000.00	10,471.56	15,373,776.04	3,801,800.00	11,575,976.04
Liberia.....	26,000.00	10,471.56	36,471.56	-----	-----	-----	-----	-----
Lithuania.....	6,432,465.00	8,612,114.16	15,044,579.16	234,783.00	1,003,173.58	13,806,622.58	3,487,367.00	10,319,255.58
Nicaragua ⁵	141,950.36	26,625.48	168,575.84	141,950.36	26,625.48	-----	-----	-----
Poland.....	207,344,297.37	279,443,464.38	486,787,761.75	61,287,297.37	21,359,000.18	464,141,464.20	115,807,000.00	348,334,464.20
Rumania.....	68,359,192.45	51,261,664.70	119,620,857.15	7,498,632.02	8,750,311.88	114,829,829.93	31,923,000.00	82,906,849.93
Russia.....	192,601,297.37	476,089,679.51	668,690,976.88	-----	636,059.14	659,940,665.00	35,389,000.00	659,940,665.00
Yugoslavia.....	63,577,612.55	25,825,277.92	89,402,950.47	1,952,712.55	-----	86,814,218.78	-----	51,425,218.78
Total.....	12,195,087,259.92	11,917,685,236.41	24,112,772,496.33	761,037,272.49	1,998,880,514.14	21,352,854,709.70	5,886,009,926.74	15,466,844,782.96

¹ The Federal Republic of Germany has recognized liability for securities falling due between Mar. 12, 1938, and May 8, 1945.
² \$6,360,250.26 has been made available for educational exchange programs with Finland pursuant to 20 U.S.C. 222-224.
³ Includes \$13,155,921 refunded by the agreement of May 28, 1964. The agreement was ratified by Congress Nov. 5, 1966.
⁴ Interest payments from Dec. 15, 1932, to June 15, 1937, were paid in pengo equivalent.
⁵ The indebtedness of Nicaragua was canceled pursuant to the agreement of Apr. 14, 1938.
⁶ Excludes claim allowance of \$1,813,428.69 dated Dec. 15, 1929.
⁷ Excludes payment of \$100,000 on June 14, 1940 as a token of good faith.
⁸ Principally proceeds from liquidation of Russian assets in the United States.

PART II.—PAYMENTS MADE DURING PERIOD FROM JULY 1, 1932, TO JUNE 30, 1967—FUNDED AGREEMENTS

	Principal	Interest	Moratorium agreements annuities	Total
Czechoslovakia.....	\$1,829,914.17	0	0	¹ \$1,829,914.17
Finland:				
Dec. 15, 1932, through June 15, 1966.....	3,420,000.00	\$7,692,032.50	\$1,349,865.66	¹ 12,461,898.16
Dec. 15, 1966.....	185,000.00	85,610.00	0	¹ 270,610.00
Dec. 15, 1967.....	0	82,372.50	0	¹ 82,372.50
Great Britain.....	30,000,000.00	83,055,999.07	0	¹ 113,055,999.07
Greece.....	0	1,035,120.00	0	¹ 1,035,120.00
Hungary.....	0	88,453.44	0	¹ 88,453.44
Italy.....	0	3,245,458.26	0	¹ 3,245,458.26
Latvia.....	9,200.00	118,182.28	0	¹ 127,382.28
Lithuania.....	0	109,376.36	0	¹ 109,376.36
Rumania.....	0	29,061.46	0	¹ 29,061.46
Russia.....	0	0	0	³ 0
	35,444,114.17	95,541,665.87	1,349,865.66	132,335,645.70

¹ For detailed analysis of payments see supplement of June 30, 1961.

² Does not include token payment made June 15, 1940.

³ Does not include \$1,433.01 paid on unfunded indebtedness by the Provisional Government of Russia.

PART III.—SUMMARY OF RECEIPTS

	Principal	Interest	Total
Total fiscal year 1933 through fiscal year 1966.....	\$35,551,114.14	\$96,432,982.07	¹ \$131,984,096.21
Fiscal year 1967.....	185,000.00	167,982.50	352,982.50
Total through fiscal year 1967.....	35,736,114.14	96,600,964.57	132,337,078.71

¹ For a detailed analysis of receipts by fiscal years see supplement of June 30, 1961.

PART IV.—STATUS OF GERMANY WORLD WAR I INDEBTEDNESS AS OF JUNE 30, 1967

	Funded indebtedness	Interest through June 30, 1967	Total	Cumulative payments		Total outstanding	Unmatured principal	Principal and interest due and unpaid
				Principal	Interest			
Agreements, as of June 23, 1930, and May 26, 1932:								
Mixed claims (reichsmarks).....	\$1,632,000,000.00	\$580,890,000.00	\$2,212,890,000.00	\$81,600,000.00	\$5,610,000.00	\$2,125,680,000.00	\$571,200,000.00	\$1,554,480,000.00
Army costs (reichsmarks).....	1,048,100,000.00	575,390,176.50	1,623,490,176.50	50,600,000.00	856,406.25	1,572,033,770.25	-----	1,572,033,770.25
Total (reichsmarks).....	2,680,100,000.00	1,156,280,176.50	3,836,380,176.50	132,200,000.00	6,466,406.25	3,697,713,770.25	571,200,000.00	3,126,513,770.25
U.S. dollar equivalent ³	1,059,107,665.84	465,768,107.39	1,524,875,773.23	431,539,595.84	4,204,213.85	1,491,287,963.54	230,364,960.00	1,260,923,003.54
Agreement of Feb. 27, 1953, mixed claims (U.S. dollars).....	97,590,000.00	-----	97,500,000.00	53,500,000.00	-----	44,000,000.00	44,000,000.00	-----

¹ Agreement of Feb. 27, 1953, provided for cancellation of 24 bonds totaling 489,600,000 reichsmarks and issuance of 26 dollar bonds totaling \$97,500,000. The dollar bonds mature serially over 25 years beginning Apr. 1, 1953. All unmatured bonds are of \$4,000,000 denomination.

² Includes 4,027,611.95 reichsmarks (1,529,049.45 on moratorium agreement (Army costs) and 2,498,562.50 interest on funded agreement) deposited by German Government in the Konversionskasse für Deutsche Auslandsschulden and not paid to the United States in dollars as required by the debt and moratorium agreement.

³ The unpaid portion of this indebtedness is converted at 40.33 cents to the reichsmarks, which was the exchange rate at the time of default. The 1930 agreement provided for a conversion formula for payments relating to the time of payment. These figures are estimates made solely for this statistical report.

⁴ Payments converted to U.S. dollars at rate applicable at the time of payment; i.e., 40.33 or 23.82 cents to the reichsmark.

OUTSTANDING INDEBTEDNESS OF FOREIGN COUNTRIES ON U.S. GOVERNMENT CREDITS (EXCLUSIVE OF INDEBTEDNESS ARISING FROM WORLD WAR I) AS OF JUNE 30, 1967¹

[In millions of dollars]

Area and country	Under Export-Import Bank Act	Under Foreign Assistance (and related) Acts	Under Agricultural Trade Development and Assistance Act		Lend-lease, surplus property and other war accounts ²	Commodity Credit Corporation export credits ³	Total
			Loans of foreign currencies				
			To foreign governments	To private enterprises			
Western Europe:							
Austria	18.4	43.2	24.7		4.3		43.1
Belgium	27.9		.6			0.9	75.3
Cyprus		29.5					1.8
Denmark							64.6
Finland	37.0		18.7	2.7	6.2		306.1
France	2.2	4.1		1.2	298.5		17.6
Germany, Federal Republic of	2.5	13.3			1.8		203.8
Greece	22.4	82.9	53.6	4.2	4.0	17.3	31.9
Iceland	.9	17.1	11.0		2.8	.1	107.1
Ireland		107.1					33.2
Italy	23.5	(*)		.6	5.9	3.2	2.2
Luxembourg		2.2					65.5
Netherlands		65.5					23.4
Norway	1.0	22.4					112.3
Portugal	73.4	24.4	2.8				463.4
Spain	201.3	58.7	200.0		3.5		10.3
Sweden	10.3						2
Switzerland							4,154.7
United Kingdom	258.8	323.8	174.3		482.7	8.7	632.2
Yugoslavia	59.7	130.1			(*)		74.5
European Atomic Energy Community							64.7
European Steel and Coal Community	38.1						36.4
North Atlantic Treaty Organization (Maintenance Supply Services Agency)		64.7					.1
Total, Western Europe	777.6	989.0	485.8	8.9	803.5	30.1	6,517.3
Other Europe:							
Czechoslovakia					4.9	2.8	7.6
Hungary					4.7	3.4	8.1
Poland	11.2	51.3			11.7	35.4	109.5
Soviet Union					175.5		175.5
Total, other Europe	11.2	51.3			196.7	41.5	300.7

OUTSTANDING INDEBTEDNESS OF FOREIGN COUNTRIES ON U.S. GOVERNMENT CREDITS (EXCLUSIVE OF INDEBTEDNESS ARISING FROM WORLD WAR I) AS OF JUNE 30, 1967—Continued
 [In millions of dollars]

Area and country	Under Export-Import Bank Act	Under Foreign Assistance (and related Acts)	Under Agricultural Trade Development and Assistance Act		Lend-lease, surplus property and other war accounts ²	Commodity Corporation export credits ³	Total
			Loans of foreign currencies				
			To foreign governments	To private enterprises			
Latin American—Continued							
Surinam.....	11.5	1.0	.....	.....	.....	.....	1.0
Trinidad and Tobago.....	2.5	.....	.....	.....	.....	.....	11.5
Uruguay.....	56.1	16.5	0.7	0.1	.....	.....	19.8
Venezuela.....	.....	124.0	.....	.....	.....	.....	180.1
Central American Bank for Economic Integration.....	.....	17.5	.....	.....	.....	.....	17.5
Latin America—Regional.....	.....	.9	.....	.....	.....	.....	.9
Latin America—Unspecified.....	.....	.....	.....	.....	6.8	.....	6.8
Total Latin America.....	1,687.1	2,089.6	150.5	6.3	95.2	8.1	4,036.8
Africa:							
Algeria.....	.....	6.0	.....	.....	10.4	.....	10.4
Cameroun.....	.....	.....	.....	.....	.....	.....	6.0
Congo (Brazzaville).....	.....	.....	.....	.....	.....	.....	.....
Congo (Kinshasa).....	2	31.3	6.9	.....	.....	.....	53.3
Ethiopia.....	6.7	28.7	.....	.....	15.0	.....	39.5
Ghana.....	51.0	62.1	1.7	.....	3.8	.....	114.8
Guinea.....	.....	6.2	.2	.....	.....	.....	6.4
Ivory Coast.....	1.5	0.7	.9	.....	4.5	.....	8.6
Kenya.....	.....	1.3	.....	.....	.....	.....	10.5
Liberia.....	.....	31.2	.....	.....	.....	.....	132.5
Malagasy Republic.....	81.8	(1)	.....	.....	1.3	18.4	(1)
Mali.....	.....	.....	.....	.....	.....	.....	.....
Morocco.....	.....	2	.....	.....	.....	.....	2
Niger.....	5.2	259.1	19.3	.....	14.2	.....	304.0
Nigeria.....	.....	3	.....	.....	.....	6.3	20.1
Senegal.....	4.3	15.8	.....	.....	.....	.....	11.9
Sierra Leone.....	.....	.....	.....	.....	.....	.....	.....
Somalia.....	10.2	.....	.....	.....	1.6	.....	2.7
South Africa.....	.....	2.7	.....	.....	.....	.....	2.7
Sudan.....	5.7	.....	.....	.....	.....	.....	.....
Tanzania.....	.....	10.3	.....	.....	.....	.....	.....
Tunisia.....	8.7	.....	7.2	.5	.....	7.2	23.2
Uganda.....	2.3	103.2	29.8	.4	3.3	.....	140.2
United Arab Republic.....	23.4	75.2	348.1	.1	14.5	64.4	523.5

BUDGET PROPOSALS FOR NEW LEGISLATION

Mr. MAHON. Mr. Natcher had a question.

Mr. NATCHER. Mr. Director, do you have a number of requests in the budget for fiscal year 1969 for new programs?

Mr. ZWICK. Yes, sir.

Mr. NATCHER. Can you give me some idea of just the approximate number?

Mr. ZWICK. I will have to supply it for the record. It is much lower than last year. The specific major programs, certainly, are fairly few, in the order of a dozen or so major programs. There are certainly a lot of small pieces of legislation and what the sum of those small pieces is I do not know. In terms of major legislation, probably about a dozen or so.

Mr. NATCHER. A dozen or so?

Mr. ZWICK. Yes, sir.

(NOTE.—The items proposed for separate transmittal in the budget under proposed legislation appear in a list earlier in these hearings. See p. 106.)

Mr. NATCHER. As you know, with the war in Vietnam costing about \$3 billion a month, and with the domestic programs that must go along costing millions, we have considerable trouble, Mr. Director, on this committee with some of the programs that you have in the budget.

About 3 years ago the House and the Senate authorized the International Education Act. You had that in a supplemental last year and you had it in the regular bill.

In the supplemental, you will recall it was about \$1 million and in the regular bill for Labor, HEW, you carried it up to \$20 million. It was knocked out in the supplemental. It was knocked out of the regular bill. It is a new program and you have it in the budget again, Mr. Director, for \$10,820,000. Are you placing this item in the category of a third time is the charm?

Mr. ZWICK. No, sir. First, let me go back to your opening statement, which was about Vietnam expenditures running at the rate of \$3 billion per month.

Mr. NATCHER. Yes.

Mr. ZWICK. That does not conform with any of our accounting systems.

Mr. NATCHER. How much does it amount to?

Mr. ZWICK. We are estimating for 1969, Department of Defense expenditures of \$25.8 billion for Vietnam and a foreign aid contribution of about \$500 million, for a total of \$26.3 billion.

Mr. NATCHER. How much would you say it amounts to per month?

Mr. ZWICK. A little over \$2 billion per month.

Mr. NATCHER. Let us say \$2 billion. And the domestic programs cost billions. It runs into billions of dollars.

Mr. ZWICK. That is right.

Mr. NATCHER. What about this \$10,820,000. Why is it back in the budget? Why shouldn't it be deferred, Mr. Director?

Mr. ZWICK. Sir, we are obviously disagreeing on the priority of this specific item.

Mr. FLOOD. Will the gentleman yield to me?

Mr. NATCHER. Yes.

Mr. FLOOD. Mr. Director, I want to add this parenthesis to Mr. Natcher's inquiry.

Because of the rules of the game here, I woke up one morning and found myself chairman of the Appropriations Subcommittee for Labor, and Health, Education, and Welfare. I never thought I would live that long, but I did.

This matter came before the subcommittee. We had elaborate hearings and we had a meeting to decide whether or not to appropriate funds for this program. I called for a vote. Under my strong and dynamic leadership of the subcommittee, the vote was 9 to 1. I was the one. The life expectancy of that program does not look very bright.

Mr. NATCHER. What about this request.

Mr. ZWICK. When we disagree on priorities, we have to keep coming back. For example, you find transportation user charges in this budget which, indeed, we think would relieve the burdens on the general taxpayer and properly put them on the users of these services, where they belong. Congress has in the past taken it into its own judgment not to pass these user charges. We still believe enactment of user charges is correct public policy and we are back asking for them again.

Mr. NATCHER. Mr. Chairman, in order to save time, Mr. Director, at this point in the record I wish you would amplify your statement about coming back again at this time for \$10,820,000, for a new program.

Thank you, Mr. Chairman.

Mr. ZWICK. I will be happy to.

(The information follows:)

HIGHER EDUCATION FOR INTERNATIONAL UNDERSTANDING

The administration is requesting \$10.8 million for fiscal year 1969 to implement the provisions of the International Education Act of 1966.

That act authorizes the Secretary of Health, Education, and Welfare to make grants to American colleges and universities to assist them (a) in establishing, strengthening and operating graduate centers in research and training in international studies; and (b) in planning and carrying out comprehensive programs to strengthen and improve undergraduate instruction in international studies.

The International Education Act does not authorize an overseas assistance program. Rather, it provides a means of strengthening the competency in international studies of American educational institutions. These institutions must provide the resource base of knowledge for our efforts abroad. They must train the students who will go on to careers in international affairs—in either government or industry.

The need for Federal support to institutions of higher education for international studies and research is indicated by evidence that:

Less than 50 of our 1,500 universities or 4-year colleges require candidates for the baccalaureate degree to take even a single course dealing primarily with nonwestern areas;

Only 50 percent of 191 State colleges and universities surveyed in 1966 reported offering one or more courses in nonwestern studies; and

Less than 10 percent of the students in liberal arts and other 4-year colleges offering courses on the nonwestern world took such courses in 1963-64; less than 1 percent studied a nonwestern language.

These deficiencies in the area of nonwestern studies are particularly disturbing in an era when America's resources are being concentrated in just these areas of the world. The International Education Act can assist our colleges and universities to train the personnel needed by government and industry. It can help these institutions amass the knowledge and develop the understanding needed by all our citizens for intelligent decisionmaking in matters regarding international affairs.

Mr. MAHON. Mr. Jonas.

PROPOSALS FOR INTEREST CEILING INCREASE ON FHA AND VA LOANS

Mr. JONAS. Mr. Director, returning to the question asked by the gentleman from Tennessee, did I understand you to say that an increase in the ceiling on interest would cost the homeowner less than he is paying now by points?

Mr. ZWICK. No. I said that you can construct such an argument; the burden of my statement was that it would not cost the homeowners any more in interest costs than they are now paying. They are now paying it in points absorbed in the price of the home they buy. I did not say it would cost them less. I said there have been arguments constructed that it might.

Mr. JONAS. The payment of points is a one-shot proposition and the payment of interest goes on for perhaps 30 years or longer depending upon the life of the mortgage.

Mr. ZWICK. These points are intimately related to the going interest rate. When you are having 7-point discounts today, which on a \$15,000 mortgage means \$1,000, that is quite a bit of interest whether you spread it over 30 years or a week.

Mr. JONAS. I do not mean to argue it. I am in favor of legislation on the interest ceiling. I want to be sure the administration is in favor of that.

Mr. ZWICK. We certainly are.

Mr. JONAS. The President stated so in his message, but he had not implemented that and stated he would support an individual bill to do that. Do you plan to do that?

Mr. ZWICK. Yes, sir.

Mr. JONAS. Is it to be included in the omnibus bill that will take months to get through Congress?

Mr. ZWICK. That decision has not been entirely resolved as of the moment.

Mr. JONAS. I wonder when we are going to make that decision.

Mr. ZWICK. We are clearly on the record.

Mr. JONAS. Bills have already been introduced and are pending before the Banking and Currency Committee right now to lift this restriction.

Mr. ZWICK. I understand.

Mr. JONAS. Can we understand that the administration is supporting those bills?

Mr. ZWICK. Our position is that we will take whatever route will get these rates lifted most quickly.

Mr. JONAS. Are you supporting these bills?

Mr. ZWICK. Which bill are you talking about specifically?

Mr. JONAS. Two bills I know are pending before the Banking and Currency Committee right now to lift the restriction on interest rates for VA and FHA mortgages.

Mr. ZWICK. I know about the VA but not about the FHA one.

Mr. JONAS. There is one other question I wanted to ask, Mr. Chairman, and I will make that a brief one.

DEFENSE VERSUS NONDEFENSE SPENDING

Mr. Director, in your charts and throughout the testimony it is always argued that we are in this fix, this fiscal difficulty, because of the war in Vietnam.

My interpretation of table 17 in the budget, and my interpretation of the spending levels for nondefense and defense projects, indicates that nondefense spending has gone up more since 1960 than defense spending has. Is that correct or not?

Mr. ZWICK. Since 1960?

Mr. JONAS. From 1960 right on through 1969. Nondefense spending has increased more than defense spending.

Mr. ZWICK. That is correct.

Mr. JONAS. That same situation is true if we restrict it to the last 3 years. Nondefense spending is up more than defense spending since 1965, say; is that not true?

Mr. ZWICK. We can do that one very quickly for you.

Defense is up \$30.2 billion. All other is up \$37.9 billion. Yes.

Mr. JONAS. The answer is "Yes"?

Mr. ZWICK. Yes, it is.

Mr. JONAS. Then it is not exactly fair to keep placing all of the blame for our fiscal woes on the war in Vietnam, is it?

Mr. ZWICK. I do not think we have, sir. Let me quote to you from the President's budget message on that specific point.

Mr. JONAS. You have just admitted, then, it would not be fair to do that?

Mr. ZWICK. That is correct.

Mr. JONAS. The war—

Mr. ZWICK. We have said—the President stated that we have responsibilities, both domestically and internationally, to meet, and that the total sum of those outlays is such that we need a temporary tax surcharge.

Mr. JONAS. I wanted to ask the Secretary this question.

Mr. ZWICK. The record ought to be clear on that specific question.

Mr. JONAS. I would like to ask the Director, and if you would like one of the Treasury men to answer it, that is all right.

An argument was made in support of the Tax Reduction Act of 1964, which I voted against because we couldn't get any commitment on reducing spending then and I did not think it was wise to reduce taxes without reducing spending by an equal amount. The argument in support of that bill was that if taxes were reduced it would increase the cash flow into the Treasury.

Mr. ZWICK. That is correct.

Mr. JONAS. By stimulation of business. Now, exactly the opposite argument is being made to the effect that an increase in taxes is necessary to increase the cash flow. How do you explain that inconsistency?

Mr. ZWICK. Sir, I think it is a perfectly logical posture to have. Let me insert in the record, before I get to that, the President's statement on page 8 of the budget, which is:

* * * Even after a rigorous screening of priorities, however, the cost of meeting our most pressing defense and civilian requirements cannot be responsibly financed without a temporary tax increase.

I think the record is clear on this specific issue.

Mr. JONAS. What?

Mr. ZWICK. That the tax increase is needed because he has looked at both domestic and international responsibilities and has—

FISCAL POLICY ASPECTS OF TAX RATE CHANGES

Mr. JONAS. Is it your position now that an increase in taxes would increase the cash flow to the Treasury?

Mr. ZWICK. Now to your second point about the 1964 tax cut. In 1964, you had a case of an economy not operating at full capacity. You had idle resources. The logic of that situation was that by cutting taxes you provided a stimulus to private investment, private consumption, that would have a multiplier effect, generating income, generating profits, and increasing GNP, which indeed happened.

If you look at the rate of growth in GNP since the tax cuts, I think you can make a very good case that what you did was stimulate the economy. This generated larger personal incomes, larger corporate profits, and of course your tax revenues result from those increases in personal income and increases in profits. So that it was a logically correct statement that by cutting taxes in that period you increased total revenues to the Treasury.

Now I come to the current situation where you have full employment. Obviously you cannot stimulate more real output when all your resources are being used.

Mr. JONAS. We do not have 100 percent operation of our plant capacity today, do we?

Mr. ZWICK. No, sir.

Mr. JONAS. It is nearer 85 percent.

Mr. ZWICK. If you look at the industrial plants, that is true. At the same time, if you look at the unemployment rate for married men, it is down to 1.6 percent, the lowest rate since the Korean war.

Mr. JONAS. Aren't you proposing in this same budget to spend millions for employment, stimulate employment?

Mr. ZWICK. We are trying to get at the hard-core unemployed, but let me finish my question on what happens if you cut taxes. You can raise revenues now by either taxing more, or if you didn't tax more you could, I suppose, if you assumed the Federal Reserve Board could pump in enough reserves in the system and get enough inflation, generate more revenues through inflation. This is a course that no responsible person would forecast. I think there is a clear distinction of appropriate fiscal policy when you are operating at less than full capacity and when you are operating at close to full capacity. When you are operating at less than full capacity, it is quite clear that by stimulating demand you increase output. This output produces income and profits which lead to Federal revenues. When you reach full capacity or close to full capacity in your economy, the only way you can get additional revenues is through inflation or through normal growth in capacity of the country or by increased taxes.

Mr. MAHON. Will you yield?

Mr. JONAS. Yes, sir.

Mr. MAHON. The Secretary is due back shortly. I would like for your question to be posed at this point to the Secretary and let him give his comments in addition to the comments of the Director.

(Information supplied by Secretary Fowler follows:)

There is little in summary that can be added to the Budget Director's statement.

It is clear, as experience has demonstrated, that a reduction in tax rates at a time when the economy is operating at less than its optimum level will stimulate

private investment and consumption, that this will lead both to a reduction in the full employment gap and to a more rapid rate of economic growth and, in turn, that the result will be to enhance the revenue base and finally to increase total tax revenues. On the other hand, if the economy is already fully employed, a tax reduction not matched by an equal or larger expenditure reduction would simply overstimulate the economy and lead to an inflation in prices. Such inflation could also result in higher tax revenues, but at the great expense of creating economic instability with its risks of later recession or depression.

In the present situation, the economy is not only fully employed but there is every prospect that, as the months progress, demand will be pressing harder and harder on supply unless fiscal action is taken, first, to hold down moderately on private demand through tax increases and, second, to limit Federal demands through expenditure restraint of the kind and character proposed in the President's budget. We estimate that, if the proposed tax legislation is enacted, Federal revenues will be higher than they would be otherwise, because the higher tax rates applied to the revenue base will result in an immediate increase in tax revenues. What will be avoided is an accelerated rate of inflation which would become more marked as the year moves along.

Mr. JONAS. I had one other thing and then I will suspend.

If what you say is so, why were we a year ago encouraged by the administration to restore the investment credit and accelerated depreciation which amounted to a tax reduction?

Mr. ZWICK. You have to read the whole history, Mr. Jonas. If you read the history of what was happening in the financial markets and to interest rates in the fall of 1966, when we suspended the investment credit, you see a dramatic change in those financial markets. It was a temporary suspension asked for as a temporary measure at that time to meet a particular problem we had in our financial markets. As soon as we corrected that and got into a posture where we thought we were over that hump—and we wanted the credit as a long-term part of our tax structure—we asked for its reimposition.

Mr. JONAS. It turned out to be the shortest tax reduction in history, didn't it?

Mr. ZWICK. I do not know whether that is good or bad.

Mr. JONAS. It is bad if you are running a business. A businessman doesn't want the tax laws operated like a yo-yo. I think some stability in our tax laws is important so businessmen will know how to plan for the future.

Isn't that important?

Mr. ZWICK. Yes, sir. But most businessmen I know are more interested in stability in profits than in taxes.

Mr. JONAS. Maybe we don't know the same businessmen.

Mr. ZWICK. They are more interested in profits than taxes.

Mr. JONAS. I think they are concerned about both. Sure, they wanted the tax reduction. They wanted the investment credit restored. You wanted it restored. Now, after that yo-yo operation, you want to extend the confusion by increasing taxes when the reductions you advocated have been in effect a very short period of time.

Mr. ZWICK. Yes.

Mr. JONAS. That was just a year ago.

Mr. WALLACE. May the Treasury comment on that?

Mr. MAHON. Without objection, the Treasury can comment on the question at this point.

(The information follows:)

Secretary FOWLER. We have always considered the investment credit as a permanent part of the tax structure. It is intended to encourage investment in plant and equipment. It was suspended in 1966 under very special circumstances. Busi-

ness investment was at an unsustainable level, and shortages and bottlenecks were showing up in the capital goods industry. As soon as it became clear that these abnormal pressures were easing, the investment credit was restored.

Mr. JONAS. I would like them to comment now instead of putting something in writing that I won't be able to read until the record is here.

Mr. MAHON. We can do that later.

Mr. JONAS. I would like to see it before it goes in the record.

Mr. MAHON. Sure.

Mr. JONAS. That is all.

Mr. MAHON. Are there further questions on my right?

Mr. Laird?

VARIATIONS FROM ORIGINAL BUDGET ESTIMATES

Mr. LAIRD. Mr. Director, I have some questions that go to the credibility of the financial document as it came to the Congress. During the last three or four budgets we found that the first estimates which were submitted to the committee were quite different from the revised estimates submitted to the committee some 6 months or so later.

If you take the consolidated cash statement for 1968, 1967, and 1966, the differences between the Bureau of the Budget's original estimate and its midyear revised estimate of dollars or percentage increases are really quite alarming. If we take the first estimate in 1967, 1968, we find that the defense costs showed an increase over the previous years of \$5.5 billion or 7.7 percent; nondefense, \$6 billion increase or 6.6 percent. The total increase was \$11.5 billion or 7.1 percent.

We move to your revised estimate after this committee has completed most of its hearings and we find that your percentage increase on defense is 9.1 and your percentage increase on nondefense is 17.1.

To use a comparison here I would use the consolidated cash statement because in this way we can go through all of these years. I would like to put in the record at this time a table showing these differences in the consolidated cash statement running all the way back to 1965-66.

(The information follows:)

TABLE I.—DIFFERENCES BETWEEN THE JOHNSON ADMINISTRATION'S ORIGINAL ESTIMATE AND ITS MIDYEAR REVISED ESTIMATE OF DOLLAR AND PERCENTAGE INCREASES OVER THE PREVIOUS YEAR'S BUDGET

[Consolidated cash statement]

	Amount (billions)	Percent
1968-69 (1st estimate):		
Defense.....	\$3.3	4.3
Nondefense.....	9.4	9.4
Total.....	12.7	7.2
1967-68 (2d estimate):		
Defense.....	6.4	9.1
Nondefense.....	14.5	17.1
Total.....	20.9	13.5
1967-68 (1st estimate):		
Defense.....	5.5	7.7
Nondefense.....	6.0	6.7
Total.....	11.5	7.1
1966-67 (2d estimate):		
Defense.....	12.8	21.9
Nondefense.....	10.3	13.0
Total.....	23.1	16.8
1966-67 (1st estimate):		
Defense.....	4.0	7.0
Nondefense.....	6.0	7.7
Total.....	10.0	7.4
1965-66 (2d estimate):		
Defense.....	6.6	13.0
Nondefense.....	6.0	8.4
Total.....	12.6	10.3
1965-66 (1st estimate):		
Defense.....	-.4	-.7
Nondefense.....	6.4	9.3
Total.....	6.0	4.9

¹ Source: Derived from the Budget of the U.S. Government, fiscal years 1967-69.

Mr. LAIRD. This table shows an alarming difference in the second estimates which are presented to this committee and to other committees of the Congress.

How do you explain this great variance in the consolidated cash statements over this 4-year period?

Mr. ZWICK. Sir, let me make several comments.

First, I think that for many reasons the consolidated cash picture is an unfortunate one to look at. I think that when the Budget Concepts Commission took a look at it, they suggested eliminating one major cause for variances in estimates in setting up the new budget format. They recommended excluding the home loan banks, which have been very volatile. These banks showed, for example, if you want to take a change which worked for the administration rather than against the administration, a \$4½ billion increase in revenues in the first half of 1967 as compared to the January estimate. This was not due to a more restrictive fiscal policy of the administration. It was that savings and loan institutions got into more liquid positions and started paying off more of their debt.

Mr. LAIRD. That might be true for one short period of time. If you take the consolidated cash statement and use it over the period of the

4 years, I think that you would find that these estimates were off in each of those 4 years.

Mr. ZWICK. My first point is that I think it would help the dialog if we use the new budget concept, which I think is a preferred instrument to look at, rather than the consolidated cash budget. This was unanimously agreed to by a bipartisan commission.

Mr. LAIRD. I agree to the new budget concept for the clarity of the budget. I commend the President for using it. I commend the committee for bringing it to the Congress. I am glad that we are moving in this direction. I support that.

In order to make comparisons with charts that are published in the budget document, this is one way of making this kind of comparison.

Mr. ZWICK. I think so.

Mr. LAIRD. I think that you will find, regardless of how you use the new system or the old, you will find that the percentages that you have been off are very alarming.

Mr. ZWICK. Yes, sir.

Mr. LAIRD. I want to find out whether this submission is a more credible fiscal plan for the next 12 months than those that have been submitted by the Bureau of the Budget for the last 4 years.

Mr. ZWICK. My first point, and I reiterate, is that you can do it with the new budget concept. I think it is a more consistent and more useful way to look at it.

Mr. LAIRD. The same thing shows up.

Mr. ZWICK. Not quite as volatile as you are now making it out. Let me go into the specifics. You are clearly correct on two items where we have done badly. One was on estimating the cost of Vietnam. We certainly did very badly in fiscal year 1967 in estimating that cost. I think it is important and I—

Mr. LAIRD. There were some who estimated them a little better than you did?

Mr. ZWICK. That is right. The same people last fall were estimating that it was going to go up by something like \$5 billion.

VARIATIONS IN VIETNAM WAR COST ESTIMATES

Mr. LAIRD. I would just as soon discuss that with you right now. As long as you brought that subject up, let's go into that. I am glad you brought it up. We are now in a position where we are going through a reprogramming process. You call it a zero supplemental. I do not call it a zero supplemental at all because you are reprogramming \$6.4 billion in the various accounts in the Department of Defense. And you are taking this reprogramming of \$6.4 billion, shifting it from items other than war costs to war costs in Southeast Asia. Because of the \$6.4 billion that is being reprogrammed, 87 percent of it is directly attributed to the administration's underestimating Vietnam war costs this year.

I admit that you can avoid a supplemental in that fashion, but, Mr. Director, you are not avoiding the fact that your Vietnam war cost estimate was incorrect by almost \$5 billion.

Mr. ZWICK. Our original Vietnam war cost estimate for fiscal 1968 was incorrect by \$2.5 billion and we will be happy to give you the detail on that. The total Department of Defense estimate, since we did reduce other costs by \$2 billion, is up \$0.5 billion between January of

1967 when we made our first estimate of the 1968 budget and January of 1968, when we made our second one.

Mr. LAIRD. You made an estimate then of \$21.9 billion as Vietnam war costs. And you have those war costs now up to \$25 billion.

Mr. ZWICK. Not in 1968, sir.

Mr. LAIRD. Almost \$25 billion with the war cost being reprogramed out of the procurement account in other accounts. It really is over \$25 billion and you and I know how gas, supplies, etc. are not being correctly charged.

Mr. ZWICK. We are saying the Southeast Asia cost is up \$2.5 billion over what we estimated in January 1967; we are saying all other defense expenditures are down \$2.0 billion; therefore Defense will end up fiscal 1968 with expenditures \$0.5 billion higher than we estimated in January of 1967.

Mr. LAIRD. Mr. Director, you know that this reprogramming action is a means of avoiding the Congressional debate that would accompany a supplemental in this election year. You cannot assure me today that the items being reprogramed will not have to be replaced merely because you stretch out certain procurement contracts into a later completion date. A later completion date only means that we will have to replace the obligational authority at a later time in order to fulfill those contracts or requirements.

Mr. ZWICK. That is right.

Mr. LAIRD. If you cut down on the number, take for instance, the reprogramming that is being used in the Department of Defense on aircraft, you are not cutting down on the number of planes. As a matter of fact, a case can be made that this will be more expensive. And I believe, and I will predict now, that these aircraft will cost you more using the reprogramming procedure. You are merely covering up the costs of the Vietnamese war and postponing a debate on a supplemental in this second session of the 90th Congress.

Mr. ZWICK. Sir, I could not disagree more with that statement.

Mr. LAIRD. All right. Where do you disagree? Let's take the plane costs. Do you think stretching acquisition out 12 more months will give you a plane that is any cheaper when the delivery date is postponed these 12 months?

Mr. ZWICK. You have three things working on your side, I think Mr. Laird.

First, you have more time. As a normal business practice you always defer any expenditure as long as you can in order to get better estimates of requirements and needs. You may not even make the same total purchase if you defer and stretch out.

Point two, you are essentially pressing on capacity of the economy to produce right now. By stretching these things out—

Mr. LAIRD. You are only moving contract dates from 1970 to 1971 now. We are talking about a 1970 delivery date compared with a 1971 delivery date. You are using these funds now for Vietnam and then will have to have them replaced later. You could now contract for a later delivery and reduce the impact of expenditures and save millions of dollars. Instead, you use this obligational authority now and expend immediately on war costs.

Mr. ZWICK (continuing). You are still stretching out the total impact of federal expenditures on the economy. And if this has any im-

pact—and we think we can show it in terms of highway construction, for example, where a stretchout succeeded in lowering the construction cost index—everything done which helps reduce inflationary pressures will lower the unit cost of the airplane.

Third, the reason why you ought to be able to get a better airplane per dollar is through technical improvements and testing that can take place during this period.

Mr. LAIRD. You are making an argument then that the original shopping list for procurement was submitted to this committee in error and you have a new method whereby we can save a considerable amount of money by stretching out the acquisition date?

Mr. ZWICK. No, sir.

Mr. LAIRD. There was an error in the way it was originally submitted and it was the most costly way of submitting it. Is that true?

Mr. ZWICK. No, sir; that is not true at all.

Mr. LAIRD. That is what I gather from your defense of this proposed new way of financing war costs. It still is part of this administration's philosophy of fight now, finance later.

Mr. ZWICK. We submitted a budget in January 1967, which outlined what we thought was a sensible program. After that, several things happened.

First, the Vietnam costs did go up \$2.5 billion over what we estimated; second, Congress did not see fit to pass the tax increase we asked for. We therefore had to subsequently go back and look at the budget and decide what to do in that context, as Mr. Bow said this morning, and we decided to take this course. I do not think it implies anything about errors in January 1967.

Mr. LAIRD. Have you gone over the shopping list changes in the procurement account?

Mr. ZWICK. Yes, sir.

Mr. LAIRD. For the Department of Defense?

Mr. ZWICK. I am not sure when you say "shopping list" what you are talking about, sir.

Mr. LAIRD. We have gone over the shopping list, a procurement list for 1968, when it was submitted to us for the procurement account. Now the changes that are being submitted in the shopping list to stretch out some purchases amount to a transfer of at least several billion dollars from regular procurement accounts into accounts to pay for war costs. You are familiar with the shopping list or procurement list changes.

Mr. ZWICK. Yes. You mean the changes involved in the transfers. You are talking about the transfers from the various accounts to other accounts.

Mr. LAIRD. But I am talking about the changes in the items on the 1968 defense shopping list within the procurement account.

Mr. ZWICK. You mean the changes program by program?

Mr. LAIRD. Right. Have you gone over them?

Mr. ZWICK. Not in detail; no, I have not.

Mr. LAIRD. Perhaps we had better get into this with the Secretary. Do you approve the reprogramming within the procurement account?

Mr. ZWICK. Yes, we do.

Mr. LAIRD. Just in a broad general way?

Mr. ZWICK. My people have gone into it in detail and can give you back-up. I personally have not looked at the detail.

Mr. LAIRD. Did you realize that 87 percent of that reprogramming has to do with covering costs of the Vietnamese war?

Mr. ZWICK. It is mainly for Vietnam, but I am saying the total cost of Vietnam is going to be up \$2.5 billion in fiscal 1968, not the \$6 billion you said earlier.

Mr. LAIRD. The \$6.4 billion which I used was the total amount of reprogramming that is involved?

Mr. ZWICK. That is correct.

Mr. LAIRD. Of that \$1.6 billion or \$1.67 billion is a transfer from procurement into O. & M.? And that O. & M. \$1.67 billion almost entirely is Vietnamese war costs?

Mr. ZWICK. \$1.67 billion is the total for Vietnam out of the \$6.4 billion; \$1.5 billion represents the net transfer into O. & M., almost entirely for Vietnam, and \$1.3 billion represents the net transfer out of procurement.

Mr. LAIRD. The other reprogramming that is involved with the procurement and within the other accounts within the Department of Defense is clearly attributed to replacing items and supplies that have been used in the Vietnamese war but not directly attributed to Vietnam because we have transferred out of Western Europe, we have transferred from bases here in the United States. And I agree you do not have to say that is necessarily war costs, but it is a replacement of a drawdown of stock that is directly attributed to the war in Vietnam, although it is not going to be accounted for in that way in the reprogramming process.

Mr. ZWICK. I just do not agree with that interpretation of the reprogramming.

Mr. LAIRD. You can't for the record, but the facts speak for themselves. We will develop that very thoroughly, I am sure, in the appropriation hearings, but it is very clear in 1968 defense reprogramming that has been submitted that this is what it amounts to. We are replacing stocks that have had to be drawn down in the United States, in Western Europe, and in other areas. They have already been used or are in inventory in Vietnam.

I am not going to pursue this with the Budget Director because he does not have the detail on this, but it would seem to me that this is something that is going to cause you considerable difficulty as you prepare for the 1970 and the 1971 budget. What you are doing here is delaying the day of reckoning. You are not saving money in the long run. You are adding increased costs to future defense budgets.

I believe that we will prove out by 1972 that you have added to the expense of this defense procurement by this kind of a process. And I believe we will be able to prove that without any question of a doubt.

Mr. ZWICK. That, I reiterate, has to be based on an assumption that you know today, as of this moment, exactly what the flow of purchases is going to be over the next few years.

Mr. LAIRD. And what cost-of-living projections are, and payroll projections are, and wage-rate projections are through the year 1972.

Mr. ZWICK. Right.

Mr. LAIRD. But I am willing to take the gamble that those wage-rate projections, cost-rate projections are on an upcline rather than a decline, and if they are, Mr. Director, this reprogramming process will add to the cost of government during that period of time.

Mr. ZWICK. And you are also accepting the assumption that the statement of requirements as of today will not change in the future. And I would say any prudent businessman defers as long as he can decisions to procure. So you are playing both sides of this street. You have to take, along with the cost increases, the savings flowing from the additional information, technological improvement, and changes in basic posture.

Mr. LAIRD. I would agree if the Secretary of Defense and the Joint Chiefs of Staff would come out today and say we are not going to purchase this number of fighter planes, this number of attack submarines, this number of torpedoes, this number of bombs. But they are not saying that; they are saying our requirements will be the same as on the original shopping list and in some cases even greater in the years 1971 and 1972.

(Additional information, subsequently supplied, follows:)

The following information describes the increases and offsetting reductions which comprise the \$1,695,600,000 in transfers proposed by the administration among appropriations to the Department of Defense for the fiscal year 1968:

REDUCTION OF APPROPRIATIONS

Military Personnel, Army, \$90,500,000.
 Military Personnel, Marine Corps, \$10 million.
 Military Personnel, Air Force, \$54,200,000.
 Reserve Personnel, Army, \$14,200,000.
 Reserve Personnel, Air Force, \$1 million.
 National Guard Personnel, Army, \$32,500,000.
 National Guard Personnel, Air Force, \$1 million.
 Operation and Maintenance, Army National Guard, \$1,300,000.
 Operation and Maintenance, Air National Guard, \$400,000.
 Procurement of Equipment and Missiles, Army, \$409,500,000.
 Shipbuilding and Conversion, Navy, \$233,200,000.
 Other Procurement, Navy, \$160,800,000.
 Procurement, Marine Corps, \$12,200,000.
 Aircraft Procurement, Air Force, \$222,700,000.
 Other Procurement, Air Force, \$280,900,000.
 Research, Development, Test and Evaluation, Army, \$100 million.
 Special Foreign Currency Program, \$11,200,000.
 Army Stock Fund, \$60 million.
 In all, \$1,695,600,000.

INCREASE OF APPROPRIATIONS

Military Personnel, Navy, \$20,900,000.
 Operation and Maintenance, Army, \$950 million.
 Operation and Maintenance, Navy, \$232 million.
 Operation and Maintenance, Marine Corps, \$7,200,000.
 Operation and Maintenance, Air Force, \$327,100,000.
 Operation and Maintenance, Defense Agencies, \$17,100,000.
 Procurement of Aircraft and Missiles, Navy, \$6,300,000.
 Missile Procurement, Air Force, \$15,100,000.
 Procurement, Defense Agencies, \$6,100,000.
 Research, Development, Test and Evaluation, Navy, \$5,800,000.
 Research, Development, Test and Evaluation, Air Force, \$108 million.
 In all, \$1,695,600,000.

VARIATIONS IN ESTIMATES FOR STATE WELFARE AID GRANTS

Mr. LAIRD. Mr. Director, I am also concerned about the estimate being used here on the welfare aid to the States. Last year when I questioned the Budget Director and questioned the Department of Health, Education, and Welfare, I estimated that your estimates were off by

over \$500 million. The administration quarreled with me on that figure and said I was wrong. I was wrong. It turned out it is \$1.1 billion underestimated instead of \$500 million as compared with the original budget document.

Now Mr. Director, it seems to me if you take the current caseload of the five major welfare programs as far as the States are concerned, and you take the caseload of today, you project out your increases in costs, your increases in medical payments, using the figures of the Bureau of Labor Statistics as your base, that your budget estimate, and on that basis as submitted to us here today, is off \$350 million.

VARIATIONS IN ESTIMATES FOR STATE WELFARE AID LIMITS

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What is your comment on that?

Mr. ZWICK. I have two comments.

First, you are correct that we underestimated badly last year the cost of the medicaid program for three reasons, but I think it is an analogous situation to the Vietnam situation.

In 1967 we missed very badly. It was a new program, and nobody estimated the rate at which it was going to increase. We missed the Vietnam cost by almost \$10 billion in 1967, and you and I have a disagreement about how badly we have done in 1968—

Mr. LAIRD. My only disagreement is that you are using, I think, the subterfuge of hiding your war costs for the remaining portion of 1968 by using the clever technique of reprogramming. But I know it is going to cost you more money.

Mr. ZWICK. That is the key to this argument because I think we have done a much better job in 1968 of estimating costs than you apparently think we have.

I submit the same thing is happening in the medicaid area. We started into a new program last year and we underestimated the cost for three reasons: (a) we underestimated the rate at which the States would sign up; (b) we underestimated the levels they would set—and particularly the States of New York and California set very high levels; and (3) we underestimated the inflation in medical service costs. The sum of these three factors gave us an error which we are all unhappy with and embarrassed with.

I do not think you project that sort of an error into a program as it starts to mature. I think there is ample evidence in many programs that when you start them off you can do a very bad job of estimating costs.

But as you move into the program—as it matures—your ability to estimate costs improves radically. I will submit that is the case in Vietnam and is the case in many other programs we could name. I think, therefore, it is misleading to use the 1967 or 1968 misestimate in these programs and project it into 1969.

Mr. LAIRD. Let's take these welfare costs.

How correct do you think this estimate is that you have before us today for fiscal 1969?

Mr. ZWICK. We hope that is a good estimate.

Mr. LAIRD. Have you cranked in—

Mr. ZWICK. Inflation in medical costs?

Mr. LAIRD. The increased costs that are projected by the Bureau of Labor Statistics.

Mr. ZWICK. Yes, sir. We are, of course, assuming enactment of the tax increase as part of our forecast in all of this.

Mr. LAIRD. How is the tax increase going to affect these? You are not now trying to sell the tax increase as an anti-inflation measure? I thought the President was now willing to call it a "war tax."

Mr. ZWICK. It ought to affect the general price level and therefore the rate of inflation in medical costs, which is one of the things we missed very badly in fiscal 1967; that is, the rate at which costs of medical service went up.

Mr. LAIRD. I do not want to pursue this, but with or without the tax increase I predict you are off \$350 million today on that estimate and it can be higher.

(NOTE.—The following additional information on 1968 Federal grants required for medicaid was supplied for the record by the Bureau of the Budget:)

In the fall of 1966 when we were reviewing estimates for Federal grants for medicaid we were dealing with a sizeable unknown. Only 19 States were then in the program and the States themselves were not estimating projected requirements except from quarter to quarter. In order to come up with a 1968 estimate the Department of Health, Education, and Welfare in effect had to rely on a general nationwide approach. New York which had a medicaid program was then spending under medicaid at the annual rate of \$15 per inhabitant (i.e., medicaid expenditures divided by total State population). Figuring that New York had a rather liberal and broad program. HEW used a range of \$10 to \$12 applied to the total population. This yielded a total medicaid expenditure of about \$2.2 billion for which the Federal share was \$1.2 billion. Other approaches were also explored and yielded somewhat similar figures.

During calendar 1967 actual experience was, of course, much higher and it was realized that a supplemental would be needed for fiscal year 1968. The current estimate for fiscal year 1968 reflects this increase. It is based upon a canvass of eight States (California, Illinois, Michigan, Massachusetts, Minnesota, New York, Pennsylvania, and Wisconsin) which, in October 1967, were requested to estimate their requirements for fiscal year 1968 and 1969 under three assumptions. One of the assumptions was the Mills Federal medicaid matching formula enacted in the 1967 amendments to the Social Security Act. These eight States account for 60 percent of the Federal grants for medicaid. Accordingly, when these States' estimates were enlarged to cover all States, it yielded the revised current requirements of Federal grants in 1968 (\$1.8 billion). Similarly, the estimate by these States indicated that Federal grants required in fiscal year 1969 would be \$2.1 billion. These are the figures in our 1969 budget.

PPBS SYSTEM

On page 41 of the small budget book, you discuss the planning, programming, budgeting system, the PPB.

Mr. ZWICK. Yes, sir.

Mr. LAIRD. And you talk about how this system has been in effect for 2 years now and you point, as the number one example of its effectiveness, to the "Department of Health, Education, and Welfare has analyzed the effectiveness of the cooperative Federal-State vocational rehabilitation program. This study indicated that the increase in lifetime income of participants is many times the rehabilitation costs, confirming previous judgments that this program merits high priority."

I have served on the Health, Education, and Welfare Committee ever since that Department was created and we have had these statistics every year. If this is the best argument you can make for the planning, programing, budgeting system, it would seem to me you should give it a much lower priority. We have had these figures every year and periodically have included their detailed analysis in our hearing record. This PPB is just a new term for an old activity.

Mr. ZWICK. I do not understand your introductory sentence. I do not read anything in that paragraph to say that this is our No. 1 example. That was your editorializing, not the Budget's. It is an example of where PPB applies.

Mr. LAIRD. You only use three examples and this is the first of the three. This has been in operation 16 years to my personal knowledge. Did you know that?

Mr. ZWICK. The fact that people have been analyzing and getting better costs is certainly not a new idea. This is an old idea. I do not think you can infer from any words in that section that this is our No. 1 defense of the PPB system.

Mr. LAIRD. From my personal knowledge we have been doing that cost effectiveness study for at least 16 years on that program.

Mr. ZWICK. I am delighted.

Mr. LAIRD. I was kind of shocked to see it pointed to as a 2-year program in this budget document. That may be a little nit picking but I do think it should be borne in mind this committee, in considering vocational rehabilitation programs over at least the last 16 years, has always had the benefit of cost effectiveness studies in this area and I will place in this record a few excerpts from previous hearings to illustrate this.

Mr. ZWICK. I can do no more than join with you and applaud.

(The excerpts referred to by Mr. Laird follow:)

(Excerpts from hearings before the Department of Labor and Health, Education, and Welfare Appropriations Subcommittee on budget estimates for fiscal years 1955, 1960, 1965:)

HEARINGS ON 1955 BUDGET

INCOME TAXES OF REHABILITANTS

Mr. BUSBEY. Would you explain to the committee exactly how the figures were arrived at, at the bottom of page 2 of your statement?

Miss SWITZER. The income tax figure is the usual compilation we make, following a formula discussed with the Treasury. We can supply the formula for the record if you are interested in it.

Mr. BUSBEY. Does that take into account Federal, State, and local income?

Miss SWITZER. No. This takes into account the Federal income tax only, and it is based upon certain assumptions which the Treasury considers conservative. It has been checked within the past year on the basis of actual earnings and averaged out. We have in the records that come to us the actual earnings of people who are rehabilitated and placed in employment. It is on the basis of those actual figures this estimate is based. It is made, of course, on the assump-

tion of the tax laws at the time the estimate is made. The best experts on this, it seemed to the Department, would be in the Treasury Department, because they are in the business of estimating income every day. After consultation, the formula was determined.

EARNINGS OF REHABILITANTS

With regard to the second figures, the earnings of the rehabilitants, those are actual earnings.

In the sentence just above the tabulation we say:

"During 1954, 65,500 disabled persons were rehabilitated into employment. During 1955, the number will be 59,000 with the Federal and State funds estimated to be made available."

These figures are estimates of what the loss would be, based on those who would not be rehabilitated. To the extent the number rehabilitated drops, there is a corresponding drop in income taxes and earnings, and for some a continuance on public assistance, based upon what has happened in past years.

The assistance costs are readily estimated. When people are taken off assistance it is easy to find out what was paid to them when they were on and to make an estimate of how long they would have stayed on.

Mr. BUSBEY. What do the actual figures show for 1953?

Miss SWITZER. Comparable to these figures here?

Mr. BUSBEY. Yes.

Mrs. LAMBORN. Earnings in 1953 were at the rate of \$17 million before rehabilitation and after rehabilitation \$114 million; a 600-percent increase in earning power.

Mr. BUSBEY. How do you get those figures? How do you get those actual figures?

Miss SWITZER. We have a form we call our R-9. It is a report of finished work. On every rehabilitated case, that form comes into the office with the data on it which establishes the actual facts of rehabilitation. On that form is a statement of what the person received when he started rehabilitation, where he was working, and if so, how much money he got, and afterward when he finished what he was getting on the job.

Mr. BUSBEY. Who makes that form out?

Miss SWITZER. The State person responsible.

Mr. BUSBEY. Is there any check on those figures by the Federal Government?

Miss SWITZER. Do you mean do we go back to see whether or not the reporter made an accurate statement?

Mr. BUSBEY. To see whether that is a permanent situation or just a temporary one at the time the report was made, or what?

Miss SWITZER. A number of followup studies are made from time to time, both by the States themselves and by us. The general findings are that between 75 and 80 or 85 percent of the people rehabilitated are still at work when followup studies are made 5 to 7 years after rehabilitation. We feel that that is a fairly accurate reflection of the facts.

Mr. DABELSTEIN. May I add a statement, Mr. Chairman. When we make a periodic review of cases we also check what information they have in the folder regarding the earnings of the individual at the time that he is rehabilitated. Our standards require that before the case is reported as rehabilitated, the State agency is supposed to have followed the individual up in employment for a satisfactory period of time to determine that he has the skills necessary to hold the job that he is performing adequately, and that the wages are comparable to those being paid to other workers. We find many State agencies have a statement in the case folder signed by the client stating when he started his work, what he is doing, what wages he is receiving, and how he got the job.

Mr. BUSBEY. Are these rehabilitants required to report a change in their earning capacity from year to year to the State agency?

Mr. DABELSTEIN. No.

Miss SWITZER. No; unless there is some continuing relationship between them. I think in many of the programs for the blind, where followup and counseling is common practice there would be. But when a person is rehabilitated and put to work our philosophy is he is just like any other worker then, and the chances are he does not come back for help unless he loses his job and his disability interferes with his getting another one.

Mr. BUSBEY. Let us say that here is a man and before he was rehabilitated he received in wages \$1,000 a year. After he was rehabilitated he received the first year \$3,000. The third year after he is rehabilitated he may receive \$5,000

or he may be back to \$1,500. I am wondering what procedure there is to follow through on this situation.

Mr. DABELSTEIN. There is no permanent system to follow up every one. The State agencies from time to time may follow up various groups, 5 or 10 years later, to see what changes have taken place in earnings, the periods that they have been employed, and so on. These are followup studies. After the case has been closed, no routine followup is made unless it is a special study.

Miss SWITZER. The studies are very time-consuming and very expensive, if they are undertaken to the point where they are reliable. We have not been able to do as many as we would like to do, nor have most of the States.

Mr. BUSBEY. I do not challenge the statement at all that for each dollar invested the Government gets back \$10, but I was trying to ascertain exactly and specifically how you arrive at that ratio of 1 to 10.

Miss SWITZER. That is developed, as I said earlier, on the earning figures that we have on which Federal income taxes are paid, on the average number of dependents that the people have, and on the Federal tax rates in effect when the estimate is made. We have gone over this now several times. Very recently, in the last 6 months, with technical economic experts and tax prognosticators to review it again and see if there were any fallacies in our figuring. We have come out of it with thoroughly good assurance it is a conservative estimate.

Mr. KELLY. I might say there is a program analyst on the staff of Assistant Secretary Perkins who quite recently explored this entire estimating technique, and he is a highly trained and competent statistician, and he concluded that the 10-to-1 ratio was a conservative estimate, taking all the factors into consideration that had to be in the estimate. It constituted a conservative estimate and one that could be used with the recognition that it had a high degree of validity.

Mr. BUSBEY. I think the program is in much better position for getting appropriations through Congress if we have something in the hearings to substantiate that ratio instead of having somebody say, "Well, sure it is a figure, but they just pulled it out of thin air."

BASIS FOR ESTIMATES OF INCOME TAXES TO BE PAID BY REHABILITANTS

Miss SWITZER. Why not put into the record the most recent analysis of the figures and the assumptions on which we based it this year. I would like to put that in the record.

Mr. BUSBEY. I think it would be a good idea. We will put it in the record at this point.

(The information is as follows:)

"PROCEDURES FOLLOWED IN PREPARING ESTIMATES OF FEDERAL INCOME TAXES TO BE PAID BY REHABILITANTS

"Examples in the following material relate to persons rehabilitated in fiscal year 1952. The same procedures were followed in preparing estimates for Federal income taxes to be paid by those rehabilitated in the 1953 fiscal year.

"A. AVAILABLE DATA ON PERSONS REHABILITATED

- "1. Weekly earnings on job at closure.
- "2. Age at acceptance for rehabilitation (median of 34 years for persons rehabilitated in fiscal year 1952).
- "3. Length of time required for rehabilitation (averages about 1 year).
- "4. Number of dependents at acceptance for rehabilitation.

"B. ASSUMPTIONS MADE

- "1. On the average, rehabilitated persons will continue to earn at the same weekly rate as reported for job at closure.
- "2. On the average, the number of dependents will remain the same as reported at time of acceptance.
- "3. Federal income-tax rates will continue as at present (1952).
- "4. On the average, rehabilitated persons will work until they reach the age of 65.
- "5. The rehabilitated group as a whole will work 85 percent of the time during their remaining work lives (studies made from 1 to 3 years after rehabilitation indicate that 85 percent of the rehabilitants studied were working).

"C. EXCLUSIONS FROM ESTIMATES

- "1. Farm operators. Weekly income not estimated.
 "2. Family workers and housewives. No attempt made to estimate the money value of their services.

"D. STEPS FOLLOWED IN PREPARING ESTIMATE

- "1. Weekly earnings at closure (in \$10 intervals) for persons aged 15 to 64, and for persons 65 and older, are cross-classified with number of dependents.
 "2. Weekly earnings are converted to estimated annual earnings by multiplying weekly earnings by 50—the estimated number of weeks worked in the first year after rehabilitation.
 "3. Estimated Federal income tax in each annual earnings and exemption bracket obtained (a) for those aged 15 to 64 and (b) for those 65 years and older (because of special exemption for this age group) by applying tax rate given on tax table, Form 1040, United States individual income-tax return.

"Example :

Age group 15 to 64 with 2 exemptions-----persons--	1, 240
Weekly earnings at closure per person-----	\$54. 50
Estimated annual earnings per person (weekly earnings by 50) --	\$2, 725
Federal income-tax rate per person earning \$2.725 annually, with 2 exemptions (Form 1040)-----	\$281
Estimated total Federal income-tax payment for group-----	\$348, 440

"4. Estimated Federal income-tax payments for first year after rehabilitation, for each age, income, and exemption group, are totaled, giving the estimated aggregate Federal income-tax payment for all rehabilitated persons with reported earnings in a specific year.

"5. To estimate Federal income-tax payments for the remaining work-lives of rehabilitated persons—

- (a) Average age of rehabilitants (34 years at acceptance plus 1 year for rehabilitation, or 35 years at closure) is
 (b) Subtracted from 65 (the assumed upper age limit of work-life),
 (c) Leaving 30 years as the average work-life for rehabilitated persons.
 (d) Since it is assumed that rehabilitated persons will work only 85 percent of the time in their remaining work-lives, the adjusted working years are 85 percent of 30, or 25.5 years.
 (e) Multiply the estimated total Federal income-tax payment for first year after rehabilitation by 25.5 years to obtain total Federal income-tax payment for estimated work-lives of rehabilitants.

"Examples :

Estimated aggregate Federal income-tax payment, first year after rehabilitation, for all rehabilitated persons with reported earnings—\$10,378,543.
 \$10,378,543 by 25.5 work-years, or estimated total Federal income taxes paid during remaining work-lives, \$264,652,846.

"6. The '10 to 1' estimate (\$10 returned in Federal income taxes for each dollar paid by the Federal Government for rehabilitation (is then obtained by dividing the estimated total Federal income-tax payments made during the working lives of the rehabilitants by total Federal program costs for the current year (1952), or

$$\frac{\$264,652,846}{21,826,417} = 12$$

"7. Based on the above result, the statement that 'during their working lives rehabilitants will pay in Federal income taxes more than \$10 for every single Federal dollar spent on their rehabilitation' is conservative.

Mr. BUSBEY. Do you have one of these forms with you that the State agency fills out?

Mr. HUNT. No; I do not think so.

Mr. BUSBEY. Just mail me one, or get one to me so that I can look it over. I would like to see it for my own personal education.

Miss SWITZER. Did we finish your questions on those figures on page 2? I am not sure that we did. You asked us to go back to 1953.

Mr. HUNT. The income tax calculated for the fiscal year 1953 for these people was \$10 million the first year. The assistance cost saved was \$8 million.

DOLLAR ADVANTAGES OF PROGRAM TO FEDERAL, STATE, AND LOCAL GOVERNMENTS

Mr. BUSBEY. Considering all the economic benefits from the operation of this program, what is your estimate of the total benefit to the Federal Government and what would be the total benefits to the States and local governments?

Miss SWITZER. If we did everything we wanted to, do you mean?

Mr. BUSBEY. Well, I think that we would have to base that on the program as it is now operated.

Miss SWITZER. You are speaking in terms of the maximum dollar advantages to the Federal Government, State and local governments, based on, let us say, the 1953 or 1954 program?

Mr. BUSBEY. Yes; or any other economic benefits to the community outside of the dollar benefits.

Miss SWITZER. I think that there are several very important benefits we tend sometimes to overlook. They are economic, too, as well as the tax and relief savings. I think one of the very important economic benefits of this program is the production potential of the people who work. People who are out of work and socially and economically dependent are not producers, and it seems to me that if we have learned anything in the last number of years it is that in order to keep our country economically healthy we have to increase our productive capacity constantly. If we have people working and producing wealth instead of consuming it, then we are making a very real economic contribution to the country. We have some very good figures on that.

For example—and this is on the basis of the 1953 figures again—about 100 million man-hours of work are being done every year by those rehabilitated in 1953. Now, I think that in itself is a big contribution, but I think if you analyze the kinds of things these people do, it is even more important because it has been possible in the last several years to do some very selective training and placement.

We have been able, through the counseling and guidance services that are given to the people who apply for the service, to pick out those who can be trained for our scarce skills and professions. We have a surprising number, especially of the younger group, who go into nursing, laboratory technicians, and the precise instrument machine-shop type of job operation, and teaching; so the man-hours of work is one side of it, and then this contribution to areas in short supply is another.

I wonder if perhaps the most important contribution of all is not the philosophy of independence that the program of rehabilitation just must of necessity inspire in a community? After all, we feel the mounting cost of relief and public welfare at all levels of government is something that concerns every taxpayer and every citizen, and we can see what can be accomplished when we take people off relief. We can usually trace the building back of a family, the taking of a person out of despondency and giving him back his independence and self-respect. Those we find before they get on relief we can make pretty good calculations on. We have probably done a very good social job of prevention.

Mr. BUSBEY. What about the dollar figures for Federal, State, and local taxes?

Miss SWITZER. Well, we do know about the dollar figures for Federal taxes. We just do not have any way of measuring, and I do not know how we could measure State and local taxes, because it is so difficult to do this on a national basis.

State taxes vary from State to State, and local property taxes would be almost impossible to estimate; we have never made any estimate of that kind, and we just do not know.

Mr. BUSBEY. Do you know of any States that have tried it?

Miss SWITZER. No; I do not. I think a State that had income-tax laws probably should do a little job of estimating for their own benefit, and perhaps some of them have, but we have never been able to see our way clear in doing a job of estimating on that.

EXPENDITURES FOR REHABILITATING PERSONS NOT IN ANY GAINFUL EMPLOYMENT

Mr. BUSBEY. Have you ever made an estimate of the Federal funds which have been spent in previous years on rehabilitating individuals who are not in any gainful employment?

Miss SWITZER. No; I do not believe so. I would not know how one would go about estimating such a thing. The only thing you could do would be to take the total figures, and of course there would be some total failures, but I think they are in the minority as compared to the number of people who are rehabilitated.

Mr. HUNT. Do you refer, Mr. Chairman, to those served in the present Federal-State program or to all crippled persons?

Mr. BUSBEY. I am talking about those in the Federal-State program. That is the one in which we are interested.

Mr. HUNT. All of those who are reported as rehabilitated are persons who after a 30- to 60-day followup by the counselor in charge of the case, are reported as employed. There are some people taken into the program who do not turn out to be successful and do not finish their rehabilitation services. They number about 5,000.

I think the great majority go through their planned services, and are successfully rehabilitated on the job.

Miss SWITZER. Do we have any better figures on that? We have had in many cases statistical analyses which we have done for the Secretary, but do we have any estimate of the number of people who start services, and do not continue them for some reason?

Mr. DABELSTEIN. Yes; we have the absolute number of those who after they start service die or other conditions intervene, and I think it is around 5,000.

Mr. HUNT. On page 14 of the budget document, Mr. Chairman, there is a breakdown at the close of table 3.

Mr. DABELSTEIN. Those are the number that are not counted as rehabilitated, although they have had the service, and that number is 5,771.

Miss SWITZER. Yes; that is correct.

Mr. HUNT. Those that were closed are shown at the bottom of the page, under the title "Closed from active load during year." They include the ones we have been talking about. Under the caption "Without the completion of service," there is a group closed before initiation of the plan, and before they started rehabilitation services, and then a group dropped after initiation of the plan. The figure shown in the latter case is 5,771 for 1953; 5,636 for 1954, and we estimate about 5,203 for fiscal 1955, or 6 percent of the total group closed.

Mr. DABELSTEIN. Those are the cases on whom money has been spent for training, or for physical restoration and who do not end up in employment.

Miss SWITZER. Mr. Chairman, may I go back to one question which you asked?

Mr. BUSBEY. Surely.

Miss SWITZER. Mr. Dabelstein says he has seen an estimate made, and he will look it up and send it to you, by an economist that the figure for Federal, State, and local taxes all combined is 19 to one, but he does not remember where he saw that.

Mr. DABELSTEIN. I do not have the reference with me, but I can get the information.

Miss SWITZER. He will look it up and give you that.

Mr. BUSBEY. All right; if you find the reference and the breakdown we will put it in the record.

(The information is as follows:)

"The reference to income tax estimates of 19 to 1 is as follows:

"If the Federal income tax (at 1949 rate) that is likely to be levied on these increased earnings,' (53,131 persons rehabilitated in the fiscal year 1948) 'is computed and to it is added the estimated total loss in taxes that would have followed if these 53,131 cases and their dependents had remained largely dependent on friends or relatives, the savings to taxpayers would be almost 20 times the tax funds spent for rehabilitation in 1948.'"

Source: Woytinsky, W. S., and Associates, Employment and Wages in the United States. The Twentieth Century Fund: New York, 1953, p. 224 (ch. 17, Health Insurance for Workers and Their Families, by Barkev S. Sanders).

HEARINGS ON 1960 BUDGET

RETURN PER DOLLAR SPENT

Mr. FOGARTY. What about the return per dollar spent on rehabilitation? Has that changed any?

Miss SWITZER. It has improved a little. The tax return for the Federal Government is still \$10 for \$1. I have seen some very interesting tables on that.

Mr. HUNT. There is a summary here.

Mr. FOGARTY. Put it in the record.

(The summary referred to follows:)

"ECONOMIC VALUE OF REHABILITATION

"In the first year after rehabilitation, the 74,317 persons rehabilitated by the State vocational rehabilitation agencies will earn an estimated \$144.2 million as compared to the annual rate of \$23.3 million estimated as their earnings the year before their rehabilitation started. They will pay an estimated \$11.7 million in Federal income taxes on their earnings the first year after rehabilitation. During their working lives, estimates indicate they will pay about \$10 in Federal income taxes for every Federal dollar invested in their rehabilitation.

"About 15,000 of the 74,317 rehabilitants received some help from public assistance during the process of rehabilitation. The first year after rehabilitation, it is estimated that they will earn about \$25 million. To maintain them on public assistance rolls for 1 year would cost an estimated \$13 million. The cost of rehabilitation for this number of individuals was estimated at about \$13 million.

"Earnings of farmers and family workers are excluded."

HEARINGS ON 1965 BUDGET

ECONOMICS OF REHABILITATION

Mr. FOGARTY. We will put in the record this table showing the economic gains resulting from the program.

(The document referred to follows:)

SELECTED ECONOMIC GAINS, 1961-65

	Fiscal year				
	1965	1964	1963	1962	1961
All rehabilitants.....	132,600	121,000	110,136	102,377	92,501
Earnings (millions):					
At acceptance.....	\$54.8	\$50.0	\$45.5	\$44.3	\$41.6
At closure.....	\$279.5	\$255.1	\$232.2	\$211.0	\$186.8
Income tax paid (millions):					
At acceptance.....	4.7	4.3	\$3.9	\$3.8	\$3.6
At closure.....	\$23.9	\$21.8	\$19.9	\$18.1	\$16.2
Returned for every tax dollar spent after average lifetime of work.....			\$7 to \$1		
Man-hours contributed (millions)			155		
Public-supported rehabilitants public assistance and tax-supported institutions.....	23,200	21,200	20,400	17,821	16,647
Annual cost to rehabilitate (millions).....			\$19.3		
Annual cost per client.....			\$1,000		
Annual estimated earnings after rehabilitation (millions).....			\$40.6		
Income tax paid at closure (millions).....			\$3.5		
Public assistance clients only.....	17,500	16,000	14,541	13,625	13,528
Cost to Federal, State, and local governments (1 year) (millions):					
Before rehabilitation.....			\$16.5		
After rehabilitation.....			5.6		
Net saving.....			10.9		
Average savings per client.....			\$1,220		
BOAS applicants.....	10,500	9,600	8,666	7,266	6,757

Mr. LAIRD. I would like to go on for some length, but I know we have a rollcall and you want to adjourn at 4 and I do not want to wear out my welcome with other members of this committee, if I have any welcome.

Mr. MAHON. We will not be able to adjourn at 4 but we do have to answer the rollcall.

Mr. Laird had a number of questions which he wanted to get in in the minimum length of time. It was obvious you did not comment in as much depth as you would like to; and, without objection, you will be permitted to express your views more adequately in the record.

Mr. LAIRD. I would like to express mine a little more adequately too.

Mr. MAHON. So the record can be given clarification.

Mr. Giaimo has a question.

DELAYS IN ENACTING APPROPRIATIONS

Mr. GIAIMO. Mr. Director, it is a matter of growing concern to Congress, and I think should be of concern to the Bureau of the Budget that, because of the interim period between the time of the new fiscal year when many agencies are operating on continuing resolutions until that time when their appropriation is voted upon, there may be expenditures of money which are questionable.

For example, last year, in the Dickey-Lincoln Dam in Maine, we deleted something over a million dollars from the budget in the appropriation bill. Then we find out that during that period of time approximately \$400,000 had already been expended through the vehicle of the continuing resolution.

During the debate on the poverty bill, indications were from people in the OEO, that they would be better off operating under the continuing resolution and without an appropriation, fearing there might be a cutback or reduction in the appropriation.

My question is, How can we get better control over the situation, because it seems to me we are losing control over it?

Do we recoup money spent, for example, in the case of the \$400,000 spent on the dam? And what does your organization plan to do in the future to try to get better control over this?

Mr. ZWICK. Mr. Giaimo, I could not agree more with the problem you have identified, and our solution is to get these bills up here and get them acted upon as quickly as possible.

I think it was last August when we did a midyear review of the budget, which used to be a useful process, only five regular appropriation bills had passed both Houses of Congress. To the extent we push the appropriations further and further back, you cannot stop most activities, because you assume that they are going to be funded. So they keep going at some sort of a level and then you get a situation like the Dickey-Lincoln Dam. Or activities are kept going at a particular level and have more money for the year than they need.

We talked about the Elementary and Secondary School Act this morning. The reason we are asking for advance funding a year in the future is so that the school districts can do more intelligent planning, because what they have been doing in the past is holding back and then later getting more money than they expected. Since they could not hire more teachers and other personnel at the last minute, or after the school year has started, they used it for equipment. This might possibly be a good use of these moneys; but certainly the school authorities would be much better off if they had an earlier fix on what their funds were going to be. But I do not know what we can do that is very intelligent about the overall problem if the appropriation actions are going to be that late.

Mr. GIAIMO. And you know in general they will be. Is the Dickey-Lincoln situation a widespread one? Are there many examples of this in the budget each year?

Mr. ZWICK. It would depend on the budget for the particular program. Take a year in which the budget goes up dramatically and the agency holds at a constant level during the continuing resolution phase. Then at the end of the year they probably have more money than they need.

In a case where you have a severe congressional reduction, it could work the other way. And, to generalize, for an agency that had exactly the same budget one year versus the next year, it would not have any impact at all. It would just continue on.

Mr. GIAIMO. Were there many examples in last year's budget where there were considerable cutbacks?

Mr. ZWICK. I do not think so. I think in the majority of the cases you get by. You do not get violent swings. In the majority of the cases people assume that next year's budget is going to be similar to this year's and things go on reasonably satisfactorily.

Mr. GIAIMO. I wonder, Mr. Chairman, if we could have furnished for the record examples of where there might have been some other situations.

Mr. MAHON. Upon the request of Mr. Giaimo, give us some more information on both sides of this issue.

Mr. ZWICK. I will try to supply examples of where they got more money than they expected and where they got less than expected and therefore had to do something about it.

(The information follows:)

IMPACT OF LATE ENACTMENT OF APPROPRIATION BILLS

Various types of difficulties may be encountered operating under a continuing resolution:

Non-Federal recipients of funds cannot do an adequate job of planning and programing since they do not know what funds will eventually be allowed. An example of this is elementary and secondary school aid mentioned by the Director earlier in his testimony. Obviously, school districts expecting to receive Federal funds have considerable difficulty when the appropriations are not known until well after the start of the school year.

Agencies operating under a continuing resolution may continue a project for which funds were appropriated in prior years; the appropriation, when passed, disallows the project for the current year. A recent example is the Dickey-Lincoln project. Congress appropriated funds in the 2 previous years. The agency continued planning on the project by utilizing unobligated balances carried forward from appropriations enacted in prior years. Congress, in the final appropriation act, did not allow funds for the project in the current year.

Agencies operate at the rate permitted under the continuing resolution, and the appropriation, when passed, allows considerably more than the continuing resolution allowed.

In this case, an agency may have some difficulty adequately programing all the funds efficiently and effectively, as Congress intended, in the short time left before the close of the fiscal year and may have to lapse some funds. A recent example is the air pollution control activities of the Public Health Service. Late enactment of the appropriation, coupled with an appropriation increase over the prior year level, has caused extremely heavy workloads near the end of the fiscal year, and lapse of some of the annual appropriation.

Agencies operate at the level permitted by the continuing resolution, but the appropriation, when passed, does not allow sufficient funds to continue even at that level. A recent example is the Job Corps of the Office of Economic Opportunity. Several camps had to be closed this fiscal year to stay within overall appropriation limitations.

The problems outlined above are inherent in a situation in which appropriations are not enacted until some time after the fiscal year begins. Obviously, these difficulties can only be overcome by earlier appropriation action.

Mr. MAHON. I believe everyone on the Appropriations Committee feels we ought to pass the money bills as early in the year as we reasonably can and get this work behind us, and we would be able to do much better in this respect if the authorizations are cleared in time. There is a great push on to do a better job this year than has been done previously to get the authorization and we are preparing a reporting schedule for the appropriation bills which we hope, and expect, to be able to follow.

Mr. Whitten, will you take the chair for a few moments?

Mr. WHITTEN. Mr. Long?

ECONOMIC IMPACT OF BUDGET DEFICITS

Mr. LONG. Mr. Zwick, I want to address these questions to you but some of them perhaps ought to be answered by Mr. Fowler, and I hope his aides will ask him to comment for the record when he does come back.

My first question concerns the economic impact of the deficit. We all realize the inflationary impact of a deficit does not depend on merely what the Government does, but on what the entire economy is doing.

Mr. ZWICK. That is correct.

Mr. LONG. I have seen recent accounts—and I have not had a chance to check on their validity—that the private economy has been running a surplus, in the sense that it has been saving a lot more than it is spending. If that is so and if the surplus is large enough, this could in itself offset the Federal Government deficit and eliminate the inflationary gap.

I wondered whether you would comment on that.

Mr. ZWICK. I would be happy to comment on it. Truly, the point you are making is absolutely correct, and I think the best recent experience of this was in the first half of calendar 1967 when the private economy clearly was moving sideways and most of the stimulus came from State, local, and Federal Government activities.

If you look at a typical forecaster's model—and they are similar—they should have roughly a half a dozen or so sectors to the economy, such as residential construction and other forms of fixed investment, changes in business inventories, net exports, Federal purchases of goods and services, State and local purchases, and personal consumption expenditures.

Those are the items you look at, and you try to forecast what is going to happen in each one of those components, and the sum of them tells you how the economy is moving.

Let's look at 1968. We had a remarkable recovery in calendar 1967 in the residential construction industry. We are hoping that this continues in calendar 1968.

If you look at the demand for housing, it is quite clearly there. The only issue is whether monetary conditions allow housing to continue to expand.

Mr. LONG. I do not want to get into detail. Is the private economy running a surplus and if so, does that surplus anywhere compare with the size of the Federal deficit?

Mr. ZWICK. I am not exactly sure how you define a surplus.

Mr. LONG. Spending substantially less than its income or much less than in years past.

Mr. ZWICK. Basically it has had to run a surplus to finance the Federal deficit. That is one way to describe it. You may be pointing to the fact that the fourth quarter savings rate was higher than anticipated. We have done some checking into that and in 7 out of the last 10 years, this has been the case, fourth quarter savings are higher than in the third quarter and higher than in the first.

Mr. LONG. Taking the current period, the last quarter last year and the first quarter this year, you do not contemplate a substantial enough rise in savings in the private economy to offset the Federal deficit?

Mr. ZWICK. That is exactly right. We think the pressures from the increase in residential construction, investment in plant and equipment—which the various surveys show as being up 5 or 6 percent—and the rate of inventory accumulation are all things that need to be compensated for by reducing the deficit.

Mr. LONG. I hope you will give me a well-considered answer on that for the record.

(The information follows:)

Regardless of the level—in terms of capacity utilization and unemployment rates—at which the economy is operating, aggregate savings is always equal to aggregate investment. Savings, in real terms, is the nonuse of current production. Investment, again in real terms, is the using of current output to create something; for example, a machine, which will produce current production over some period in the future. In a society as large and diverse as ours, both savings and investment take many forms and the people who save are not necessarily the same ones who wish to undertake investment. For the pioneer American family, savings and investment were directly related.

Real savings and real investment are always equal because the economy will adjust to make them equal. If, in the aggregate, we attempt to undertake real investment which is greater than our real savings, the real growth of the economy will accelerate, generating higher real incomes. With higher levels of income, the savings rate—for persons and for businesses—will be higher because they had not planned either increased consumption or additional investment projects to absorb the unexpected increase in incomes.

Conversely, if we attempt, in the aggregate, to save more than we plan to invest, the process will work in reverse. The attempt to save more than we plan to invest reduces demand and lowers incomes. Persons and businesses will then have to forego some of the planned savings in order to meet current consumption needs.

A Federal Government surplus is one of the many forms of savings in our complex society. When revenue exceeds expenditures, the excess is used to reduce the Federal debt and the holders of that debt will either increase their consumption or, more likely, seek alternate forms of investment.

A Federal deficit is a use of savings because the Federal Government must borrow to meet its deficit. And such borrowing does not have to be inflationary, if the monetary authority does not increase the money supply, either directly (by buying the Government securities) or indirectly (by increasing bank reserves). If the monetary authority does not increase the money supply, the Federal securities will compete with other investment demands for the available supply of savings. This will cause not only the rates of interest on Federal securities to rise but will raise the rates of return acceptable to savers. As a result, investment projects or programs which could have obtained funds, at lower rates of interest or return, will either be dropped or postponed. Thus, the economy has adjusted to bring savings in line with investment.

The appropriate size of the Federal surplus or deficit, therefore, depends upon the strength of private investment demand. If investment demand is weak and, particularly, if the economy is operating with a great deal of unemployment and idle industrial capacity, the appropriate fiscal position is one of deficit. On the other hand, if the economy is operating close to capacity and with severe labor

shortages, the appropriate fiscal position would be one of surplus. We are currently in neither of those extremes. Our labor markets are tight—particularly in the category which can be considered the backbone of the labor force, men over 20—but we have not developed severe labor shortages. Our capacity utilization was at 84.3 percent in the fourth quarter of 1967; but we foresee a healthy recovery of investment demand in 1968. Without the tax surcharge and with the only responsible monetary policy in such a situation, many investment programs are going to be forced to be deferred.

Consequently, the high and rising rates of personal savings which we have witnessed during 1967 may be the reflection for individuals of the process described above.

RAISING TAXES VERSUS CUTTING SPENDING

Mr. LONG. The next question I have deals with the administration policy for dealing with the inflationary problem by raising taxes rather than cutting spending. This is the policy approach; right?

Mr. ZWICK. No, sir; that is not our policy. If we held spending down very dramatically, as I tried to indicate this morning—

Mr. LONG. You cannot make up this deficit through spending cutbacks?

Mr. ZWICK. You cannot do it all through cutbacks in expenditure. There has to be a slowdown jointly.

Mr. LONG. Where you differ from many Members of the Congress, however, is that you feel there must be a substantial tax increase and many Members of Congress feel it should be done much more through spending cuts. Right?

Mr. ZWICK. Yes.

Mr. LONG. You are aware, I think, the reason many Members of Congress feel the way they do is they feel we cannot be assured a tax increase would not be accompanied by inflation anyway.

Mr. ZWICK. I think this is the discussion I had with Mr. Jonas before on why a tax increase—

Mr. LONG. I think this is Mr. Mills' feeling, I certainly think it is the feeling of many Members of Congress—if we raise taxes the way you want us to, it is very likely we will get an increase in prices anyway, for several reasons.

First, at least a very important cause of current inflation is cost-push rather than demand-pull. I do not think you are attributing it exclusively to demand-pull.

Mr. ZWICK. We are arguing that in calendar 1968 under any circumstances you now have some inflation built in. The real question is, as you leave calendar 1968 and go into 1969, will the rate of price increase be decelerating or accelerating?

To argue that the tax increase will not help pull down this spiral you have to argue that all of the tax increase will come out of savings. While logically possible, it has never happened before in the history of the country.

If you look at this in the past, nearly every tax increase has come out of consumption and very little out of savings.

Mr. LONG. I think we agree we are going to get some inflation anyway. That is built in.

Mr. ZWICK. We are predicting, even with a tax increase, about 3-percent inflation.

Mr. LONG. I think another consideration of Members of Congress on this tax increase is, if we do go ahead and raise taxes, this is really going to take the pressure off which now holds down spending. Every

week my feeling is that we are presented with some "goody" by the administration, and since I vote for most of them, I take my full share of the blame. A Congressman is a meany if he does not vote for them and the one thing that is going to hold this spending is the fact we have this deficit.

If we raise the taxes, we are going to take the pressure off and these goodies are going to continue to be presented to us and we are going to continue to vote for them.

I would like to hear your comment on that, also that of Secretary Fowler. Is there not a good deal of justice to this misgiving we have?

Mr. ZWICK. One way to have expenditure discipline is do it through the appropriations process. Another way to do it is not vote the tax increase, possibly cut down expenditures slightly as a result of this, but then pay the price through inflation.

I think that is the public policy issue we all have to face and that is a pretty expensive way of getting discipline—through the rate at which prices increase as they did in the fourth quarter last year.

(Note: Subsequent comments of Secretary Fowler follow:)

Even with a tax increase we still confront a unified budget deficit of \$8 billion in fiscal 1969. Thus while increasing taxes may decrease the intensiveness of the need for expenditure restraint the need is still there and is quite strong.

Mr. LONG. I am inclined to agree. But I think also there is a certain amount of hypocrisy involved, in the sense the administration is pretending that Congress is spending the money, when the truth is Congress is every day or every week being put on the spot by the administration with some attractive-sounding program that makes us vote for it and then we come up with a substantial deficit.

EFFECT OF TAX INCREASE ON EMPLOYMENT

Let me go on to the next question, and that concerns the impact on unemployment.

If we raise taxes, will this not raise unemployment?

Mr. ZWICK. We would assume without a tax increase that unemployment will be lower than we are now forecasting, so it will raise unemployment in the sense it will be higher than it would be without a tax increase. We would project a level of unemployment about where we are now and our forecast was to essentially maintain during 1968—

Mr. LONG. You cannot conscientiously assure us if we raise taxes that this will not either raise unemployment above what it is now or keep it at a somewhat higher rate than it would otherwise be.

Mr. ZWICK. We can assure you if you raise taxes it will be somewhat higher than it would otherwise have been, and that is the policy trade-off you are making—between inflation, balance-of-payments considerations, and unemployment.

Mr. LONG. Have we not reached a kind of dilemma, partly a political one and also an economic one? Is it not true that we really cannot have price stability without a somewhat higher level of unemployment, and that we cannot have a low level of unemployment without some inflation?

Do we not have this kind of economic and political dilemma that while inflation has become somewhat politically intolerable, it is also true that the level of unemployment necessary to check inflation is also politically intolerable?

Mr. ZWICK. Yes, sir, at some level this becomes the issue.

And the question is, what level? We are essentially trying to reduce this level and reduce the dilemma through two approaches: First, through a big expansion in manpower training programs, where we are trying now to get at the hard-core unemployed, the people very difficult to hire even with high level employment because of a whole host of disadvantages from physical and educational—

Mr. LONG. You surely recognize that any fruits from the manpower development program are going to be the long run, not the short run.

Mr. ZWICK. That is right.

Mr. LONG. So the point is, what you are asking us especially to do is raise taxes in order to hold down inflation, when the impact of this also will be to raise the level of unemployment that will itself become politically intolerable and then you will be back with a spending program to get us to do something about the unemployment that results from the taxes that you are asking us to increase.

Mr. ZWICK. No, sir. We said our best forecast is to hold unemployment at its current levels.

Mr. LONG. Do you think that is satisfactory to the public as a whole?

Mr. ZWICK. Rather than absorbing increased inflation given the implications of the balance-of-payments problems, and other measures we are now having to take, I think yes.

We are at the lowest level of unemployment we have had in 15 years. Nobody I know of would not want it to be even lower, down to 2 or 1 percent. But at any given point you have to balance off inflation, the rate of economic growth, price stability, unemployment, and the balance of payments.

Mr. LONG. Let me ask one more question in connection with your point about unemployment. To what extent is our unemployment at this low level because of the fact employment has risen from economic reasons and to what extent became recently unemployment was redefined by excluding from the ranks of the unemployed some members of the labor force?

Mr. ZWICK. The old classification for the month of January of this year, if you are asking me that, no longer exists. But basically, if you look at any industry—

Mr. LONG. How much unemployment has been redefined out of the labor force? Will you get that answer?

Mr. ZWICK. It is a trivial part of the problem. Our best guess is that on the old basis the unemployment rate would have been one to two-tenths higher than on the new basis.

Mr. LONG. You can assure me of that?

Mr. ZWICK. Yes. The most volatile part of the unemployment rate is the women coming in and out of the labor force.

Mr. WHITTEN. Mr. Robison?

PPB SYSTEM

Mr. ROBISON. Mr. Zwick, as we all know, the implementation of the so-called PPB has been rather extensive throughout the Federal departments and agencies. Let me ask you, to what extent the President relied on the PPB system in preparation of this budget, and in evaluating priorities between competing programs?

And, as the second part of my question, do you as the new Director of the Bureau of the Budget intend to continue this system?

Mr. ZWICK. Let me answer the second part first.

Yes; absolutely, we intend to continue our PPB system. As to the first part, we relied quite heavily on it in this budget review. The only qualifications I am making here are qualifications of the type Mr. Laird pointed out. Some of the things we are doing in cost-benefit analysis have been done for a number of years.

Clearly, last fall the review process was to the maximum extent based on the program category structure in the PPB system. I have been in the Bureau of the Budget two years, starting in October of 1965. Certainly we did a lot more in 1966 than we did in 1965, and significantly more in 1967, and we expect to do more in 1968.

Mr. ROBISON. The reductions that have been made—let us pick out the Agriculture Department programs, as an example—was the PPB system applied in arriving at the final recommendation for those reductions, at least in part?

Mr. ZWICK. Yes, sir. And the point I would like to make is that the PPB system is a combination, involving commonsense, trying to order priorities, and trying to select, given those priorities, those programs which you think contribute most to your goals. So you are making the PPB system a much more mechanistic process than indeed it is. It is a way of looking at the budget that pervades the Bureau of the Budget, and I am sure pervaded the Department of Agriculture quite significantly, and I have heard the Secretary of Agriculture say it has been a very useful device for him in looking at his programs and getting an answer to the question of where he is going.

PUBLIC DEBT CONCEPT UNDER NEW UNIFIED BUDGET CONCEPT

Mr. ROBISON. Let me switch to one more area for one more question.

The excess of estimated trust fund receipts over expenditures, which the budget shows at \$7.4 billion, permits you under the new unified budget concept to show the anticipated deficit at \$8 billion instead of \$15.4 billion or thereabouts.

Mr. ZWICK. That is correct.

Mr. ROBISON. Now, would you address yourself for a moment to the effect of this new approach on the so-called public debt as presently defined?

Mr. ZWICK. As presently defined, you mean the official debt limit?

Mr. ROBISON. Yes.

Mr. ZWICK. In terms of borrowing from the public, if you look at the budget on page 10, it so happens in fiscal 1969 that we are estimating that we will be borrowing exactly \$8 billion from the public and the deficit is \$8 billion. This could vary from year to year.

With regard to the debt as defined under the debt limit, it would go up by more than \$8 billion. I would rather have Secretary Fowler answer. I do not know how much more.

Under the definition that is used in setting a debt limit, the debt will go up by more than \$8 billion. I do not have the figure.

Mr. ROBISON. The reason it goes up—perhaps the Secretary will answer—is because these trust fund surpluses are pledged for trust fund program purposes. Is that why?

Mr. ZWICK. The gross Federal debt goes up \$17.2 billion. The question is the relevance of the gross debt. If you are looking at the impact on the private financial market, it is clearly the borrowing from the public that is the relevant measure. If you are looking at gross public debt, it goes up \$17.2 billion. The relevant debt measure depends on what question you are trying to answer.

Mr. ROBISON. With the chairman's permission, maybe he would amplify or the Secretary would for the record.

(The following information was supplied for the record by the Bureau of the Budget:)

The budget treatment of data relating to the debt follows the recommendations of the President's Commission on Budget Concepts. Emphasis is given to both gross Federal debt and net Federal securities held by the public. The gross Federal debt includes public debt issued by the Treasury and debt issued by agencies whose receipts and expenditures are part of the budget. From this total, holdings by federally administered funds, whether Treasury or agency debt, are deducted to reach net Federal securities held by the public.

The debt subject to the public debt limitation includes: (1) Nearly all the debt issued by Treasury, (2) that relatively small portion of agency issuances which are guaranteed, (3) those participation sales certificates issued under 1968 authorizations other than for the Export-Import Bank of Washington, and (4) debt issued to the International Monetary Fund or other international organizations. The last type of debt issuances is not covered in the amounts of "gross Federal debt" in accordance with recommendations of the Commission.

The following table compares debt estimates for 1968 and 1969:

[In billions of dollars]

	1968 estimate	1969 estimate	Difference
Outstanding debt at end of year:			
Gross Federal debt:			
Public debt (issued by Treasury).....	344.1	356.7	12.6
Agency debt (issued by agencies).....	25.9	30.5	4.6
Total gross Federal debt.....	370.0	387.2	17.2
Less holdings by federally administered funds:			
Public debt.....	77.2	85.6	8.4
Agency debt.....	2.8	3.6	.8
Total holdings by federally administered funds.....	80.0	89.2	9.2
Net Federal securities held by the public.....	290.0	298.0	8.0
Comparison of debt with public debt limitation at end of year:			
Public debt (as shown above).....	344.1	356.7	12.6
Public debt issued to International Monetary Fund and international lending organizations.....	2.9	2.2	-0.7
Subtotal, public debt-statutory definition.....	347.0	358.9	11.9
Less agency debt:			
Guaranteed debt other than participation certificates.....	0.6	0.6	(¹)
Participation certificates issued in fiscal year 1968 other than for Export-Import Bank.....	4.0	4.0	-----
Less pre-1917 debt and other small sums not included under the debt limitation.....	0.3	0.2	(¹)
Total debt subject to public debt limitation.....	351.3	363.3	11.9

¹ Less than \$50 million.

(The following information was supplied for the record by the Treasury Department:)

The several debt concepts referred to are reconciled in table 9, page 61, of the budget and schedule A, page 469 of the budget, reproduced below. As may be seen in the budget financing section of table 9, total borrowing from the public is estimated at \$8 billion in fiscal year 1969 and for the same period, it is estimated that the debt subject to limit will increase by approximately \$12 billion.

The principal differences in the makeup of the two figures are as follows: "Borrowings From the Public" reflects the changes in public debt issued by the Treasury and agency debt and participation certificates issued by the agencies, but excludes the amounts of each of these that are purchased by the Government investment accounts and Federal agencies.

The 1969 change in "Debt Subject to Limit" reflects the increase in public debt issued by the Treasury (less a small amount not subject to the statutory limitation), and the increase in the agency debt that is subject to the statutory limitation (FHA debentures in 1969).

The principal factor responsible for the difference in magnitude of the two figures in 1969 is the estimated increase in purchases of public debt and agency debt by the Government investment accounts and Federal agencies. This increase serves to diminish the amount that is to be borrowed from the public.

TABLE 9.—MEANS OF FINANCING AND OUTSTANDING DEBT

[In millions of dollars]

Description	1967 actual	1968 estimate	1969 estimate	
BUDGET FINANCING				
Borrowing from the public:				
Nonbank investors.....	-1,403			
Commercial banks.....	405			
Federal Reserve banks.....	4,549			
Total, borrowing from the public.....	3,551	20,840	8,000	
Other means of financing the budget deficit:				
Seigniorage on coins.....	813	410	226	
Decrease or increase (—) in available cash and monetary assets.....	4,858	-1,018	173	
Increase or decrease (—) in liabilities for:				
Checks outstanding (net of items in transit).....	657			
Deposit fund balances.....	-1,056	-428	-445	
Total, other means of financing.....	5,272	-1,035	-46	
Total, budget financing.....	8,823	19,805	7,954	
	1966 actual	1967 actual	1968 estimate	1969 estimate
OUTSTANDING DEBT AT END OF YEAR				
Gross Federal debt:				
Public debt (issued by Treasury).....	316,098	322,893	344,094	356,671
Agency debt (issued by agencies).....	13,375	18,451	25,899	30,495
Total, gross Federal debt.....	329,473	341,343	369,993	387,167
Holdings by federally administered funds:				
Public debt.....	63,697	70,537	77,191	85,573
Agency debt.....	167	1,647	2,802	3,594
Total, holdings by federally administered funds.....	63,864	72,184	79,993	89,167
Net, Federal securities held by the public.....	265,609	269,160	290,000	298,000
COMPARISON OF DEBT WITH PUBLIC DEBT LIMITATION AT END OF YEAR				
Public debt.....	316,098	322,893	344,094	356,671
Portion of—				
Public debt issued to International Monetary Funds and inter- national lending organizations.....	3,810	3,328	2,937	2,237
Agency debt subject to limitation on public debt.....	462	512	4,568	4,632
Public debt not subject to limitation (—).....	266	262	255	250
Total, debt subject to public debt limitation, end of year ¹ ..	320,102	326,471	351,344	363,290

¹ The applicable public debt limitations are: \$328 billion from July 1, 1965; \$330 billion from July 1, 1966; \$336 billion from Mar. 2, 1967; and \$358 billion from July 1, 1968. The last limitation also covers certificates of participation issued in 1968; in addition, a temporary increase of \$7 billion is provided from July 1, 1968, to June 29, 1969, and each year thereafter.

Borrowing.—Several of the factors named above also affect the figures on borrowing. The reconciliation of debt outstanding under the three concepts is as follows:

[In billions of dollars]

	1967 actual	1968 estimate	1969 estimate
Public debt issued by the Treasury.....	326, 221	347, 031	358, 909
Agency debt issued by authorized agencies (TVA, FHA, etc.), other than participation certificates and trust fund issuances.....	910	1, 099	1, 333
Portion of above debt held by Federal funds (-) ¹	-2, 736	-3, 637	-4, 270
Total net debt outstanding, administrative budget concept.....	324, 394	344, 493	355, 971
Participation certificates issued to public.....	6, 119	9, 504	11, 737
Defense family housing mortgages outstanding.....	2, 034	1, 954	1, 871
Agency debt issued by trust funds to public.....	7, 821	10, 617	12, 033
Public and agency debt held by trust funds (-) ¹	-67, 881	-73, 630	-81, 376
Public debt held by the IMF and international lending organizations (-).....	-3, 328	-2, 937	-2, 237
Total net debt outstanding, unified comprehensive budget concept.....	269, 160	290, 000	298, 000
Participation certificates and defense family housing above.....	-8, 153	-11, 458	-13, 608
Debt issued in lieu of checks other than to IMF and international lending organizations (-).....	-13, 321	-13, 916	-14, 466
Debt issued to public by Federal land banks and Federal home loan banks.....	8, 239	8, 119	10, 979
Public and agency debt held by Federal land banks and Federal home loan banks (-).....	-3, 851	-2, 100	-2, 100
Debt issued for IMF drawings, net of Exchange Stabilization Fund holdings.....	828	828	828
Debt issued by trust revolving funds, not included in consolidated cash computations (-).....	-93	-91	-104
Public debt held by trust revolving funds not included in consolidated cash computations.....	11	12	13
Debt issued by the District of Columbia Armory Board.....	20	20	20
Public and agency debt held by District of Columbia agencies.....	-65	-70	-73
Total net debt outstanding, consolidated cash concept.....	252, 773	271, 344	279, 489

¹ After adjusting for reclassification of participation sales trust fund.

REFERENCE TO VIETNAM WAR COST ESTIMATES

Mr. WHITTEN. May I recognize the gentleman from Iowa who has been seeking recognition. Would you yield to the gentleman from New Jersey for a comment?

Mr. SMITH. Yes.

Mr. PATTEN. Mr. Director, I was here in January 1967 and February and I heard Mr. McNamara talk. I want you to know I understand what he said and there was no credibility gap insofar as the Vietnam war costs are concerned.

Mr. ZWICK. Thank you very much.

PC SALES AUTHORIZATIONS IN NEW BUDGET

Mr. SMITH. My question has to do with PC's. What is the total amount of money you are proposing to raise by the sales of PC's?

Mr. ZWICK. In fiscal 1969?

Mr. SMITH. Yes.

Mr. ZWICK. Gross PC sales are estimated at \$4 billion.

Mr. SMITH. That is reflected in the new budget as a debit; is that correct?

Mr. ZWICK. That is reflected in the budget as a means of financing the deficit, just like Treasury borrowing. It does not affect the amount of the deficit under the new concepts.

Mr. SMITH. We will accumulate during the fiscal year some marketable accounts receivable that will at some time become PC's or could?

Mr. ZWICK. Or could be sold as individual items.

Mr. SMITH. To what extent are they represented in the budget?

Mr. ZWICK. \$3.3 billion is the estimate of net lending in the 1969 budget.

Mr. SMITH. Does that give a net of seven?

Mr. ZWICK. Not quite. The \$3.3 billion is the net increase expected in the total portfolio of loans in the loan account from the \$39.8 billion outstanding on June 30, 1968, to the \$43.1 billion on June 30, 1969. It is not affected by or related to the volume of certificates of participation sold.

Mr. SMITH. To what extent are assets reflected that are accumulated and have a cash value?

Mr. ZWICK. Assets in the forms of buildings, dams, et cetera, not at all. We are talking about the total loan and mortgage portfolio, notes held by the Government in the loan account. I do not have the gross figures with me, but I understand that the Federal Government now has about \$40 billion worth of notes and mortgages, in terms of gross volume, in the loan account.

Mr. SMITH. The only assets that show up in this budget are those that are capable of being PC's; is that right?

Mr. ZWICK. Or loans you can sell individually. FNMA sells off individual mortgages, VA sells off individual mortgages. They buy and resell them. We thought the PC technique was an efficient way of doing this rather than trying to sell individual mortgages one by one or individual notes. Notes from a small college in Connecticut might not be as marketable as a participation in a pool of college mortgages that the Federal Government held. The portfolio of the loan account by the end of the fiscal year 1969 will total about \$43 billion. Over \$20 billion of this is either already pooled or eligible for pooling. All of the \$43 billion conceivably could be sold on an individual loan basis—but some of it only at sacrifice prices.

Mr. SMITH. But other loans and assets are not reflected; is that correct?

Mr. ZWICK. That is correct. Another \$14 to \$16 billion of loans in the expenditure account—mostly foreign loans made on non-commercial loans—are not in the \$40 billion portfolio which we have been discussing. These are repayable over a period of years, but, for various reasons, are considerably less salable than most of the loans in the loan account.

VARIATIONS IN BUDGET ESTIMATES

Mr. WHITTEN. The gentleman from Minnesota, Mr. Langen.

Mr. LANGEN. Thank you, Mr. Chairman. The gentleman from Wisconsin pursued the subject that I had in mind quite exclusively a moment ago. But let me raise one question along the same line. What assurance do we have with the new budgeting system that you have now projected to the committee that we won't have the same experience again this year that we had last year where, upon the presentation equivalent to today, we were told that there would be about an \$8 billion deficit, and within 3 months that deficit had grown to about \$29 billion in testimony before another committee? Have we eliminated that possibility?

Mr. ZWICK. One reason for the discrepancy was nonaction on the proposed tax surcharge.

Mr. LANGEN. Just a moment; when you go from \$8 billion to \$29 billion and the tax picture last year was estimated to produce about \$4.7 billion, I believe—there is a much bigger difference between \$8 billion and \$29 billion than \$4.7 billion.

Mr. ZWICK. That \$29 billion also included lower PC sales than we estimated in the budget.

Mr. FOWLER. May I say there was never an estimate given of the deficit at \$29 billion.

Mr. LAIRD. Except by the President who used \$35 billion.

Mr. FOWLER. The \$29 billion was a measure of what might happen if a series of contingencies occurred. Some of these contingencies occurred and some of them did not occur. The difference between the \$8 billion and the present deficit estimate, I think, was very clearly and specifically spelled out in the President's message of August 3.

Mr. ZWICK. We are now talking of an expenditure in fiscal 1968 of \$137.2 billion, as compared to the \$135 billion estimated last year, so the difference is \$2.2 billion on the old administrative budget basis.

Mr. LANGEN. You are now estimating as of today a \$22 billion deficit providing there is no tax increase.

Mr. ZWICK. That is about right. Under the new concept, the estimated deficit in fiscal 1968 is \$19.8 billion with the tax increase. Under the old administrative budget concept, it is \$18.6 billion.

Mr. LANGEN. That is after the reductions that Congress made which makes your estimates of last year in substantial error. Last year, I recall, you referred also to a national income account.

Mr. ZWICK. Yes, sir.

Mr. LANGEN. By that budget you estimated there would be only a deficit of \$2 billion.

Mr. ZWICK. That is right, for 1969. We end up, on that accounting basis, with a deficit of about \$8.7 billion in 1968. You find that in special analysis (B) of the budget, which deals with the national income accounts. On that basis, we will end up with a deficit of about \$8.7 billion, I believe.

Mr. FOWLER. The difference there being principally the tax increase that was cranked into the budget last year, but which has not yet been provided.

Mr. ZWICK. I am sorry, let me correct what I just said. The estimated deficits are \$10 billion in 1968 and \$2.5 billion in 1969 on the national income accounts basis. Again, I want to make the point, the deviations from last year's estimates are due to a number of forces, but the expenditures we now forecast, on the old administrative budget basis, are up \$2.2 billion from the \$135 billion we projected at that time. So the big increase in the deficit is not because expenditures have gone out of control, but mainly because we did not get the tax increase and receipts fell below what we expected for given levels of income.

Mr. LANGEN. My basic question still has not been answered. What assurance do we have that the same thing won't happen this year?

Mr. ZWICK. I think the assurance is severalfold: One, as I argued earlier with Mr. Laird, we have every reason to believe that our forecast of the cost in Vietnam has improved through time; two, to the extent medicaid costs were poorly estimated last year, we have more experience with that program. On the receipts side I would rather have the Secretary answer. I might point out, though, that in 4 out of the past five years we have underestimated rather than overestimated on the administrative budget basis—we don't have the figures to compare on the basis of receipts the new concept. If you take the five-year period—including fiscal 1968—we have underestimated rather than overestimated.

Mr. WHITTEN. Mr. Cohelan.

NATURE OF INFLATIONARY FORCES

Mr. COHELAN. Mr. Zwick, I just have three questions; one in relation to cost-push inflation. I would hope that either you or the Secretary would expand on that in some of the more technical detail. I do not think the average citizen really understands this process. I myself am quite confused. For example, I am wondering at what point market forces come into play with cost-push inflation; to put it another way, when does demand begin to affect the price level? To put it still another way, when, given cost-push inflation, does such market control price itself out of the market?

Mr. ZWICK. I do not know how extensive an answer you want at this point, but clearly all of these factors are interrelated. We have had, and we presumably have now—given the history up to this point, February 8, 1968—a number of wage settlements, and we will have more, which are above the levels of increased productivity.

Five and a half percent was the average wage settlement in 1967 as compared to the normal growth in productivity of around 3.2 percent. If there is a very strong demand for the product, most likely these wage increases will be passed on in higher prices. The average businessman does not want to cut into his profit margins. That is a reasonable attitude for him to take. He would tend to pass these wage increases on in higher price.

Mr. COHELAN. But it is only in a market sector where it can be done.

Mr. ZWICK. That is right. If you have less demand, then maybe he cannot pass it on, and it is reflected in lower profit margins. Then you start getting pressures on wage settlements, and very soon the demand part is intimately related to how much you take in higher wage settlements and how much you pass the wage settlements on or how much you narrow your profit margins. They are obviously interrelated.

Mr. COHELAN. You would satisfy my request if you would expand on that in whatever responses are made because this is a very difficult concept.

Mr. ZWICK. It is very complicated.

(The information follows:)

[The Annual Report of the Council of Economic Advisers, February 1968, pp. 97 to 102.]

INFLATIONARY BIAS IN A PROSPEROUS ECONOMY

There are several sources of inflationary bias in a high-employment economy, in which output grows in pace with and does not generally strain productive capacity.

MARKET POWER

The first source of bias, which clearly interacts with and strengthens the others, lies in the fact that, at high employment of manpower and capital resources, the competitive pressures which limit the ability of firms and unions to raise prices and wages are weaker than in a slack economy. Some firms are likely to attempt to use their market power to widen their profit margins, and some groups of workers may attempt to raise their wages relative to wages of others. There is also an increased resistance to price reductions when costs fall or demand slackens. Wage rates seldom decline even when unemployment is widespread. But, in a generally strong economy, many groups of workers try—often successfully—to resist even any relative reduction in their own wages compared to those of other workers.

If a significant number of firms or unions take advantage of their market power to seek improvements in their profits or relative wages, those who have to pay higher prices or wages will seek to maintain their absolute positions by

adding their cost increases to their prices, or their cost-of-living increases to their wages. They may even seek to restore their relative positions by taking a markup on cost increases or demanding wage increases as large as other workers obtained.

There are many reasons why the effective market power of large firms and unions is greater at high levels of resource use than at lower ones. At high levels of employment and capacity utilization, firms have less reason to fear that, if they raise prices, they will lose customers to competitors. For their competitors are then not in a position to take on a large volume of additional business. Similarly, when profits are high throughout the economy, there is less of a threat that new firms will enter a particular industry in response to higher prices. In wage bargaining, when union members are fully employed, organized labor is naturally less concerned that a large settlement may curtail the growth of employment. Moreover, a firm which is operating close to capacity is less willing to risk a protracted strike, and therefore more likely to accede to demands for large settlements, since it would have difficulty making up for output lost during a work stoppage.

UNEVEN PRESSURES OF DEMAND

A second source of bias arises from the fact that—at high but not excessive overall employment of manpower and capital resources—the pressures of demand on supply will not be equal in all sectors of either the product or labor markets. In some industries, the growth of demand may be so large that it cannot be immediately matched by additional output. This pulls up prices even where individual firms possess little or no market power. Likewise, in those labor markets that are particularly tight, the rise of wages tends to speed up even if workers are unorganized. But the rise in prices and the faster rise in wages where markets are under pressure is not automatically offset by price reductions or a slower advance of wages in the rest of the economy. Moreover, other firms which buy the products which have risen in price will pass along the cost increase—perhaps with a markup applied—and other groups of workers will try to match the wage gains secured in the tight labor markets.

An extraneous reduction of supply in a key sector—e.g., agriculture—can have similar effects. Prices then rise in that sector without falling elsewhere, leading to larger wage increases that raise costs and prices generally. Though these influences may be temporary, the wage and price movements they induce are not reversed fully when the supply problem is overcome.

TEMPORARY SPURTS OF DEMAND

The third source of inflationary bias lies in the fact that the growth of overall demand is unlikely to be completely smooth, even with the best of fiscal and monetary policies. When demand is already adequate to use most productive resources, a sudden speedup in the growth of demand may create temporary upward pressures on prices and costs in a wide range of sectors. And even if such a spurt in demand is subsequently balanced out by a temporarily reduced growth of demand, costs and prices do not then correspondingly fall. Indeed, the spreading and spiraling effect of the previous cost and price increases will continue to be felt. Thus, although a spurt of demand in 1965 and 1966 was followed by a balancing slowdown, the wage-price spiral set off by the initial spurt continued to turn in the relatively slack period of 1967.

INEFFICIENCIES AND BOTTLENECKS

Even in an economy as efficient and progressive as ours, there are a few industries and labor markets where gross inefficiencies persist—stagnant technology, weak management, firms of inefficient size, restrictive labor practices, unnecessarily costly systems of distribution, Government policies that weaken incentives to economize, avoidable seasonality of production and employment, inadequate methods for training and recruiting workers, and similar factors. Prices or wages or both tend to rise faster in these industries than in others; in a high-employment economy this tendency is aggravated. These industries constitute a further source of inflationary bias in the sense that they offer unexploited opportunities for significant cost reductions.

WORKINGS OF THE SPIRAL

Any of these sources—or their interaction—can easily trip off a price-wage spiral. In such a spiral, rising living costs support demands for wage increases

in excess of productivity gains. The resulting bulge in labor costs is reflected in prices. Price and wage increases can continue to reinforce each other long after the initial source of inflation has ceased to operate. Thus, the spiral can continue to turn more or less on its own momentum. But, unfortunately, one or another of the basic sources of the bias is likely to provide new motive power, so long as resources remain adequately utilized.

On the other hand, the circular relationship between wages and prices can support price stability as well as a spiral. If prices remain stable, the demand for wage increases is not swollen to cover rising living costs. And if wage increases remain moderate, costs and prices may remain stable. But the stability can be broken on the side of either wages or prices. And once broken it is difficult to reestablish.

A general rise in prices and wages does not directly reduce total private demands, for the higher prices and wages provide additions to money incomes sufficient to permit the higher prices to be paid. But the spiral can be curtailed by Government policies. The existence of a wage-price spiral requires that the rate of growth of aggregate demand in money terms exceed the rate of growth of real productive capacity. If fiscal and monetary policies should fail to permit the expansion of demand in money terms necessary to "validate" the price rise, real growth would not keep up with the growth of capacity. Unemployment would rise and utilization rates decline. This would lead to the gradual slowing down and termination of the spiral. Obviously, the greater the restraint through fiscal and monetary policy, the more quickly the spiral can be brought under control. But this may require an unacceptably high level of unemployment.

THE GOAL OF PRICE STABILITY

Since minimum unemployment and high utilization of our productive resources bring so many obvious benefits to the Nation and to most individuals, the temptation is great to dismiss the accompanying inflationary bias as a minor inconvenience, a cost far outweighed by the benefits. Nevertheless, price stability is an important goal because the costs of inflation are serious and pervasive. Inflation impairs economic efficiency, redistributes income capriciously, and weakens the Nation's competitiveness in world markets.

A realistic stabilization policy cannot expect to hold down to zero the average change of prices of consumer goods and services. From 1961 to 1965, although wholesale prices remained virtually constant and there was obvious slack in the economy, consumer prices rose between 1 and 1½ percent each year. Such a moderate rate of price increase, however, does not represent a significant erosion in the purchasing power of the consumer's dollar. This is especially true because improvements in quality and the introduction of new goods add to consumption opportunities even when they are not fully reflected in price indexes as reductions in prices.

Furthermore, the objective of price stability does not aim to hold any specific price constant. Within a stable average price level, there can and must be constant adjustments to changing levels and patterns of demand, to diverse movement of costs in different sectors, and to technological change. Costs and prices of some items rise; others fall. These relative price changes attract resources toward those areas where the need is greatest.

Similarly, price stability is compatible with rising wages. Labor compensation can move up in line with the average growth of labor productivity without adding to the labor costs of output. And the stability of overall labor costs is thoroughly consistent with readjustments in the relationships among wages in different sectors and for different occupations. These changes tend to be gradual and the disparities self-correcting, as workers—particularly new entrants—are attracted into the areas where labor is in greatest demand.

THE IMPAIRMENT OF EFFICIENCY

Once prices start moving up on a broad front, however, the necessary relative adjustments of prices and wages become much more difficult. Some prices respond immediately to changes in underlying economic conditions, others only after a long delay, but then often with a big change. Thus, while each change may appear to correct one set of disparities, it creates others; adjustment of the latter, in turn, creates new problems. Relative prices, wages, and profits cannot achieve the patterns appropriate to the changing needs of the economy when all

of them are ratcheting upward at an uncertain and uneven rate. The efficient allocation and use of resources inevitably suffers. Thus, the objective of price stability is linked to the aim of economic efficiency.

ARBITRARY REDISTRIBUTION OF INCOME

Inflation has a significant effect on the distribution of income and wealth. By and large, that impact is haphazard and inequitable from a social point of view. Some groups in the economy are more vulnerable to inflation than others; this is why inflation has been described as the "cruellest tax."

A particularly significant income shift associated with rising prices takes place between the active participants in the economy, whose money incomes adjust more or less to rising prices, and those—such as the retired and disabled—who are not active participants. The money incomes of millions of the families in the latter group are relatively fixed at any given time and augmented little, if at all, by rising prices. Many depend on pensions and other sources of retirement income which come from accumulated savings in forms that have a fixed money value, such as savings deposits, insurance policies, or bonds. Some retired persons live on previously accumulated wealth that has a fixed money value. There are some partial offsets; interest rates on deposits tend to rise in periods of inflation, and so may the prices of common stocks and of real estate. But not everybody holds assets that rise in price or yield. Legislative changes in social security have provided considerable relief to many retired and disabled individuals at the lower end of the income range, but not to all. Nevertheless, the inactive members of the population as a group suffer losses of real income that to them are significant, even though the corresponding gains of the active group are relatively small in terms of its income.

To be sure, in a period of inflation, some workers will have the opportunity for wage gains sufficiently large to enhance their real incomes relative to other workers. Some businessmen do manage to widen their profit margins. Yet, in the ensuing spiral, neither business as a whole nor labor as a whole is likely to make permanently larger gains in real income as a result of inflation. Periods of rapid rises in both wage rates and prices have not significantly altered the long-term distribution of income between labor and business. Both groups reap their gains in a depreciated dollar, with some loss to both by sacrificing the smooth functioning of the economy. Most gains achieved by individual groups of workers are principally at the expense of other workers, and the profit gains of some industries may be obtained largely at the expense of profits in other sectors.

Improvements in the distribution of economic rewards and in equality of opportunity often occur in periods of high demand and relatively full employment. It is during such periods that persons with educational, racial, locational, age, or physical disadvantages find the greatest opportunities to move into the mainstream of economic life, and secure their greatest relative gains. But these gains come from full employment, not from the excessive wage and price increases that may accompany it. Our objective is to achieve the gains while avoiding costly inflation.

INFLATION AND THE BALANCE OF PAYMENTS

As chapter 5 makes clear, rising prices also have important international implications which—particularly at the present time—can be even more serious. If our prices rise faster than those of our major competitors, American goods suffer in world markets. An increase in the U.S. surplus of exports over imports is needed to strengthen our balance of payments and to permit the eventual relaxation of the restrictions now necessary to maintain our payments position.

A healthy trade surplus also has a direct and individual meaning for the pocket-books of the vast numbers of American workers, businessmen, and farmers who are engaged in industries exposed to export or import competition. If costs and prices in these industries are not kept in check, markets may shrink and profits along with markets. Restriction of imports to compensate for this deterioration would be no answer, since it would lead to retaliatory curbs on our exports, and thus to reduced markets and job opportunities in our export industries.

SLOWING THE TREND OF RISING PRICES

The social and economic costs of rising prices point to the pressing need to reestablish and to maintain reasonable stability of the U.S. price level. It is clear, however, that the current inflationary trend cannot be stopped abruptly. Yet it is equally clear that the trend must be slowed down. Once a deceleration is

achieved, it can become self-reinforcing. As wage increases slow down, unit labor costs and prices will move up less rapidly. The successive upward adjustments of wages to prices and of prices to wages can progressively shrink. If price increases slow down in 1968 and reasonable stability is in the process of being restored, the health and strength of the U.S. economy will not be seriously impaired by the fact that prices are still rising. But a new acceleration of price increases could have serious consequences, both domestic and international.

PROPOSED BUDGET REDUCTIONS AND REFORMS

Mr. COHELAN. The other thing that troubles me, Mr. Zwick, with the greatest of sympathy and understanding for the problem that you and the Secretary of Treasury have in constructing a budget in these times, I find it difficult to understand why, in presenting your budget program reductions and reforms, you seem to ignore certain of the political realities of items that you present.

I could select any one of them at random from pages 20, 21, and so on, but just take one item alone. Do you seriously believe that you are going to be able to cut federally impacted school aid?

Mr. ZWICK. We have a new approach to that this year, which I can go into, and we think it makes sense. As you know, we tried once before to reduce impacted school aid, and we were badly beaten. The new approach we are proposing includes three features. First, we are going to phase the reduction over time; second, and probably most important, we are proposing what we call a grandfather clause which says that no school district will be made less well off when you add together title I elementary and secondary education grants and the impacted school grants under the new formula; the sum of those two will be equal to or greater than what they would have received under the old formula. If we cannot win that battle, then we cannot ever get reform. But I would hope we could. Let me describe briefly what we are doing at the present time under this program. As you know, there are students who are children of Federal employees living on Federal installations—service personnel being a good example—and we pay a hundred percent of the cost to the community of their education. Secondly, there are cases in which Federal employees working at a Federal installation live in the community and therefore are paying taxes and contributing to the community's revenue. We now pay 50 percent of the local community's cost of those students when more than 3 percent of the total student body is in this category. The amount we pay is based on either the average cost per student to that community or an amount based on State or National average costs, whichever is higher.

What we are trying to do is to lift the eligibility criterion from 3 to 6 percent of the total student body, to pay only on behalf of children exceeding 6 percent of the total student body, and to match only local costs, not some higher average unrelated to local costs. Those are very modest reforms.

We are proposing a very modest reform, phased over time, with a grandfather clause.

We do have a real problem in getting any reform in the budget.

Mr. COHELAN. Mr. Director, I purposely selected that item just at random, but I could go through every item you have here and predict there will be some problems of a similar nature.

Mr. ZWICK. Mr. Cohelan, there will be great problems.

Mr. FOWLER. You have greatly strengthened the case for a tax increase.

TAX REFORMS

Mr. COHELAN. This leads to my third and final question, Mr. Secretary. Some of us are certainly understanding what you are telling us, and from a technical point of view I think you have made your case. But I also recall talking to you and to others some time ago, as other members have, about tax reforms. I have not heard anything about tax reforms.

Mr. FOWLER. I would like to discourse on that for just a minute, if I may, to say that out of two long, extended experiences with tax reform in the Revenue Act of 1962 and the Revenue Act of 1964, which together accomplished about \$1.7 billion of so-called loophole closing, one bill took 18 months, the second one took 14 months. It has been the practice and attitude of both Houses of the Congress and both taxwriting committees that when they take away a so-called tax privilege it is not taken away retroactively, it is taken away prospectively. Therefore, any revenue increases that might come about after the rather long and tortuous legislative process of tax reform would probably begin to produce additional revenues in 1970 or 1971.

So with 18 months in one instance and 14 months in another, and producing a sum total of \$1.7 billion, I do not believe we can solve the financing problem we have in any major way by bringing tax reform into the picture. I think it would instead delay and impede the process of getting a substantial reduction in the deficit.

Let me hasten to say that just as soon as the issue presented by the surcharge proposals is met and disposed of one way or another, we shall be here with some very substantial tax-reform proposals which have been prepared and have been in process of preparation for a considerable period of time, because I believe that our system is far from being equitable today.

Mr. COHELAN. I have just one final comment to make. I am delighted to hear what you said. My only regret is that somewhere in your statement you have not made this clear, that this is a clear objective of the administration.

Mr. FOWLER. It certainly is and continues to be so and we have a package ready.

Mr. MAHON. Are there further questions from anyone?

Mr. WHITTEN. Mr. Chairman.

Mr. MAHON. Mr. Whitten.

GOVERNMENT EXPENDITURES IN THE GNP

Mr. WHITTEN. Mr. Chairman, I would like for this to be tied back to what I was pursuing earlier in the day.

Mr. Secretary, I am not trying at this late hour to drag this out, but there are two or three points I want to follow up. This gross national product in recent years has come more and more to the forefront presumably to justify the rate of expenditure. Am I correct that in the GNP, as I recall it from the Budget Director's statement last year, the Government programs are carried at face value as a part of the GNP.

Mr. FOWLER. That is right.

Mr. WHITTEN. Thus the so-called new programs that we have had in recent years add to the GNP, which in turn is then used to justify the ability of the country to have these new programs.

Mr. FOWLER. I do not accept your major premise that the concept of GNP is primarily designed as a justification for increasing expenditures. Gross national product in real or money terms is used all over the world to measure the rate of growth of economic systems. It is a common international concept wherever economists congregate.

Mr. WHITTEN. I do not believe I used the word "primarily." May I say I have been here long enough to remember when that was not used in common everyday justification for budgets. I said from my own observation the time has come where it is one of the factors that you point to as to what we can afford both in the way of taxes and in Government programs. I want the record to show it. That being true, when we turn here today, and we have taken the silver out of our coinage, we have sold PC's which mortgages the assets in notes that we have, and in the same breath, almost, when we ask for a tax increase we show new programs which will cost an equivalent or approximately the equivalent amount, it is pretty hard for the public or us as Congressmen to see that this tax increase is really an inflationary-type control but rather that it is a means to carry out these other things.

Mr. FOWLER. Let me say very clearly and very positively that, in my book, the tax increase is being used, as it is presented to you here, to reduce the deficit and bring the deficit into manageable proportions. Secondly, let me put it another way and say that, in my book, the tax increase is a price that we ought to pay for the conduct of the war. I think it has come time for us to recognize that we cannot continue to carry on this scale of conflict overseas, with its drain on our budgetary situation, without being willing as citizens to pay something in the way of increased taxes for it.

We have never fought a war in which there was not a very substantial increase in taxes. I do not believe we should this time.

Mr. WHITTEN. We have fought very few wars while at the same time the Government came out with proposals for all sorts of new programs at a time when we were running a deficit. So this is unusual in several respects.

Mr. FOWLER. It may well be.

Mr. WHITTEN. I just voted against a bill on the floor a minute ago. The budget has \$5 million here for a new commission to study an old area where six other departments are already involved. We are spending \$11 million now. We just created a new commission which has \$5 million dollars budgeted here. I am just pointing out for the record, and I do not want to pursue this too long—I do not want to cut you short—I hope you will expand this in the record, Mr. Secretary, in connection with the points I made.

Mr. FOWLER. I certainly will. We will do this in appropriate places throughout the record.

Mr. WHITTEN. Thank you, Mr. Chairman.

RESTRICTIONS ON OVERSEAS INVESTMENTS

Mr. MAHON. Mr. Secretary, I think that we all realize that at this time of fiscal stringency we do not want to go overboard in encouraging U.S. investments overseas. I realize the problem is one of great importance. I would hope that the program will operate in such a way that undue hardship will not be worked upon investors who

have recently made investments and commitments overseas and who would sustain great financial loss unless separate attention is given to their specific problems.

With respect to the January 1 Executive order on overseas investments—established American companies, I understand, are generally limited to capital transfers abroad of 65 percent of their 1966 base. What about new companies which just began foreign operations in 1967 and, therefore, have no base but have either a legal or moral commitment to accelerated investment in 1968? It seems to me that some special consideration must be given in these cases.

Mr. FOWLER. As one component of the short-term features of a balanced and comprehensive program which incorporates basic long-term measures, direct investment controls were adopted. The substantial savings required in this area were designed to be obtained from the areas most able to sustain the reduced level of capital inflow.

In an effort to facilitate the free transfer of capital within these limits, general authorizations were provided to those companies which had a history of capital transfers. Special authorizations were required for companies which had no, or an inadequate, base.

Allowable capital transfers under general authorizations are determined by the application of certain percentage ratios, as specified for different scheduled areas, to the amount of direct investment which occurred during the base period 1965 and 1966. For schedule A countries—basically, the lesser developed countries—investors are authorized to make direct investments—the sum of net capital outflows and reinvested earnings—of up to 110 percent of their base period amount in that area. The figure of 65 percent of base is the ratio applicable to the schedule B countries—basically, Canada, Japan, the United Kingdom, and Middle East areas. In the case of the schedule C countries—primarily continental Europe—there is a 35-percent ratio, but allowable investment in these countries must be made up entirely of reinvested earnings.

In the absence of a special authorization, companies operating abroad having no base in 1965 and 1966, are limited to a total outflow of \$100,000 during 1968. Administratively, it has been recognized that companies without a base may be in a relatively limited position compared to companies which have had some experience abroad. Here, the special authorization procedure is designed to provide opportunity to these firms. If these companies are committed to investments in 1968, we would expect that they would seek to arrange the necessary financing through foreign sources so as to reduce total outflows. To the extent that they face especially serious problems in complying with the regulation, companies are asked to present their case to the Office of Foreign Direct Investments for special consideration.

Mr. MAHON. As far as I can determine, it has been the policy to let these new overseas endeavors operate on a "hand to mouth" basis; that is, authority for only 2 or 3 months at a time. It seems to me this lends great uncertainty to the proposition. Is consideration being given to granting longer range authority? I think steps should be taken to stabilize this situation.

Mr. FOWLER. Almost all of the special authorizations issued have been for the year 1968. A few have been issued for a period of several months in the following situations: (a) where a direct investor was certain of being able to borrow funds abroad in a few months but

meanwhile wanted to continue work on his project, using funds from the United States; (b) where a direct investor was in considerable doubt about his "allowable" direct investment under the regulations and wanted to be covered by a Special Authorization for a few months pending clarification of his "allowable" amount of direct investment.

In the first few weeks of operations the Office of Foreign Direct Investment concentrated on providing to industry the immediate answers required—especially where prior commitments were involved and thus helped in this way also to avoid uncertainty.

The \$100,000 capital transfer exemption serves to meet the immediate direct investment needs of smaller companies, supplemented, of course, by their foreign borrowings.

SUMMARY OF PROBLEMS AND PROPOSALS

CONCERNING INTERNATIONAL BALANCE OF PAYMENTS

Mr. MAHON. Mr. Secretary, in connection with some of this discussion, I wish you would feel at liberty to quote any section of this summary and conclusions to which you referred several times in this blue book. You referred to it earlier and more recently. I think some of this is worth printing in this hearing. I leave it to your discretion as to the amount.

Mr. FOWLER. Thank you, Mr. Chairman. I think the summary and conclusions are important and will make them available for the record at this point.

(The information follows:)

SUMMARY AND CONCLUSIONS

The United States must, can, and will correct its balance-of-payments problem. The action program announced by President Johnson on January 1 is a national and international responsibility of the highest priority. Our task now is to assure the success of that program.

This paper explains the importance of correcting our balance-of-payments problem and explains why a new program to achieve it has become necessary. Beyond that, it describes the kinds of adjustments that must now occur—in the United States and in other countries—if the new program is both to restore balance-of-payments equilibrium and to promote continued prosperity and economic growth in the United States and throughout the free world.

The world faces the need to restore equilibrium in international transactions. The United States must cut its payments deficit now; it cannot allow its official reserve assets to run down without limit. Moreover, the smooth functioning of the present international monetary system, under which unparalleled prosperity and growth have been attained, requires that large and persistent surpluses and deficits be eliminated, and in particular that confidence in the main reserve currency—the U.S. dollar—be maintained.

The United States has acted decisively. It is in the interest of countries which have enjoyed balance-of-payments surpluses, as well as of the rest of the world, that they too act to facilitate the needed adjustments and hasten the day when undesirable restrictions can be removed. They must accept reductions in their surpluses. This involves policies leading to higher domestic levels of activity within the framework of stable prices. It requires receptivity to imports from developed and less developed countries, acceptance of an appropriate share of the burdens of mutual defense and of economic development assistance, and greater encouragement of capital outflow.

A large part of the required adjustment can be achieved over the longer term without disturbance to the patterns of economic activity by which men earn their living. The United States must be able to finance its share of world trade and investment and defense without jeopardizing its international liquidity position and hence the very structure of the international monetary system.

Europe must now arrange to play a larger role in the financing of all these activities and devote less of its financial resources to the accumulation of gold and foreign exchange reserves.

THE BALANCE-OF-PAYMENTS PROBLEM

It is understandable that even today many of our citizens are not fully aware of the urgent necessity of restoring a balance in our international payments. The U.S. economy is strong and prosperous. Foreign transactions of the United States, while very large in terms of the international economy, are small relative to our total production, consumption, and investment—relatively smaller than for almost any other country. Why should the United States or the world be disturbed about a balance-of-payments deficit that is only a fraction of one percent of our output of goods and services?

Despite the magnitude of our domestic economy, the foreign transactions of the United States are important to our economic well-being and indispensable to the free world. Imports of foodstuffs, raw materials, and finished goods are essential for our production and our high standard of living. The overseas expenditures of the U.S. Government for foreign aid and defense are vital to our objectives of world peace and security. U.S. private foreign investment is profitable to our banking and business institutions and important for economic growth and development in many other countries. And travel enhances international understanding.

The cost of imports, travel abroad, security, and aid expenditures overseas, and foreign investment must be paid for by exports of goods and services, the earnings of our foreign loans and investments, travel and investment by foreigners in the United States, and other foreign exchange receipts.

In 1966 our total international payments, insofar as they can be measured, amounted to \$49 billion while our foreign receipts were nearly \$48 billion. The resulting deficit in our balance of payments amounted to \$1.36 billion. This increased to about \$3.5 to \$4 billion last year.

When our total foreign payments are more than our foreign receipts, some or all of the excess dollars received by foreigners are sold to their central banks, which can use them in a variety of ways—including holding them as reserves or buying gold from the United States. The result tends to be a deterioration in the liquidity position of the United States, as the ratio of its reserve assets (e.g., gold) declines relative to its liquid liabilities (e.g., dollars held by foreigners).

The United States is the major international banking center holding large deposits both for monetary authorities and for private banks, corporations, and individuals. The dollar functions as the principal international currency. Its liquidity position must remain strong, like that of any bank, to retain the confidence of its depositors.

The U.S. deficit was welcome when it first developed in the early postwar years. Then, as now, the deficit consisted of capital outflows—both public and private—that exceeded the U.S. surplus on goods and services. It supplied reserves to foreign countries—principally European—which had drawn them down to finance the war and postwar reconstruction. More basically, the U.S. capital flow to Europe contributed to the European economic miracle and the smooth transition to European economic unity.

In the late 1950's, however, U.S. deficits began to become a source for concern. Not only did the size of the deficits rise, but they were financed more by sales of gold and less by foreign accumulation of dollars than in prior years. Although some foreign central banks had what they considered to be adequate supplies of dollars in their reserves, many countries had small reserves and were still eager to add to their dollar reserves. There was still no high urgency about restoring balance to our international accounts. Nevertheless, President Eisenhower instructed the Department of Defense and other Government agencies to economize on their foreign exchange expenditures. With 3 years of large deficits culminating in a speculative outbreak in the London gold market in October 1960, new measures were called for. President Kennedy proposed measures to increase exports and other receipts, intensified efforts to cut Government balance-of-payments costs, and later introduced the interest equalization tax to hold down U.S. purchases of foreign securities. A sharp rise in U.S. capital outflows in 1964 made it necessary for President Johnson to introduce a voluntary program for holding down direct investment and bank loans abroad.

The rationale behind these measures was as follows:

First, while the rising outflow of U.S. capital was moderated, U.S. international balance would be restored by the growth of the U.S. surplus on noncapital transactions.

Second, modestly restraining the increase in U.S. foreign investments, particularly those in Western Europe, would have only a small effect on world economic growth in sharp contrast to other alternatives and would yield satisfactory balance-of-payments results over time.

From 1958-60 to 1965, we made good progress in reducing our payments deficit because of the growth of our exports of goods and services relative to our imports, because of the rise in earnings from our foreign investments, and because of the reduction in capital outflow in 1965.

In 1965 and 1966, we reduced our liquidity deficit by almost two-thirds from the average deficits of 1958-60 and one-half from the average of 1961-64. As this period progressed, however, the accelerated expansion of the U.S. economy and the war in Vietnam placed renewed pressure on the balance of payments. The boom resulted in an extraordinary increase in imports. The costs of our forces in Vietnam added substantially to our foreign payments. Thus, while the voluntary program reduced the capital outflow considerably from the peak of 1964, the payments deficit persisted. There was retrogression in the first three quarters of 1967 because the foreign exchange costs of Vietnam rose further, private capital outflow increased, net tourist expenditures rose, and the European economic slowdown reduced European imports—and our exports.

The devaluation of sterling in November 1967 brought the balance-of-payments problem to an acute stage. Against the background of a persistent deficit in the U.S. balance of payments, the British move resulted in a weakening of confidence in currencies and was accompanied by a burst of speculative buying of gold and a resulting large loss of U.S. gold reserves in November and December. This was a threat not only to the dollar but also to the international monetary system as a whole.

While the speculation was repulsed with the cooperation of most of the members of the gold pool, it underlined the urgency of placing the dollar once more in an impregnable position. The time had come when it was necessary and desirable to take new and decisive measures to move the U.S. payments position strongly toward balance.

What was the best way to achieve this? Depressing the American economy is as unacceptable to most other nations of the world as it is to the United States. The United States occupies a unique role in the world economy. It is by far the largest exporting and importing country. It is the principal source of international capital. It is the largest donor of aid. Military forces stationed abroad are indispensable to the security of many countries—including the United States. For all these reasons the entire world is affected by the U.S. economy and the U.S. balance of payments. The volume of international trade, the prices of basic commodities, the cost of money and even the level of production and employment abroad respond to the U.S. economy. The United States must seek a solution to the payments imbalance through the expansion of the world economy rather than the contraction of its own, and consequently the world, economy.

The action program announced by President Johnson on January 1 avoids deflation, while underlining the urgent need for prompt enactment of an anti-inflationary tax increase, along with proper control of public expenditures, appropriate monetary policy, responsible wage and price decisions on the part of business and labor, and other measures to increase our export surplus.

Because the need to cut the U.S. payments deficit is urgent, the program also includes new and stringent temporary restraints on outflows of U.S. private capital and on foreign travel by Americans. Indeed, it is upon these uncongenial measures that we must rely for the largest immediate effects. These measures have been adopted reluctantly as an emergency matter. How soon they can be relaxed will depend greatly upon our own efforts to increase our trade surplus, reduce or neutralize government expenditures abroad, and encourage foreign travel and investment in the United States. It will depend upon the policy responses of other countries, especially of those countries in continental Western Europe that have experienced chronic payments surpluses in recent years.

INTERNATIONAL MONETARY SYSTEM

It is the relationship of the U.S. dollar and the U.S. payments position to the international monetary system that makes this program both a national and international responsibility. The present international monetary system has evolved substantially since the gold standard was in force for all of the large

trading countries. During this long period of evolution, the very nature of the system has changed to conform to the needs of the world economy. The International Monetary Fund, established at Bretton Woods, embodies in its Articles of Agreement the main principles on which the international monetary system is now based. Essentially, it is a system in which the par value of each currency is expressed in terms of gold. The foreign exchange rates for currencies must be kept within 1 percent of the parity. In most countries other than the United States, the central bank supports the currency, when the balance of payments is in deficit, by selling dollars in the foreign exchange market; when in surplus, the central bank purchases dollars against its own currency in the exchange market. The United States is the only country that freely buys and sells gold as the method of meeting its obligation to maintain the international value of its currency.

Countries in deficit can receive medium-term credit from the International Monetary Fund while restoring their balance of payments without resort to measures destructive of national or international prosperity.

Such an international monetary system requires adequate monetary reserves to enable countries to meet payments deficits while they take measures to adjust their balance of payments. The monetary reserves of the world consist mainly of gold, U.S. dollars, and other currencies. As world trade and payments grow, the need for additional monetary reserves also grows. Since 1950, less than half of the increase in monetary reserves has been in the form of gold. More than half of the increase has been in the form of U.S. dollars acquired by the central banks of other countries. Without the growth of dollar reserves, the growth of world trade and payments would have been severely restricted and the world economy might have been subjected to serious deflationary pressures and instability.

In actual fact, the international monetary system has worked well. This is evident from the enormous expansion of world trade from \$55 billion in 1950 to about \$200 billion in 1967. The expansion of trade and payments and the stability of the international monetary system have been buttressed not only by growth of reserves but also by enlargement of international credit facilities. The resources of the International Monetary Fund were increased in two steps from over \$9 billion in 1958 to \$21 billion at present. The International Monetary Fund entered into an agreement with a number of industrial countries (the Group of Ten) under which they undertook to lend up to \$6 billion to the Fund if this should prove to be necessary. A network of reciprocal currency agreements was established by the central banks of the large financial centers for swaps of each other's currency; the United States has such swap arrangements totaling \$7.1 billion with 14 central banks and the Bank for International Settlements. In order to help maintain confidence in the equivalence of gold and currencies at stable values, a number of countries formed a gold pool to maintain the orderly character of the London gold market.

These various measures helped the international monetary system to function effectively. Even so, it became evident that a more basic reform was necessary. The world can no longer depend entirely upon increases in gold and dollars to provide an assured and satisfactory growth of monetary reserves. The amount of newly mined gold available will not provide for an adequate increase in world reserves. And it is not desirable from the point of view of the United States or the rest of the world that the growth of U.S. liabilities in the form of dollar reserves abroad should continue as in the past. A steady increase in U.S. liabilities, while its reserves decline, exposes the international monetary system to the threat of instability.

In 1965, at the initiative of the United States, the Group of Ten and the International Monetary Fund began to develop methods for creating a new reserve asset to supplement gold and dollars. These discussions have led to an agreement for the creation of special drawing rights at regular intervals and in an amount necessary to assure an adequate growth of monetary reserves. This new supplement to existing reserve assets will be issued by the International Monetary Fund. All 107 members of that institution will be eligible to participate. At the annual meeting of the International Monetary Fund in Rio de Janeiro in September 1967, the Governors of the Fund unanimously approved a resolution providing for legal drafting of this proposal as an amendment to the Fund's articles of agreement. It is hoped and expected that the necessary legal steps will be completed late this year or early in 1969 and that the plan will then be put into operation promptly.

The Rio resolution for the creation of special drawing rights (SDR) represents a landmark in the evolution of an international monetary system responsive

to the needs of the modern world. When this system is in operation, the growth of monetary reserves can be adequate without depending either on the uncertainties of gold mining and gold hoarding or on persistent deficit in the U.S. balance of payments.

The early availability of SDR removes one of the concerns as to the impact of the U.S. balance of payments program—namely, a slowing of reserve growth and a consequent adverse effect on world trade and income. Early activation of the SDR plan can maintain an adequate growth of world reserves together with restoration of U.S. balance of payments equilibrium.

STRATEGY FOR PAYMENTS IMPROVEMENT

The key resources which give the United States the strength to deal with its underlying long-range payments problem constructively and sensibly are:

- a strong economy with a gross national product in excess of \$800 billion, representing 40–45 percent of world output;
- a large stock of foreign assets with powerful earnings potential. Gross assets abroad—public and private—total more than \$110 billion. Our net long-term asset position—approximately \$70 billion—has increased every year for 20 years. Private overseas assets alone now generate annual earnings of about \$6 billion.
- a basic trade surplus, on which we must build;
- a strong reserve position (nearly \$15 billion, or about 20 percent of world reserves), even after losses of the past few years.

We can build on these elements of strength and move toward balance of payments equilibrium through short- and long-range measures vigorously implemented. Furthermore, the passage of time will ameliorate forces that presently exacerbate the balance of payments deficit and hide the fundamental progress achieved.

Ideally, the United States would solve its balance of payments problem through a gradual, long-range approach in which there was no interference with the free movement of goods and services, capital or people. Over the long run, the United States is, in fact, dedicated to just such an approach.

However, the situation that confronts the United States today requires prompt and major corrective action. Long-term measures alone that take hold gradually over time are not sufficient.

THE PRESIDENT'S ACTION PROGRAM

President Johnson's program is designed to bring about a sharp reduction in the U.S. payments deficit in the year ahead, bringing it into—or close to—equilibrium. The program consists of general and specific measures, short- and long-range actions.

As indicated in the President's message on January 1, 1968:

"The first line of defense of the dollar is the strength of the American economy.

"No business before the returning Congress will be more urgent than this: To enact the anti-inflation tax which I have sought for almost a year. Coupled with our expenditure controls and appropriate monetary policy, this will help to stem the inflationary pressures which now threaten our economic prosperity and our trade surplus.

"No challenge before business and labor is more urgent than this: To exercise the utmost responsibility in their wage-price decisions, which affect so directly our competitive position at home and in world markets.

"I have directed the Secretaries of Commerce and Labor, and the Chairman of the Council of Economic Advisers to work with leaders of business and labor to make more effective our voluntary program of wage-price restraint.

"I have also instructed the Secretaries of Commerce and Labor to work with unions and companies to prevent our exports from being reduced or our imports increased by crippling work stoppages in the year ahead.

"A sure way to instill confidence in our dollar—both here and abroad—is through these actions."

In addition, the action program contains these direct measures:

1. *Direct investment*: By Executive order and regulations issued under the banking law, a mandatory limit has been placed on direct investment by U.S. companies in foreign affiliates. The program, together with its accompanying provisions on the repatriation of foreign earnings, is expected to reduce the payments deficit by \$1 billion in 1968.

In the highly developed countries, principally in continental Western Europe, a moratorium is imposed on any new capital outflow from the United States, and a restraint is placed in the reinvestment of earnings from direct investment.

In a group of countries in which a high level of capital inflow is essential for economic growth and financial stability, and where adequate funds cannot be secured from other sources, U.S. companies may make new capital transfers for direct investment which together with reinvested earnings do not exceed 65 percent of the average of their capital outflow plus reinvested earnings in 1965 and 1966. The countries in the group subject to this limitation include, among others, Canada, Japan, Australia, New Zealand, the United Kingdom and the oil-producing countries.

In the less-developed countries, U.S. companies may make new capital transfers for direct investment which together with their reinvested earnings in these countries do not exceed 110 percent of the 1965-66 average.

The funds available for new investment through the retention of earnings or permitted transfers of new funds can be supplemented by borrowing abroad. Funds available from depreciation reserves abroad are also not counted as part of the new investment. Specific authorization will be required for any new transactions not falling within the targets set up for investors. The order does not apply to direct investment of less than \$100,000 in any year.

In accordance with the regulations, U.S. companies must repatriate from their share of the earnings of all their foreign business ventures in the three groups of countries amounts equal to the greater of (1) the same percentage of their share of total earnings from these three groups as they repatriated during 1964-66, or (2) so much of their share of earnings as may exceed the limit set for capital transfers to each group. In the case of the continental European countries where a moratorium on capital transfers applies, the applicable rule with respect to (2) above is the earnings in excess of 35 percent of investment in 1965-66 must be repatriated. In addition, short-term financial assets held abroad, other than in direct investments, are required to be reduced to the average level of 1965 and 1966 and held at this level.

2. Banks and other financial institutions: Revised guidelines have been issued by the Board of Governors of the Federal Reserve System for reducing foreign credits from U.S. banks and other financial institutions. Then new guidelines are designed to bring a net inflow of at least \$500 million in 1968. The program is voluntary, although the President has given the Federal Reserve Board standby authority to invoke mandatory controls.

The bank program also requests banks to reduce the amount of their term loans to developed countries of continental Western Europe by not renewing such loans at maturity and by not relending them to others. All banks are also asked to reduce the amount of outstanding short-term credits to developed countries of continental Western Europe by 40 percent of the amount outstanding at the end of 1967. As these loans are repaid, ceilings for outstanding foreign credits will be reduced correspondingly.

Revised guidelines for other financial institutions, such as insurance companies, mutual savings banks, pension funds, etc., request them to reduce their holdings of foreign assets covered by the program by 5 percent or more in 1968 compared with the amount of such assets held at the end of 1967. It is expected that these institutions will reduce to zero their holdings of liquid funds abroad, or to the minimum working balance required to conduct foreign business activities, even if this entails a decline in foreign assets by more than 5 percent.

In both programs, priority will continue to be given to credits for financing exports and to loans to the less developed countries. The major effects of the revisions are focused on the developed countries of continental Western Europe.

3. Foreign travel: Our travel deficit increased substantially in 1967 to a figure estimated at approximately \$2 billion. The administration believes that the best long-range manner to reduce this deficit is to encourage more foreign travelers to visit the United States. A special task force is at work on measures to accomplish this. The President has directed the task force to report within 45 days on the immediate measures that can be taken and to make its long-term recommendations within 90 days. Their recommendations will be acted on promptly. Meanwhile, however, more drastic measures are required on a temporary basis. A reduction of \$500 million in payments for foreign travel is essential for restoring our balance of payments. The President has therefore asked the American people to defer for the next 2 years all nonessential travel outside the Western Hemisphere. The Treasury is exploring with congressional committees appropriate legislation to help achieve this objective.

4. Government expenditures overseas: The commitments for aid and defense, on which free world security depends, necessitate very large expenditures abroad. These costs have risen sharply because of the Vietnam war. Over the past 3 years, a stringent program has substantially reduced their foreign exchange costs. The President has, nevertheless, set a target of a further reduction of \$500 million in the foreign exchange impact of such programs in 1968.

Negotiations will be initiated promptly with our allies in Europe and in the Pacific to minimize the foreign exchange costs of our military spending abroad. They can help, as they have, by purchasing in the United States more of the equipment for their defense needs. They can also offset the adverse effects of our military expenditures on the balance of payments by investing part of their foreign exchange receipts in long-term U.S. securities. The Department of Defense has been instructed to find ways to reduce further the foreign exchange impact of personal spending by U.S. forces and their dependents. The President has instructed the Director of the Budget to find ways to reduce the number of American civilians working overseas. AID has been directed to reduce its foreign exchange costs by at least \$100 million in 1968.

5. Export increases: In the long run, the best way to restore our balance of payments is to increase our trade surplus by increasing the rate of our export growth. The surplus on goods and services must be the main source of the foreign exchange earnings needed to finance our private foreign investment and the overseas expenditures of the Government. While the expansion of U.S. exports is primarily a long-range program, special efforts in this direction can contribute as much as \$500 million to the improvement of the balance of payments in 1968.

The President will ask Congress to support an intensified 5-year program to promote the sale of our industrial and agricultural products in foreign markets. The President will also ask Congress to earmark \$500 million of Export-Import Bank funds to provide better export insurance, to expand guarantees for export financing, and to broaden the scope of Government financing of exports. Through a more liberal discount system, the Export-Import Bank will encourage banks to help firms increase their exports. The Commerce Department will begin a joint export association program to provide financial support to American companies joining together to sell abroad.

Since 1934, the United States has taken the lead in cooperative action to expand world trade through reciprocal reduction of tariffs. The policy inaugurated by President Roosevelt and Secretary of State Hull has been extended and broadened in every administration since then. In the Kennedy round, we climaxed three decades of intensive effort to achieve the greatest reduction in tariffs in all the history of trade negotiations. Trade liberalization remains the basic policy of the United States.

Nontariff barriers, however, pose a threat to the continued growth of world trade and to the U.S. competitive position. We ask no unfair trade advantage. On the other hand, we cannot ignore the disadvantage to our trade resulting from the tax systems of our trading partners. Some countries, those that make extensive use of indirect taxes compared to personal and other income taxes, give across-the-board tax rebates on their exports and impose special border taxes on their imports. These tax practices are governed by the rules of the General Agreement on Tariffs and Trade, which we will seek through negotiation to adjust and expand international trade further.

The United States has initiated discussions, particularly with nations having balance of payments surpluses, to minimize the handicaps to our trade which arise from differences in national tax systems. We are also preparing legislative measures in this area whose scope and nature will depend on the outcome of these consultations.

LONG-RANGE ASPECTS OF THE BALANCE OF PAYMENTS PROGRAM

A drastic reduction in our balance of payments deficit is necessary to defend the dollar and to insure against a breakdown of the international monetary system. The action program will achieve this. The program will entail sacrifices in this country and it may cause difficulties for some foreign countries. In order to assure a fair sharing of these sacrifices, the program has been widely spread over all sectors of the U.S. economy. In order to minimize adverse effects on the world economy, the program distinguishes among groups of countries on the basis of their ability to absorb reductions in their foreign exchange receipts.

The action program is designed to deal with an emergency. We do not regard certain aspects of it as consistent with a long-range solution to our underlying balance of payments problem. Restrictive measures are temporary. The policy of

the United States is to support the unrestricted international flow of goods, services, and capital under a stable international monetary system based on fixed values for currencies defined in terms of gold or the dollar, linked at \$35 an ounce. The world economy can operate most effectively only with a balanced pattern of international payments, achieved without restrictions. The international monetary system can function effectively only if monetary reserves can grow steadily at an appropriate rate without depending, as in the past, on a large infusion of dollar reserves derived from a payments deficit of this country.

When the fighting in Vietnam ends, the foreign exchange costs of our security efforts in Southeast Asia—now running at an annual rate of about \$1.5 billion—will drop and will help our balance-of-payments position. But it is important to remember that we had a balance-of-payments problem before Vietnam, and the cessation of the fighting will not in and of itself effect a cure. Much more is required if we are to terminate restrictive measures and at the same time maintain equilibrium. This we are determined to do. This is why the action program includes intensified long-range balance-of-payments measures.

An appropriate long-range balance-of-payments solution for the United States must be based on a substantial and growing surplus in trade and services, including earnings from U.S. foreign investments. The present trade surplus is too small. It must be increased substantially through an expansion of U.S. exports. The Government is taking measures to encourage exports. U.S. producers will be able to benefit from these measures only if they strengthen their position in world markets by maintaining competitive prices and costs.

Unfortunately, after a period of unprecedented stability, U.S. prices and costs rose in 1966 and 1967. The rapid expansion in the U.S. economy that is now underway threatens a further rise in prices and costs. This would endanger our economic prosperity and undermine our competitive position in world markets. The President has instituted rigorous controls on Government expenditures. The Federal Reserve is following a cautious monetary policy. The most urgent business before Congress is to complete this anti-inflation program by enacting a temporary surcharge on income and profits taxes.

Even a strong fiscal policy and a stringent credit policy cannot maintain price stability unless business and labor are willing to follow price-wage practices that conform to the needs of our economy. Furthermore, at a time like this, the country cannot afford the loss of output resulting from crippling work stoppages in critical industries. They reduce our exports and increase our imports. They may have an enduring effect on our trade position if the need for vital goods is met by imports not because of lower prices but solely because of greater assurance of a regular supply.

Not only our commodity exports, but our exports of services can be increased. We hope, particularly, that foreign tourists will come to the United States in growing numbers over the longer term.

The United States is eager—and working hard—to encourage foreign direct investment in this country and investment in U.S. corporate securities. Foreign companies whose products are already familiar to U.S. buyers would find direct investment very profitable. We have an enormous market, efficient labor, and easy access to advanced technology. The attractiveness of U.S. corporate securities has been enhanced by the Foreign Investors Tax Act of 1966. The benefits granted by this legislation as well as other factors mentioned above should result in a moderate but steady inflow of investment funds from abroad.

The United States recognizes its responsibility for adjusting its own balance of payments and its does not intend to shirk this responsibility. At the same time, it must be recognized that the U.S. balance of payments is part of a world pattern of payments. The counterpart of the deficits of some countries is the surpluses of other countries. Countries in surplus have a responsibility for adjusting their balances of payments and thereby facilitating the progress toward international equilibrium that the U.S. action program makes possible. They can meet these responsibilities by reducing their barriers to trade, by increasing their aid to less-developed countries, by sharing adequately in the cost of common defense, by encouraging capital outflows, and, by maintaining a satisfactory pace of domestic economic expansion. As part of this vital adjustment effort, we should be able—indeed we must find ways—to work constructively with our allies on forms of bilateral and multilateral financial arrangements designed to neutralize the foreign exchange consequences of the locations of our troops and those of our allies. The arrangements should be long term and provide financial viability to our alliances.

The growth of reserves of the rest of the world will be sharply affected by the reduction in the U.S. deficit. Yet many countries will wish to see a gradual increase in their reserves as their international transactions expand. Therefore, it is important to implement as speedily as possible the plan agreed in outline last September to create new international reserves in the form of Special Drawings Rights in the International Monetary Fund.

SIGNIFICANT TECHNICAL CHANGES REFLECTED IN THE 1969 BUDGET

Mr. MAHON. Each year when the new budget comes from the President, it is the practice of the Budget Director to send us a letter identifying the more significant technical changes reflected in the new budget. I think it might be useful, especially in view of the new unified budget presentation used in the budget, to include the current letter for general information.

(The letter of January 31, 1968, follows:)

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., January 31, 1968.

Hon. GEORGE H. MAHON,
*Chairman, Committee on Appropriations,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: Following our annual practice, some of the more significant technical changes reflected in the 1969 budget are set forth below to assist you and the other members of the Committee on Appropriations in your review of the President's recommendations.

IMPLEMENTATION OF THE PROPOSALS OF THE PRESIDENT'S COMMISSION ON BUDGET CONCEPTS

The recommendations of this Commission have been implemented to the maximum extent feasible in the 1969 budget. These changes are summarized in the budget message. The new concepts are explained on pages 48 to 50 of the budget and the figures are compared with the old budget concepts in Special Analysis A (pp. 464-472).

The time for preparation of the budget did not permit us to make all the changes in the appendix that would be consistent with adoption of the Commission recommendations. Particularly, the appendix does not distinguish between the expenditure account and the loan account, and continues to use the older terms of new obligational authority and expenditures even when it is referring in part to loan authority and net lending. However, in keeping with the thrust of the Commission's recommendations regarding congressional action, we have added two lines to the program and financing schedules to identify expenditures out of current authority and those out of prior authority. This is done for 1968 and 1969 estimates, and for 1967 actual expenditures where there is accounting support for such a breakdown. For some years we have made such a distribution in developing data for the budget presentation, but the detail has not been made a matter of public record.

SPECIAL ANALYSES

As indicated above, special analysis A has been added to provide a comparison of budget totals under the new budget concept with those under the "administrative budget" or old concept and under the "cash consolidated" concept, both of which were discussed last year in "Three measures of Federal financial transactions." The third measure is discussed in special analysis B "Federal transactions in the national income and product accounts." In accordance with the unified-budget concept, outlays from Federal funds and from trust funds have been merged in special analysis D and in others, as appropriate. The first six special analyses in the separate special analyses volume are also printed in the budget.

ARRANGEMENT OF THE APPENDIX

In keeping with the consolidated budget recommended by the Commission, we have arranged the sequence of the budget schedules so as to present the trust funds for each agency immediately following the Federal funds for that agency, rather than in a separate trust fund section of the appendix.

Budget schedules applicable to the President's legislative program have been presented as a separate section in each agency chapter. In the "Other independent agencies" chapter, these schedules generally follow those of the agency concerned. We believe this arrangement will be of assistance to the committee in its consideration of the financial impact of these proposals.

SIMPLIFICATION OF PRESENTATION IN THE APPENDIX

Three proposals for simplification of the budget presentation were discussed with the House and Senate Committees on Appropriations early in the fall. The proposals were directed toward producing a more effective tool for committee use, and we have proceeded to make changes in accordance with those discussions. They are summarized below:

1. To present financial schedules more concisely we have included summary line entries for transfers in and transfers out, omitting the detail of such entries. These pertain primarily to the columns for the past year and the current year, since very few transfers are forecast for the budget year. Details will be available, and may be included in agency justifications, if desired.

2. Each schedule of personnel data in part II of the appendix has been arranged in two sections. The first section indicates the number of positions in each grade, information which was not added up for each of the higher grades heretofore, through the information could be compiled from the old schedules. In the second section we have listed the operating titles of positions in the higher grades. We have omitted the details of nonpermanent positions and the routine extension of the dollar data with respect to permanent positions.

3. We have not printed business-type statements for a number of revolving funds, where they appeared to be of no value to the committee and are not required by law. Nor have we printed schedules for deposit funds; none of them require congressional action. These schedules will be available from the agencies, however, upon request.

STATUTORY PAY INCREASES

We have used the customary method of presentation of proposed supplemental estimates to meet the costs of civilian and military pay increases effective in fiscal year 1968 under the provisions of Public Laws 90-206 and 90-207. Amounts required to meet the cost of statutory pay increases to become effective during fiscal year 1969, however, are provided for as a one-line contingency item for the entire Government, rather than in the individual schedules.

PUBLIC LAW 90-218 LIMITATIONS ON OBLIGATIONS

The 1969 estimates for a number of no-year appropriations have been reduced by the amount of unobligated balances carried forward from 1968 pursuant to reservations made in accordance with Public Law 90-218. This has the effect of financing a portion of the program level recommended for 1969 with savings resulting from the 1968 cutback.

Congressional authorization will be requested to increase the limitation on obligations established under the provisions of Public Law 90-218 in order to effect maximum absorption, within funds already appropriated, of statutory pay increases, penalty mail cost increases, and similar uncontrollable supplemental requirements. Where such authority is requested, the budget reflects in the regular schedules the net amount of pay increase supplementals required after application of amounts reserved. The net amount of any program supplementals required is reflected in separate program and financing schedules in accordance with the usual practice.

FINANCING CONSTRUCTION FOR THE ATOMIC ENERGY COMMISSION

The appropriation proposals for the Atomic Energy Commission provide only partial funding for several major construction projects, rather than the full-funding basis shown in the 1968 budget. This partial or phased funding for major projects follows the method of financing applied by the Congress last session in its action on the Public Works and Atomic Energy Commission Appropriation Act.

FINANCING OF TRADE ADJUSTMENT ACTIVITIES

A separate appropriation is proposed for 1969 in the Department of Labor for payment of trade-adjustment benefits. This action was taken on the basis of a congressional recommendation made during consideration of the Department's

appropriation act last year. In the 1968 budget these activities were included under the appropriation "Unemployment compensation for Federal employees and ex-servicemen."

APPALACHIA

Amounts proposed for all the special programs authorized by title II of the Appalachian Regional Development Act of 1965 (Public Law 89-4), have been included in a single appropriation to the President, rather than in the accounts of the various departments and agencies. This change is required by Public Law 90-103 and generally follows the action taken by Congress in the Supplemental Appropriation Act, 1968. Expenses of coordinating these programs are reflected under the Appalachian Regional Commission in the "Other Independent agencies" chapter.

CENTRALIZED FINANCING OF SELECTED FUNCTIONS

In accordance with the wishes of Congress expressed during consideration of 1968 appropriations, centralized financing is provided for interagency boards of examiners and the civil defense and defense mobilization functions in the 1969 budget. These requirements are now reflected, respectively, in the recommendations for the Civil Defense Service Commission and the Office of Emergency Planning.

DEPARTMENT OF TRANSPORTATION

This Department is now fully organized, and the schedules reflect full-year funding for the complete organization for 1968 and 1969. For 1967, however, the schedules for the Department of Transportation include full-year funding for those organizations which were transferred in their entirety; for other activities, the amounts shown represent those transferred on April 1, 1967, the date the Department came into being.

PLANNING-PROGRAMING-BUDGETING

As our planning-programing-budgeting effort is gaining momentum, and agency implementations have become more refined, we are able to present more information of this type for your consideration. This is evident particularly in the program tables included in part 4 of the budget, which provide additional insight into the programs we propose to attain desired objectives.

The changes outlined above are designed to improve the presentation of the President's budget recommendations. I hope that this information will prove useful to the Committee on Appropriations. Please call on us if we can be of further assistance.

Sincerely,

CHARLES J. ZWICK, *Director.*

Mr. LAIRD. I would like to add a comment. We have heard the Secretary before the committee on several occasions but this is the first time we have had the new Budget Director, Mr. Zwick, before our committee. I would like to say that for a person who has just taken over this new responsibility, which is a major responsibility in the Government, he certainly has acquitted himself very well before the committee today. I would like to congratulate him.

Mr. COHELAN. Hear, hear.

Mr. ZWICK. Thank you very much, sir. I look forward to many annual appearances.

Mr. MAHON. Mr. Director, several members of the committee have commented to me on your testimony and the fine way you handled yourself in undertaking here today to grapple with these very difficult problems. Secretary Fowler, you have done your usual excellent job of giving us a very helpful presentation. We appreciate it very much.

There are a few additional questions which would more or less round out this discussion on a few points that we mentioned but have not gone into in detail, and I am going to suggest that you deal with them when your transcript comes to you. Thank you very much for your help.

Mr. FOWLER. We appreciate it, Mr. Chairman and members of the committee.

EXCERPTS FROM REMARKS OF CHAIRMAN MAHON ON THE PRESIDENT'S BUDGET FOR 1969

(Clerk's note.—Following previous practice, herewith are the remarks of Chairman Mahon on the President's budget for 1969, presented in the House of Representatives on January 29, 1968.)

THE PRESIDENT'S BUDGET MESSAGE

The speaker pro tempore. The gentleman from Texas (Mr. Mahon) is recognized for 5 minutes.

Mr. MAHON. Mr. Speaker, we have just had presented perhaps the most important single document of this congressional year.

While I have given some thought and attention to the message, so much is involved that it is not possible at this time to analyze the budget adequately or to come to a set of conclusions as to what specific steps Congress should take.

The executive branch of the Government has had several agonizing months in which to formulate the budget. The crisis period, the major decision period, took place in more recent weeks and months. The President has been heavily involved, of course, in those decisions. The budget is his budget.

THE PRESIDENT'S RESPONSIBILITY

The President has done his duty in submitting the budget as he sees it. The law directs him to submit his legislative and fiscal proposals, along with his reasons. The law gives him *carte blanche*—he is to recommend what he deems appropriate to the times and the circumstances as he sees them. That he has done.

The Presidency is the only elective office in the land that represents all 200 million Americans. The President—alone among all public officials—has the biggest constituency and the broadest horizon of interests to consider when he prepares the budget. Ours is a big and varied country, with almost endless competing and conflicting interests. The budget is the convening place for all of the policies and programs of the Government; the occasion for great contesting for a place and a share in the budget that never includes enough money to cover all of the national wants and often not enough to cover all of our national needs.

So, Mr. Speaker, this budget, in common with all budgets, necessarily reflects great compromises. It represents a drawing of the line, so to speak, by the President between what he regards as the national wants and the national necessities, and expressions of the extent to which he thinks we can afford them under all the circumstances. So it is entirely understandable that the budget includes things which some may regard as proper and necessary but which others may regard as unjustified or of low priority. Some will say the budget is too low in certain respects; others will say it is too high. Some will criticize it for what it includes, while others may take exception because of what it omits.

The people of my area will not agree with all of the budget. Nor will I. Citizens of many Members' districts, and many Members themselves, will be in disagreement with some features of the budget.

THE CONGRESSIONAL RESPONSIBILITY

In any event, Mr. Speaker, processing the budget—both the revenue side and the outgo side—is solely the responsibility of Congress. We may criticize and we may take exception, but we have the final responsibility of determining what the appropriations, and eventually the expenditures, shall be; and what revenue-raising measures shall be adopted. Moreover, we have opportunities to alter, to subtract, to add, to approve, and to disapprove in any way we collectively set fit. All we need is the will to do so—and a majority vote. That is our system.

I would say further that with receipt of this budget the 45-day respite is over; the "battle of the budget" resumes—perhaps with increased intensity—where it left off on December 15.

All budgets from all administrations in all times generally distinguish themselves in some particular respects. But all budgets from all administrations in all times also generally have some things in common. I would say that this new budget probably conforms in that respect.

THE NEED FOR FISCAL RESTRAINT

According to today's budget, we face the prospect—perhaps the certainty—of a deficit in the current fiscal 1968 period of about 20 billion—perhaps more. And with a deficit that for the coming fiscal year 1969 is projected at \$8 billion, and which could be much higher, there must be a major and unrelenting effort on the part of Congress to hold the line in spending.

The President's budget, from his viewpoint, is considerably restrained, I would say, but we need to move more rapidly to a balanced fiscal picture.

The dollar is under challenge and our gold continues to drain away. The warning signals have been hoisted. The storm flags are flying around the world. If we do not show sufficient respect for the value of our dollar, how can we expect other countries of the world who rely on it—and who hold billions of them—to respect it either?

Whether we like it or not, it seems to me imperative that on both the appropriation and the authorization bills this year, Congress must wherever reasonably possible show minus signs up and down the line. We need to make meaningful cuts. It is just as much our duty and responsibility to act on the budget—and act wisely—as it is the duty and responsibility of the President to present it.

The budget is between a rock and a hard place even with enactment of the controversial surtax increase—nearly \$20 billion in the red this year on the new basis of counting; about \$8 billion in the red next year. It is even somewhat higher on the old "administrative budget" basis. We have our work cut out for us even with enactment of the proposed tax package.

We need a two-pronged attack to save every dollar we can safely save, and to secure every dollar of additional revenue that we reasonably can. Prudence and self-discipline make mighty good sense in public spending decisions at all times. But when we are in an inflationary period; when the budget is heavily in the red; when we are at war; when foreign holders of dollars threaten to foreclose on our shrinking gold supply if we do not act with great prudence and restraint; in these circumstances, clearly commonsense suggests that we ought to get our fiscal house in better order. In these circumstances, the duty of economy just is not debatable; it is clearly imperative.

ALL BUDGETS ARE TENTATIVE

Mr. Speaker, as we consider this budget and vote on it during the year, it is well to remember that budgets of all administrations, all Presidents are characteristically optimistic in tone and outlook. A budget is a plan, a projection, a set of recommendations. It is not self-executing. It depends on legislative action, or legislative inaction; on performance of the economy; on the state of world affairs, and so on. It is therefore tentative. It never exactly materializes; for many reasons it very often winds up wide of the mark on both sides of the ledger. History strongly cautions us to assume that the budget will turn out for the worse rather than the better; that it is wise to hedge against the uncertainties, the slippages, the failures. I will insert some supporting detail in corroboration of this point.

THE BUDGET HAS TWO SIDES—AND MANY FEATURES

The budget has two sides—income and outgo—and many features. Processing it is the work of many minds and hands; of all Members; and of several committees. There are lots of opportunities to practice fiscal discipline—in committees and on the floor.

Some \$13.2 billion of additional revenue measures relating to fiscal 1969 are proposed in the budget—and they are counted in arriving at the \$8 billion deficit. The tax package also involves \$3 billion for the current fiscal year 1968.

There are several propositions of new legislation that involve nearly \$1 billion in fiscal 1969 budget authority which a number of the legislative committees will first have for consideration.

Something like \$36.5 billion of the budget for continuing programs is involved in the legislative authorization process—either in the annually recurring bills such as space, foreign aid, maritime administration, parts of the defense budget, and so on, or in other programs where the basic legislative authority periodically comes up for renewal. A number of legislative committees have an opportunity to

exercise restraint in these bills. The House will have two bites, two chances to exercise restraint in all these programs involving, as I indicated, close to \$37 billion—first in the authorization process and again at the appropriations stage.

The SPEAKER. The time of the gentleman has expired.

(Mr. Mahon asked and was given permission to proceed for 3 additional minutes.)

SST AIRCRAFT PROGRAM

Mr. RIVERS. Mr. Speaker, will the gentleman yield?

Mr. MAHON. I yield, Mr. Speaker.

Mr. RIVERS. Mr. Speaker, of course, the House of Representatives will work its will on the budget. However, I have read a lot of it and have studied it over the weekend. I notice that the President has asked additional money for the supersonic transport. I hope that the great chairman of the great Committee on Appropriations will not reduce this request. One of the greatest assets this Nation has is the aircraft industry. We lead the world in commercial aircraft and we should continue to lead the world in production of airframes. It is imperative that we keep the lead, and we can only keep it by keeping the state of the art in our possession as it is now.

I trust and I hope that the gentleman will work hard to retain that additional money for the supersonic transport, because it is vital to this country that we retain the lead that we now possess in this field. The supersonic transport represents something away ahead of the field and away ahead of the world, and the President, in my opinion, was wise in requesting this extra money in the budget.

Mr. MAHON. I thank the gentleman.

Mr. Speaker, it is true that we construct with American capital and labor the great bulk of the commercial aircraft of the world. It is important that we maintain these sales from the standpoint of our balance-of-payments situation and for other reasons also.

THE ADDITIONAL REVENUE MEASURES PROPOSED

Mr. Speaker, returning to the budget generally, while we must make reductions wherever reasonably possible—and I think much can be done—we also need to provide additional revenue. There is no doubt about that in my mind. I think we were wise last year in not enacting a tax bill, because the postponement tended to focus attention on the spending issue which is before us. It tended to dampen the spending practices of the Government.

It tended, in my opinion, to reduce the amount of the budget presented to us this year. I think this was very good. But the time has now come for us to take steps to provide additional revenue, and I believe that appropriate steps will be taken at this session of the Congress—at least indications are that steps will be taken at this session—to bring in additional revenue. However, coupled with this, there has got to be an austere program in Federal spending and in appropriations.

BUDGET CROSSES \$200 BILLION MARK

Mr. Speaker, it is noteworthy that for the first time in our history the budget projects new budget obligational authority above the \$200 billion mark. The President is requesting new obligational authority in the sum of \$201 billion plus. This is one-fifth of a trillion dollars. This should help to more sharply focus on the necessity for our following a policy of paying our own way insofar as possible—as common prudence suggests, and especially now in order to strengthen the dollar in the money markets of the world.

So I am hopeful, Mr. Speaker, that we shall move forward in the right fiscal and legislative directions as the session proceeds.

Mr. Speaker, under permission granted earlier by the House, I am incorporating at this point considerable elaboration of some features that seem to me pertinent to today's budget and our fiscal picture, together with supporting tables and statistics, which I hope may be helpful in illuminating some of those considerations.

NEW OBLIGATIONAL AUTHORITY IN TODAY'S BUDGET—OVER \$200 BILLION

Mr. Speaker, that brings me to a key point I want to make about the budget and the matter of congressional action. It would be well to fix firmly in our minds the fundamental point that Congress will be acting not on the basis of the expenditures—or outlays—budget of \$186.1 billion mentioned prominently in the message and in the press, but rather on budget—obligational—authority—or, for all practical purposes, appropriation authorizations and requests. Congress does not vote directly on the expenditure—or outlay—figures. Congress acts on obligating authority. The authorization bills are stated on this basis. The appropriation bills are also stated on this general concept.

The grant of appropriations or other authority to obligate the Government is the significant point of legislative decision; the basis on which legislative decisions are grounded. Appropriations are the leading edge, the forerunner of expenditures. A higher obligational authority means, sooner or later, a higher expenditure—outlay.

And, Mr. Speaker, in today's budget for fiscal 1969, the total proposed budget—obligational—authority is stated at \$201,723,000,000 under the new unified, comprehensive budget which now includes trust funds. There is some basis for saying that it could properly be stated at an even higher amount. A new feature of the unified budget presentation is to reflect so-called "market-oriented" type receipts as offsets to expenditures rather than as budget receipts, but in today's budget they are also offset against budget obligational authority although they do not in fact impinge upon the amounts of authority requested or granted. Interfund and intragovernmental transactions are also similarly handled for the first time.

In any event, Mr. Speaker, the total crosses the \$200 billion mark on the new basis. It was only 2 years ago that there was much said about crossing the \$100 billion barrier mark although that was related to budget expenditures—and on the old basis—rather than obligational authority.

Today's total budget obligational authority for 1969 is one-fifth of a trillion dollars.

Today's total budget obligational authority for 1969 is \$18,551 million above the corresponding amount already enacted for fiscal 1968. It is \$15,224 million above the grand total currently estimated in the budget for 1968 after counting in some \$3,327 million of fiscal 1968 supplementals to be considered at this session for such things as pay act costs, public assistance grants, and so on.

So that the key overall figure for fiscal 1969 is the budget obligational amount of \$201,723 million. But I should quickly add that some \$60,227 million—stated on the net basis—of that has already been authorized and actually appropriated in earlier Congresses for the trust funds or as permanent appropriations or authorizations. The \$60 billion principally involves such major items as the social security trust funds, interest on the public debt, the highway trust fund, and so forth. They are detailed in the budget. They recur automatically under earlier laws without need for annual grant of obligating authority in the current session.

THE NEW OBLIGATIONAL AUTHORITY CONGRESSIONAL ACTION AMOUNTS

Thus, more precisely, Mr. Speaker, the budget obligational authority which according to today's budget we are asked to consider and act upon at this session aggregates some \$144.8 billion as follows:

For fiscal 1969.....	\$141,496,000,000
For fiscal 1968 (supplements).....	3,327,000,000

Totals for session to be acted on..... 144,823,000,000

I include tables that capsule most of the big increases that make up the \$15.2 billion obligational authority increase proposed for 1969 over 1968 and an agency breakdown of the \$141.5 billion for 1969 and the \$3.3 billion for 1968:

*New budget (obligating) authority proposed in this budget for fiscal year 1969
over fiscal year 1968 (rounded amounts used)*

Available through current action by the Congress:	<i>Fiscal year 1969 compared to fiscal year 1968</i>
Department of Defense and military assistance program (excludes defense share of the \$1,600,000,000 pay incre- ment effective July 1, 1968, listed below)-----	+\$6, 200, 000, 000
Public assistance and payments to the medicare trust fund-----	+586, 000, 000
Foreign economic assistance-----	+597, 000, 000
Federal manpower activities (civilian agencies)-----	+442, 000, 000
Office of Economic Opportunity (excluding manpower ac- tivities) -----	+163, 000, 000
Atomic Energy Commission (largely new antiballistic mis- sile system)-----	+245, 000, 000
Model cities program (full funding)-----	+688, 000, 000
Military and civilian pay raises (July 1, 1968, increment under last year's pay bill)-----	+1, 600, 000, 000
Later transmittal (pending enactment of proposed legisla- tion, including \$445,000,000 for investments in certain international financial institutions)-----	+700, 000, 000
Contingencies -----	+400, 000, 000
All other (consisting of many increases and decreases)---	+1, 475, 000, 000
Total increase through current action by the Congress--	+13, 096, 000, 000
<hr/>	
Available without current action by the Congress:	
Trust funds (principally social security)-----	+3, 900, 000, 000
Interest on the debt-----	+900, 000, 000
Other -----	-1, 659, 000, 000
Deduct interfund and intragovernmental transactions and applicable receipts from the public-----	-1, 013, 000, 000
Total, increase without current action by the Congress--	+2, 128, 000, 000
<hr/>	
Total, budget authority increase-----	+15, 224, 000, 000

Note: Total increase of \$15,224,000,000, of which \$13,096,000,000 involves current action by Congress and \$2,128,000,000 is under permanent law and therefore does not require current action. In addition, some \$3,327,000,000 of contemplated fiscal year 1968 supplementals would require current action when submitted.

BUDGET AUTHORITY REQUIRING CURRENT ACTION BY CONGRESS

[In millions of dollars]

Description	1967 enacted	1968 estimate			1969 total estimate	1969 total estimate compared to 1968 total estimate
		Enacted	Supple- mental needed	Total		
Legislative branch.....	271	277	4	282	306	+24
The Judiciary.....	90	94	1	95	102	+7
Executive Office of the President.....	29	31	(1)	31	33	+2
Funds appropriated to the President.....	5,112	4,718	10	4,728	6,329	+1,601
Department of Agriculture.....	7,734	6,411	52	6,463	7,307	+844
Department of Commerce.....	873	763	8	771	825	+54
Department of Defense, military.....	71,943	72,112	800	72,912	79,257	+6,345
Department of Defense, civil.....	1,391	1,383	11	1,394	1,345	-49
Department of Health, Education, and Welfare.....	12,617	12,858	1,604	14,463	15,388	+925
Department of Housing and Urban Development.....	6,402	3,330	25	3,356	3,427	+71
Department of the Interior.....	1,586	1,592	29	1,621	1,724	+103
Department of Justice.....	408	417	47	465	545	+80
Department of Labor.....	638	625	29	654	742	+88
Post Office Department.....	1,215	962	212	1,174	920	-254
Department of State.....	395	389	1	390	418	+28
Department of Transportation.....	6,204	1,511	221	1,732	2,821	+1,089
Treasury Department.....	931	921	13	934	1,016	+82
Atomic Energy Commission.....	2,199	2,509	-----	2,509	2,755	+246
General Services Administration.....	656	570	4	574	509	-65
National Aeronautics and Space Administration.....	4,968	4,589	-----	4,589	4,370	-219
Veterans' Administration.....	6,598	7,499	76	7,575	7,537	-38
Other independent agencies.....	3,174	1,510	28	1,538	1,672	+134
Allowances for:						
Civilian and military pay increase.....					1,600	+1,600
Contingencies.....			150	150	550	+400
Total, budget authority requiring current action by Congress.....	135,432	125,073	3,327	128,400	141,496	+13,096

¹ Less than \$500,000.

Note: Figures may not add to totals due to rounding.

THE CONGRESSIONAL ACTION AMOUNTS

As the tables I have inserted disclose, there is some \$13,100 million of increases projected in budget—obligational—authority requiring action at this session, and in addition, some \$3,327 million of fiscal 1968 supplementals to be asked for. Of course, Mr. Speaker, Congress has full opportunity and a duty and responsibility to consider and to decide not just on the increases sought, but on the entirety of the hundreds of items.

Mr. Speaker, a word about the new unified, comprehensive budget concept. It replaces three previously used concepts—administrative, cash, and national income accounts. Hopefully, the switch will promote understanding—or at least, minimize misunderstanding and confusion. But until there is generally better understanding of the budget totals which Congress considers and votes on, some lack of good understanding is apt to persist.

Congress will not at this session act on great chunks of the \$186.1 billion expenditure—outlay—budget—in fact, it does not directly act on any of the \$186.1 billion outlay estimates. The authorizations and appropriations on which Congress acts are stated on an obligational authority rather than an expenditure—outlay—basis.

As someone has said, today is the consequence of yesterday; so, tomorrow is the consequence of today. The \$186.1 billion expenditure—outlay—is essentially a “checks issued to pay the bills when they come due” figure. It includes, for example, \$54.8 billion of expenditures—outlays—expected to be made in fiscal 1969 from unexpended balances of spending authority of earlier years—voted in earlier years and thus not coming before the House for a vote in the fiscal 1969 bills. It was voted previously.

Then, of course, there are the expenditures—outlays—in the \$186.1 billion figures—that will flow in 1969 from new obligating authority—interest, social trust funds, and so forth—that becomes available automatically under permanent law of earlier sessions and thus also not coming before the House for a vote in the fiscal 1969 bills. The amount is not now precisely determinable, but it ranges somewhere between \$52.9 billion upward to \$60 billion; the following table uses the lower figure.

So, the \$186.1 billion expenditure—outlay—figure is not by any means the one on which Congress will be acting this session.

I include a table that recapitulates the point:

ESTIMATED BUDGET OUTLAYS AND APPROPRIATIONS REQUESTED—PORTIONS SUBJECT TO ACTION IN BILLS DURING THE 90TH CONG., 2D SESS.

[Rounded amounts used]

	Budget estimates of expenditures (outlays)	Budget estimates of appropriations
RELATING TO FISCAL 1969		
1. Totals proposed, President's budget, Jan. 29, 1968.....	\$186,062,000,000	\$201,723,000,000
2. Deduct estimate of expenditures (outlays) in fiscal 1969 out of appropriations made in prior session (and thus not in bills for action in the present session).....	—54,780,000,000	-----
3. Deduct amounts applicable to permanent appropriations that recur automatically under earlier laws, and thus not in bills for action in the present session (several, but principally interest on the debt; most of the trust funds, such as social security, etc.). The expenditure figure used here may duplicate some part of item 2 above, but only relatively negligibly so and not enough to distort.....	—52,900,000,000	—60,227,000,000
Amounts relating to fiscal 1969 that would be involved in proposals for direct consideration and action in the present session.....	78,382,000,000	141,496,000,009
RELATING TO FISCAL 1968		
4. Supplements contemplated for fiscal 1968 as shown in President's 1969 budget, Jan. 29, 1968, for direct consideration and action in the present session.....	3,379,000,000	3,327,000,000
TOTALS FOR THE PRESENT SESSION		
5. Totals proposed, President's budget, Jan. 29, 1968 (items 1 and 4).....	189,441,000,000	205,050,000,000
6. Totals for direct consideration and action in the present session (item 5, less items 2 and 3 which arise out of actions taken in prior sessions).....	81,761,000,000	144,823,000,000

Notes.—Item 2, in the "expenditure" column would include some amounts applicable to activities subject to annual scrutiny under the corporation budget law, which would largely result, however, from appropriation or other fund authority granted in prior sessions. In item 3, the "expenditure" figure is a bit arbitrary.

BUDGET VARIATIONS AND CONTINGENCIES

Mr. Speaker, common prudence reinforced by hard, cold experience during all administrations of all Presidents dictates certain things which it seems to me we should remember as we process the budget:

First, any original budget is tentative at best. Uncertainties abound.

Second, all original budgets turn out differently—the realizations often do not match the expectations.

Third, in aggregate over the years, the Treasury has not come out as well as the original budget project. There is more often than not a shortfall.

There are many slips between the cup and the lip.

Economic conditions on which revenue estimates are bottomed can and do change.

Congress alters the budget.

Revenue legislation fails of passage.

Emergencies arise.

War requirements—as James A. Garfield once so well observed—"war overturns all ordinary calculations."

Specifically, in six of the last 13 administrative budgets, actual revenues were less than the original January projections. In the other seven, they exceeded the original figures. Largely because of the surges in revenues in the last 2 years, 1966 and 1967, the net result of the 13 years was a net plus of \$6.7 billion on the revenue side. In fact, in each of the last 4 years, revenues have exceeded the original budget estimates.

But on the other side, expenditures exceeded original January budget projections in 10 of the 13 years. Original estimates were overshot by \$41.6 billion over the 13 years.

As a result, instead of a combined deficit of \$20.4 billion as originally projected, there was an actual budget deficit of \$55.2 billion—a worsening, in other words, of some \$34.8 billion over the 13 years.

Today's budget deficit projection of \$8 billion for 1969 hinges on a number of significant contingencies, chief among which of course is the \$16 billion tax and user charges package for fiscals 1968 and 1969.

I am inserting a brief table illustrative of some of the budgetary consequences if several significant revenue propositions in the 1969 budget are not enacted:

SELECTED MAJOR CONTINGENCIES SURROUNDING THE BUDGET FOR 1969

[Partial listing only]

	Revised budget for 1968	Budget for 1969
1. Budget deficit projected by President, Jan. 29, 1968 (with all the attending assumptions and contingencies).....	-\$19,805,000,000	-\$7,954,000,000
2. If the proposed 10-percent surtax is not adopted (corporation, Jan. 1; individuals, Apr. 1).....	1,900,000,000	9,800,000,000
Then the projected deficits would be.....	-21,705,000,000	-17,754,000,000
3. If the proposal to further accelerate corporate tax collections is not adopted.....	800,000,000	400,000,000
Then the projected deficits would be.....	-22,505,000,000	-18,154,000,000
4. If the proposal to extend excise taxes expiring Apr. 1 is not adopted (auto from 7 percent to 2 percent; telephone from 10 percent to 1 percent)....	306,000,000	2,660,000,000
Then the projected deficits would be.....	-22,811,000,000	-20,814,000,000
5. If the various proposals for user charges are not adopted (aviation service, \$40,000,000; waterways, \$7,000,000; highways, \$239,000,000; all other, \$11,000,000).....		297,000,000
Then the projected deficits would be (this is a partial listing only. Other considerations enter).....	-22,811,000,000	-21,111,000,000

Note: Perhaps the most important single contingency other than those listed above that could affect the tentatively projected budget picture would be if the general performance of the economy in calendar year 1968 were to vary significantly from the economic assumptions underpinning the budget. Principally, the assumption that GNP (gross national product) for calendar 1968 will be about \$346,000,000,000—about \$61,000,000,000 above 1967.

VARIATIONS FROM ORIGINAL BUDGET PROJECTIONS

Mr. Speaker, the following chart supplies more details showing the swings in budget receipts, expenditures, and budget results, and how they can miss the original marks. There were many reasons but there was only one result: a budget shortfall—another reason, Mr. Speaker, why we had best redouble our efforts to deny access to the Treasury for all but the most essential objects.

VARIATIONS IN "ADMINISTRATIVE BUDGET" PROJECTIONS, 1955-67

[In billions of dollars]

Fiscal year	Budget receipts			Budget expenditures			Surplus or deficit		
	Original	Actual	Swing	Original	Actual	Swing	Original	Actual	Swing
1955.....	62.5	60.2	-2.3	65.4	64.4	-1.0	-2.9	-4.2	-1.3
1956.....	59.7	67.8	+8.1	62.1	66.2	+4.1	-2.4	+1.6	+4.0
1957.....	65.0	70.6	+5.6	64.6	69.0	+4.4	+4	+1.6	+1.2
1958.....	73.1	68.6	-4.5	71.2	71.4	+2	+1.8	-2.8	-4.6
1959.....	74.0	67.9	-6.1	73.6	80.3	+6.7	+5	-12.4	-12.9
1960.....	76.4	77.8	+1.4	76.3	76.5	+2	+1	+1.2	+1.1
1961.....	83.3	77.7	-5.6	79.1	81.5	+2.4	+4.2	-3.9	-8.1
1962.....	82.3	81.4	-9	80.9	87.8	+6.9	+1.5	-6.4	-7.9
1963.....	93.0	86.4	-6.6	92.5	92.6	+1	+5	-6.3	-6.8
1964.....	86.9	89.5	+2.6	98.8	97.7	-1.0	-11.9	-8.2	¹ +3.7
1965.....	93.0	93.1	+1	97.9	96.5	-1.4	-4.9	-3.4	¹ +1.5
1966.....	94.4	104.7	+10.3	99.7	107.0	+7.3	-5.3	-2.3	¹ +3.0
1967.....	111.0	115.8	+4.8	112.8	125.7	+12.9	-1.8	-9.9	-8.1

¹Original deficit projection decreased by this amount.

RECENT BUDGET TRENDS

Of course, Mr. Speaker, the last budget was higher than the year before. The long truth of history is that growth of the population—there are 2,286,000 more Americans this morning than there were when the budget came a year ago—and growth of the country virtually ordains some growth in public services; that is, over the long stretch of time. This has been more or less the unvarying case from the beginning. Speaking of national appropriations, in 1879, the distinguished Republican, James A. Garfield, then a Member of the House and chairman of the Committee on Appropriations, made exactly this point. And he added, "war over- turns all ordinary calculations," as, Mr. Speaker, it has helped upset recent budgets, including the current one.

President Eisenhower acknowledged much the same budget phenomena in his budget message to Congress in 1960:

"Moreover, inescapable demands resulting from new technology and the growth of our Nation, and new requirements resulting from the changing nature of our society, will generate Federal expenditures in future years. * * * We must not forget that a rapidly growing population creates virtually automatic increases in many Federal responsibilities."

There has been only one balanced budget—and it was a small balance—since the big deficit of \$12.4 billion in fiscal 1959. Every year since, revenues have been insufficient to cover expenditures. However, notwithstanding recent growing defense expenditures and enlarged and enlarging nondefense outlays, a rising tide of revenues from the unprecedented general national economic boom of recent years enabled the Government to make big strides toward balancing income and outgo. In 3 of the last 4 fiscal years the administrative budget deficit was reduced below the prior year:

"Administrative budget" basis

	<i>Millions</i>
Deficit, fiscal 1964-----	\$8, 226
Deficit, fiscal 1965-----	3, 435
Deficit, fiscal 1966-----	2, 251
Deficit, fiscal 1967-----	9, 869
Deficit, fiscal 1968 (estimate)-----	18, 607
Deficit, fiscal 1969 (estimate)-----	11, 776

Special support costs for the war in Vietnam in the 3 fiscal years 1967-1969, as shown in today's budget, are some \$20,557 million; \$24,989 million; and \$24,264 million; respectively—in each case, more than equaling the budget deficits for the 3 years on the basis shown, even excluding the \$12.9 billion tax package for 1969. Without these war costs, in other words, the budgets would be in black assuming, of course, that there would be no changes otherwise.

NEW PROPOSITIONS OF LEGISLATION WITH BUDGET OBLIGATION AND EXPENDITURE IMPACT

Mr. Speaker, some portions of every budget hinges on basic legislative action because the President's annual recommendations always embrace some new propositions of legislation that have impact on the budget. The list this year is not long in relation to some other recent years and involves, for fiscal 1968, some \$234 million in obligating authority but only \$10 million in spending—outlays—and, for fiscal 1969, some \$985 million in obligating authority and \$266 million in spending—outlays.

These propositions must first be taken up in bills from the applicable legislative committees and enacted into law before any related appropriations can be considered. Failure of any item on the list would amount to a cut in the budget.

For general information, I am including a tabulation of those presently identified:

NEW PROPOSITIONS OF LEGISLATION ON OUTGO SIDE OF 1969 BUDGET
[In thousands of dollars]

Agency	Fiscal year 1968		Fiscal year 1969		Agency	Fiscal year 1968		Fiscal year 1969	
	New obligational authority	Expenditures	New obligational authority	Expenditures		New obligational authority	Expenditures	New obligational authority	Expenditures
Funds appropriated to the President:									
Military assistance (foreign sales)			120,000	6,000	Justice (safe streets bill)			30,000	10,000
Inter-American Development Bank (callable capital)			205,900		Labor (labor mobility; trade opp.; wage and labor standards)				
International Development Association (subscription)			240,000	10,000	Transportation (highways; beautification; Federal and public land highways; St. Lawrence Seaway)			11,125	6,825
Agriculture (various user charges; food stamp program)	4,766		6,809	934	Civil Service Commission (intergovernment personnel assistance)			85,000	51,000
Defense, military (servicemen's life insurance; certain personnel legislation)			75,000	70,000	District of Columbia (Federal payment)			20,000	12,000
Health, Education, and Welfare (higher education; vocational education; juvenile delinquency; public broadcasting)			83,000	47,000	Export-Import Bank (export expansion)			10,200	10,200
Housing and Urban Development (metropolitan development incentive grants; certain housing programs)			40,000	17,000	Veterans Administration (liberalization and revision of Benefits)			8,900	—18,100
					Total			234,260	10,000
								985,934	266,859

1 Net lending. Note.—Does not reflect proposed legislation on revenue side, including the excise tax proposals and transportation excises.

EXPENDITURES (OUTLAYS), NATIONAL DEFENSE AND OTHERWISE, AND RECEIPTS

Mr. Speaker, with the adoption of the new unified comprehensive budget concept which among other things folds in trust funds with the old administrative budget and makes certain other conceptual changes in budgetary presentation, certain former historical tables of budget information, such as segregations between defense and nondefense spending, no longer hold their comparability. It therefore may be useful and handy to have in the record two or three historical tables from today's budget that are structured on the new concept which is explained in considerable detail for the information of those who care to look at "Special Analysis A" beginning on page 464 of the budget.

TABLE A-5.—COMPARISON OF RESULTS UNDER FOUR CONCEPTS

[In millions of dollars]

Description	1967 actual	1968 estimate	1969 estimate
Unified, comprehensive budget:			
Receipts.....	149,591	155,830	178,108
Expenditures and net lending.....	158,414	175,635	186,062
Budget deficit.....	8,823	19,805	7,954
The "administrative budget":			
Receipts.....	115,849	118,575	135,587
Expenditures (including lending).....	125,718	137,182	147,363
Excess of expenditures.....	9,869	18,607	11,776
"Consolidated cash" statement:			
Receipts.....	153,596	158,823	181,146
Expenditures (including lending).....	155,142	175,981	188,725
Excess of expenditures.....	1,546	17,157	7,579
Flow of Government-administered funds:			
Receipts from the public.....	181,350	188,971	215,135
Payments to the public.....	190,173	208,775	223,090
Excess of payments.....	8,823	19,805	7,954

TABLE 15.—BUDGET RECEIPTS, OUTLAYS, FINANCING, AND DEBT, 1958-69

[In millions of dollars]

Description	Actual										Estimate	
	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Receipts, expenditures, and net lending:												
Expenditure account:												
Receipts.....	79,617	79,048	92,481	94,393	99,656	106,578	112,702	116,855	130,901	149,391	155,830	178,108
Expenditures (excludes net lending).....	81,177	89,693	90,385	96,717	104,660	111,465	118,122	116,718	130,740	153,238	169,856	182,797
Expenditure deficit (-).....	-1,560	-10,645	2,096	-2,324	-5,004	-4,887	-5,420	137	161	-3,637	-14,026	-4,689
Loan account:												
Loan disbursements.....	6,520	7,859	8,310	7,869	9,621	9,646	10,237	10,911	14,628	17,787	20,869	20,372
Loan repayments.....	4,976	5,201	6,427	6,671	7,271	9,791	9,693	9,662	10,796	12,611	15,091	17,106
Net lending.....	1,544	2,659	1,882	1,198	2,351	-145	545	1,249	3,832	5,176	5,779	3,265
Total budget:												
Receipts.....	79,617	79,048	92,481	94,393	99,656	106,578	112,702	116,855	130,901	149,591	155,830	178,108
Expenditures and net lending.....	82,720	92,352	92,268	97,915	107,011	111,320	118,667	117,966	134,572	158,414	175,635	186,062
Budget deficit (-).....	-3,103	-13,304	213	-3,522	-7,355	-4,742	-5,965	-1,111	-3,671	-8,823	-19,805	-7,954
Budget financing: 1												
Borrowing from the public.....	6,607	8,331	1,777	1,143	9,453	5,971	2,978	3,953	6,031	3,551	20,840	8,000
Reduction in cash balances, etc.....	-3,504	4,973	-1,990	2,379	-2,088	-1,229	2,987	-2,842	-2,360	5,272	-1,035	-46
Total, budget financing.....	3,103	13,304	-213	3,522	7,355	4,742	5,965	1,111	3,671	8,823	19,805	7,954
Outstanding debt, end of year: 1												
Gross amount outstanding.....	279,147	286,666	289,243	290,991	301,074	308,488	314,377	320,806	329,473	341,343	369,993	387,167
Held by the public.....	225,972	234,303	236,080	237,223	246,676	2,252,647	255,625	259,578	265,609	269,160	290,000	298,000

1 Data represent results of preliminary adjustment to new budget concepts and may be revised later.

TABLE 17.—BUDGET OUTLAYS BY FUNCTION, 1958-69
 [In millions of dollars]

Description	Actual										Estimate		
	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	
Expenditures:													
050 National defense.....	44,461	46,667	45,848	47,532	51,179	52,275	53,682	49,586	56,771	70,995	76,491	79,792	
150 International affairs and finance.....	2,912	2,790	3,310	3,242	4,034	4,279	4,434	4,196	4,343	4,110	4,330	4,478	
250 Space research and technology.....	89	145	401	744	1,257	2,252	4,171	5,091	5,932	5,424	4,804	4,574	
350 Agricultural resources.....	2,541	4,718	2,893	2,877	3,492	4,398	4,545	4,032	2,764	3,156	4,412	4,474	
400 Natural resources.....	1,203	1,233	1,084	1,626	1,736	1,607	2,042	2,140	2,167	2,113	2,416	2,483	
500 Commerce and transportation.....	2,922	4,367	4,643	4,929	5,193	5,516	6,283	7,043	6,789	7,308	7,695	7,996	
550 Housing and community development.....	-36	30	21	157	160	193	151	116	442	578	698	1,428	
650 Health, labor, and welfare.....	15,763	18,019	19,105	22,368	23,963	25,677	27,201	28,143	33,194	39,512	46,396	51,945	
700 Education.....	375	550	659	740	862	953	1,109	1,309	2,449	3,602	4,157	4,364	
800 Veterans benefits and services.....	5,076	5,183	5,063	5,392	5,378	5,666	5,552	5,634	5,707	6,366	6,798	7,131	
850 Interest.....	6,936	7,070	8,299	8,108	8,321	9,215	9,810	10,358	11,285	12,548	13,535	14,400	
900 General government.....	1,010	1,159	1,332	1,508	1,653	1,799	2,072	2,231	2,316	2,452	2,618	2,827	
Special allowances.....												1,950	
Undistributed adjustments to amounts above.....	-2,076	-2,239	-2,272	-2,506	-2,547	-2,686	-2,931	-3,164	-3,421	-4,022	-4,591	-5,049	
Total, expenditures.....	81,177	89,693	90,385	96,717	104,660	111,465	118,122	166,715	130,740	153,238	169,856	182,797	
Net lending:													
050 National defense.....	1	-12	-7	-41	(1)	-64	-31	-3	-1	-3	-2	-4	
150 International affairs and finance.....	433	418	-235	127	528	-95	-283	-21	100	540	716	675	
350 Agriculture and agricultural resources.....	472	700	457	462	648	731	642	777	911	1,221	899	1,135	
400 Natural resources.....	3	6	11	18	21	18	23	16	19	19	16	7	
500 Commerce and transportation.....	56	71	27	71	193	145	139	275	193	138	158	129	
550 Housing and community development.....	165	1,064	1,078	64	1	-1,012	-301	-147	1,984	1,708	3,257	1,355	
650 Health, labor, and welfare.....			204	201	231	288	225	229	376	445	384	335	
700 Education.....	261	245	363	296	248	-146	129	88	214	532	370	211	
800 Veterans benefits and service.....	-12	-14	-15	-3	-8	-11	-1	16	5	2	-40	-37	
900 General government.....	1,544	2,659	1,882	1,198	2,351	-145	545	1,249	3,832	5,176	5,779	3,265	
Total, net lending.....	82,720	92,352	92,268	97,915	107,011	111,320	118,667	117,966	134,572	158,414	175,635	186,062	

1 Less than \$500,000.

FEDERAL, STATE, LOCAL PUBLIC DEBT

Mr. Speaker, to help round out this résumé, I am including some pertinent data on our public debt—Federal, State, local. Increased debt results from unbalanced budgets that have to be met by borrowing to cover the difference. Accumulation of great debt in time of great stress is virtually unavoidable, but piling it up—refusing to pay as we go—in times of unmatched general national prosperity with the accompanying flood of Treasury revenue is a policy that many, myself included, find unsettling.

Despite the population explosion that just recently put the United States over the 200 million mark, we have been accumulating public debt at the various levels of government at such a rate that the overall debt per capita keeps climbing.

I include a sheet on the Federal debt from a recent Treasury statement, and summarized per capita debt figures:

Year	Federal Debt		State Debt		Local Debt		Total Debt		Per Capita Debt
	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	
1907	11.7	0.04	1.3	0.01	0.5	0.02	3.5	0.07	
1917	11.7	0.04	1.3	0.01	0.5	0.02	3.5	0.07	
1927	11.7	0.04	1.3	0.01	0.5	0.02	3.5	0.07	
1937	11.7	0.04	1.3	0.01	0.5	0.02	3.5	0.07	
1947	11.7	0.04	1.3	0.01	0.5	0.02	3.5	0.07	
1957	11.7	0.04	1.3	0.01	0.5	0.02	3.5	0.07	
1967	11.7	0.04	1.3	0.01	0.5	0.02	3.5	0.07	
1977	11.7	0.04	1.3	0.01	0.5	0.02	3.5	0.07	
1987	11.7	0.04	1.3	0.01	0.5	0.02	3.5	0.07	
1997	11.7	0.04	1.3	0.01	0.5	0.02	3.5	0.07	
2007	11.7	0.04	1.3	0.01	0.5	0.02	3.5	0.07	

Source: U.S. Treasury Department, *Public Debt Statement*, 1997. Per capita figures are based on the 1997 population of 266,000,000.

SUMMARY OF DIRECT AND GUARANTEE DEBT ON SIGNIFICANT DATES

[Based upon statement of the public debt published monthly; consequently all figures are stated as of the end of a month]

Date	Classification	Total debt (including interest bearing debt, matured debt on which interest has ceased and debt bearing no interest)			Per capita ¹	General fund balance ²
		Direct debt (Gross)	Guaranteed debt ³	Total direct and guaranteed debt		
WORLD WAR I						
Mar. 31, 1917	Prewar debt	\$1,282,044,346.28	---	\$1,282,044,346.28	\$12.36	\$74,216,460.05
Aug. 31, 1919	Highest war debt	26,596,701,648.01	---	26,596,701,648.01	250.18	1,118,109,534.76
Dec. 31, 1930	Lowest postwar debt	16,026,087,087.07	---	16,026,087,087.07	129.66	306,803,319.55
WORLD WAR II						
June 30, 1940	Debt preceding defense program	42,967,531,037.68	\$5,529,070,655.28	48,496,601,692.96	367.08	1,890,743,141.34
Nov. 30, 1941	Pre-Pearl Harbor debt	55,039,819,926.98	6,324,048,005.28	61,363,867,932.26	458.47	2,319,496,021.87
Feb. 28, 1946	Highest war debt	279,213,558,897.10	6,550,810,451.19	279,764,369,348.29	1,989.75	25,960,900,919.30
June 30, 1946	Debt at end of year in which hostilities ceased	269,422,099,173.26	476,384,859.30	269,898,484,032.56	1,908.79	14,237,883,295.31
Apr. 30, 1949	Lowest postwar debt ⁴	251,530,468,254.82	22,851,485.16	251,553,319,739.98	1,690.29	3,995,156,916.79
SINCE KOREA						
June 30, 1950	Debt at time of opening of hostilities in Korea (hostilities began June 24, 1950)	257,357,352,351.04	19,503,033.97	257,376,855,385.01	1,696.74	5,517,087,691.65
Dec. 31, 1952	Highest debt ⁵	267,391,155,979.65	53,969,565.31	267,445,125,544.96	1,687.90	6,064,343,775.84
Nov. 30, 1967	Debt a year ago	345,090,262,056.10	544,232,550.00	345,634,494,606.10	0 1,727.32	7,600,930,406.22
Dec. 31, 1966	Debt last month	329,319,249,366.68	494,643,600.00	329,813,892,966.68	0 1,664.80	6,011,249,124.82
Nov. 30, 1967	Debt this month	345,090,262,056.10	544,232,550.00	345,634,494,606.10	0 1,727.32	7,600,930,406.22
Dec. 31, 1967	Debt this month	344,663,009,745.18	545,038,100.00	345,208,047,845.18	1,723.69	7,045,807,409.15

¹ Does not include securities owned by the Treasury.² Includes outstanding matured principal of guaranteed debt of U.S. Government agencies for which cash to make payment is held by the Treasurer of the United States in the general fund balance.³ Based upon estimates of the Bureau of the Census.⁴ Represents the lowest point of the debt at the end of any month following World War II. The lowest point of the debt on any day following that war was on June 27, 1949, when the debt was as follows:

Direct debt (gross)	\$251,245,889,059.02
Guaranteed debt of U.S. Government agencies	23,876,001.12
Total direct and guaranteed debt	251,269,765,060.14

⁵ Represents the highest point of the debt at the end of any month. The highest point of the debt on any day was on Dec. 27, 1967, when the debt was as follows:

Direct debt (gross)	\$346,414,318,295.49
Guaranteed debt of U.S. Government agencies	545,038,100.00
Total direct and guaranteed debt (includes \$260,702,657.72 not subject to statutory limitation)	346,959,356,395.49

⁶ Subject to revision.⁷ Revised.

PER CAPITA DEBT—FEDERAL, STATE, LOCAL GOVERNMENTS

	Total	Federal	State	Local
1940.....	\$479	\$326	\$27	\$127
1946 (end of World War II).....	2,037	1,924	17	97
1950 (pre-Korea).....	1,861	1,702	35	125
1954 (post-Korea).....	1,925	1,683	60	182
1961.....	1,988	1,579	109	301
1966.....	2,179	1,632	149	399

Note.—Federal-debt on Dec. 31, 1967, as reported in the Treasury statement, was \$345,000,000,000. Debt ceiling for fiscal year 1968 is \$358,000,000,000; \$365,000,000,000 for fiscal year 1969. Per capita Federal debt on Dec. 31, 1967, was \$1,723, as reported in the Treasury statement.

Source: Tax Foundation.

GOLD SUPPLY, POTENTIAL DOLLAR CLAIMS AGAINST IT, AND BALANCE-OF-PAYMENTS DEFICITS

Mr. Speaker, the following tabulation succinctly charts the steadily deteriorating condition of our gold supply, and the reserves and possible foreign claims against it, from 1957 down to last October—the last date for which complete data are available. Since that time, the supply of gold has shrunk significantly further—in round figures, to about \$12 billion, against which a “cover” requirement of some \$10.7 billion is currently required as backing for our currency, leaving only about \$1.3 billion in gold free for foreign and other sales.

I also include a list of our balance of international payments deficits of the last 18 years:

CURRENT DATA ON GOLD STOCK AND DOLLAR CLAIMS

[In billions of dollars]

End of calendar year—	CURRENT DATA ON GOLD STOCK AND DOLLAR CLAIMS				CURRENT DATA ON GOLD STOCK AND DOLLAR CLAIMS				
	U.S. gold stock	Gold stock (above required 25 percent backing for currency, and for deposits before March 1965)	Possible foreign claims	Potential shortage of gold with percent backing provision ¹	U.S. gold stock	Gold stock (above required 25 percent backing for currency, and for deposits before March 1965)	Possible foreign claims	Potential shortage of gold with present 25 percent backing provision ¹	
1957.....	22.9	10.8	14.9	4.1	13.2	3.4	26.9	23.5	
1958.....	20.6	8.5	15.6	7.1	13.2	3.4	26.9	23.5	
1959.....	19.5	7.3	17.7	10.4	13.2	3.4	26.9	23.5	
1960.....	17.8	6.1	18.8	12.7	13.2	3.5	27.3	23.8	
1961.....	16.9	4.9	20.4	15.5	13.2	3.3	27.6	24.3	
1962.....	16.1	3.7	21.4	17.7	13.2	3.2	27.6	24.4	
1963.....	15.6	2.8	23.1	20.3	13.1	3.1	28.0	24.9	
1964.....	15.5	1.8	25.6	23.8	13.1	3.0	28.7	25.7	
1965.....	13.8	1.4	25.8	21.5	13.1	3.0	29.1	26.1	
1966.....	13.2	3.2	27.8	24.6	13.0	2.9	30.2	27.3	
9-year change	-9.7	-7.6	+12.9	+20.5					
					Change, end of 1957 to 1967.....	-9.9	-7.9	+15.3	+23.2

¹ Public Law 89-3 approved Mar. 3, 1965, eliminated the requirement for the maintenance of reserves in gold certificates against Federal Reserve bank deposit liabilities.

² Preliminary.

Source: U.S. Department of Commerce, Office of Business Economics.

THE U.S. BALANCE-OF-PAYMENTS POSITION FOR THE LAST 18 YEARS, 1950-67

[Rounded amounts used]

Year	Deficit (-) or surplus (+)	Year	Deficit (-) or surplus (+)
1950	-\$3,489,000,000	1960	-\$3,901,000,000
1951	-8,000,000	1961	-2,370,000,000
1952	-1,206,000,000	1962	-2,203,000,000
1953	-2,184,000,000	1963	-2,671,000,000
1954	-1,541,000,000	1964	-2,800,000,000
1955	-1,242,000,000	1965	-1,335,000,000
1956	-973,000,000	1966	-1,357,000,000
1957	+578,000,000	1967 estimated (subject to revisions)	-3,500,000,000
1958	-3,365,000,000		
1959	-3,870,000,000	Total since 1950	-37,437,000,000

Note.—Figures are computed on the liquidity basis.

Source: Survey of Current Business, June 1967.

COST OF LIVING—BUYING POWER OF THE DOLLAR

Mr. Speaker, the matter of inflation and the consequent reduced buying power of the dollar is reflected in the official Government figures in the tables I am including herewith. A stable dollar is a cornerstone of our economic well-being in all its ramifications.

The Consumer Price Index in December stood at 118.2 percent of the 1957-59 average; at 145.0 percent of the 1947-49 average; and at 244.1 percent of the 1939-pre-World War II—average.

As measured by the index, the buying power of the dollar was down to about 85 cents from the 1957-59 period; down to 69 cents from the 1947-49 period; and down to 41 cents as compared to its 1939 buying power.

CONSUMER PRICE INDEX

	All items			All items	
	1939=100	1947-49=100		1939=100	1957-59=100
Years:			1957—Continued		
1939	100.0	59.4	July	240.6	142.9
1947	160.8	95.5	August	241.4	143.4
1948	173.1	102.8	September	241.8	143.7
1949	171.4	101.8	October	242.6	144.2
1957	202.4	120.2	November	243.3	144.5
1958	207.9	123.5	December	244.1	145.0
1959	209.8	124.6	Selected		
1960	213.0	126.5	months:		
1961	215.2	127.8	June 1946	134.3	79.8
1962	217.7	129.3	June 1950	171.4	101.8
1963	220.4	131.0	December		
1964	223.2	132.6	1952	192.1	114.1
1965	227.0	136.2	December	208.2	123.7
1966	233.6	138.8	1958		
1967:			December	211.3	125.5
January	236.9	140.7	1959		
February	237.1	140.9	December	214.6	127.5
March	237.5	141.1	1960		
April	238.1	141.5	December	215.8	128.2
May	238.7	141.8	1961		
June	239.5	142.3			

Source: Department of Labor and Office of Financial Analysis.

PURCHASING POWER OF THE DOLLAR

	1939=\$1	1947-49=\$1	1957-59=\$1		1939=\$1	1947-49=\$1	1957-59=\$1
Years:				1967—Continued			
1939.....	\$1.000	\$1.684	\$2.066	April.....	.420	.707	.867
1947.....	.622	1.047	1.285	May.....	.419	.705	.865
1948.....	.578	.973	1.194	June.....	.418	.703	.862
1949.....	.583	.982	1.205	July.....	.416	.700	.858
1957.....	.494	.832	1.021	August.....	.414	.697	.855
1958.....	.481	.810	.994	September.....	.414	.696	.854
1959.....	.477	.803	.985	October.....	.412	.693	.851
1960.....	.469	.791	.971	November.....	.411	.692	.849
1961.....	.465	.782	.960	December.....	.410	.690	.846
1962.....	.459	.773	.949	Selected months:			
1963.....	.454	.764	.937	June 1946.....	.745	1.253	1.537
1964.....	.448	.754	.925	June 1950.....	.583	.982	1.205
1965.....	.441	.734	.910	December 1952.....	.521	.876	1.075
1966.....	.428	.720	.884	December 1958.....	.480	.808	.991
1967:				December 1959.....	.473	.797	.978
January.....	.422	.711	.872	December 1960.....	.466	.784	.962
February.....	.422	.710	.871	December 1961.....	.463	.780	.957
March.....	.421	.709	.870				

¹ As measured by the BLS consumer price index.

Source: Department of Labor.

CONCLUSION

Mark Twain once said:

"Thunder is good. Thunder is impressive. But it is lightning that does the work."

It seems to me that we need lots of thunder about economy and restraint and discipline. I suspect we will not be disappointed. We need to thoroughly ventilate our fiscal requirements and problems. But we also need lots of lightning to get results.

If I may recapitulate a few things:

A budget has two sides—income as well as outgo. It involves the work of many committees and all Members. There are some \$16 billions of income—for fiscal 1968 and 1969 combined—that this budget assumes will derive from tax and user charge legislation not yet enacted.

There are about \$1 billion of new propositions of legislation in the budget that will first have to run legislative committee gauntlets.

There is some \$36.5 billion involved in the various annual authorizing bills, or other bills for programs whose legislative authorities expire and must first be renewed in bills from various legislative committees if the programs are to continue. Congress gets two bites at these particular budget items—first at the authorizing stage, then the appropriation stage. There are many opportunities to take cold, hard, critical looks at billions of new obligational authority.

It would seem imperative that we show minus signs all up and down the line in every instance where we safely can in making budget decisions. We should hack at the roots as well as at the branches.

The Committee on Appropriations begins consideration of the portions of the budget committed to it with some general hearings on Thursday of next week, February 8 with the Secretary of the Treasury and the Director of the Budget. We expect to cooperate fully with the announced plans to try to conclude the session business before the national conventions this summer. There is much to be done. We need timely passage of the several authorizing bills involved.

We would welcome every constructive suggestion that might help in doing a better job on the business at hand.

The Speaker pro tempore (Mr. Olsen). The time of the gentleman from Texas has again expired.

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