APPROPRIATION AND EXPENDITURE REDUCTIONS, 1969

HEARINGS

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APPROPRIATION AND EXPENDITURE REDUCTIONS, 1969

WITNESSES

HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY
HON. WILLIAM McCHESNEY, MARTIN, JR., CHAIRMAN, FEDERAL RESERVE BOARD
HON. JOSEPH W. BARR, UNDER SECRETARY OF THE TREASURY
HON. CHARLES J. ZWICK, DIRECTOR, BUREAU OF THE BUDGET
SAMUEL M. COHN, ASSISTANT DIRECTOR, BUDGET REVIEW, BUREAU OF THE BUDGET

General Remarks by Chairman Mahon

Mr. Mahon. I am grateful to all of you for your appearance here this morning. I have called this meeting in order that we might give consideration to one of the most troublesome problems ever to confront this committee, the Congress, and the people of the United States.

All of you know that we have had, for 17 of the past 18 years, an unfavorable balance in our international payments account, and for the first time in 5 years, in March of this year we had an unfavorable balance in our foreign trade account. Our trade surplus, as you also know, has been a main underpinning of our international payments account.

The problem is to do what is necessary to assist in maintaining confidence in the dollar at home and abroad, dealing appropriately with rising inflationary pressures, dealing appropriately with rising Federal expenditures, and with taxes at a time when the budget is heavily in the red. The welfare of the rich and the poor, and of the country itself, is at stake.

The issues and implications are of monumental proportions. They are matters for the House of Representatives and the Congress to squarely meet. This committee is the conduit for focusing on the appropriation and expenditure questions and in channeling those questions to the House.

Secretary Fowler made a speech yesterday to the U.S. Chamber of Commerce in Washington. I started to read it this morning but did not have time to read it in full. I would like to call attention to it. It is entitled "The Hour of Fiscal Responsibility." He indicates that that hour is at hand. I am going to insert it in the Congressional Record.

On page 3, he says, "And what is more frightening"—and except for the unusual fiscal situation confronting the country, Cabinet officers, especially the Secretary of the Treasury, would hardly be talking about something that is frightening—

"And what is more frightening is a massive deficit in excess of $20 billion projected for the next fiscal year unless in the weeks immediately ahead the U.S. Congress whose Members you will be meeting this week adopts a legislative package of fiscal restraint that combines a substantial income-tax increase with a reduction in expenditures and appropriations projected in the January budget."

Omitting a paragraph, I read further:

"We are facing nothing less than a test of representative government in economic and financial affairs."

In view of this test of the effectiveness of representative government I have been willing to forgo some of the prerogatives of this committee and put first what clearly seems to me to be the urgent requirements in the overall best interests of all of our people. The country is interested not in the Appropriations Committee, or the Ways and Means Committee, or any other committee, but in the actions by the Congress itself in meeting the present fiscal challenges.

For weeks I have been saying to the executive branch, in numerous conferences and negotiations: "Tell us what you recommend with respect to appropriations and spending in the light of the serious fiscal situation and we will take action when you tell us what you recommend. Not that we will necessarily approve what you recommend, but we will undertake to act if you will make up your own mind and come before us and tell us what your views are and what you are willing to do in the way of spending restraints."

I think the hour is now ripe for an answer to this question. I have asked the Secretary of the Treasury, the Director of the Bureau of the Budget, and the head of the Federal Reserve System to appear before us this morning, and assist us in coming forthrightly and immediately to the question before us and tell us what is recommended by the executive branch by way of reductions in expenditures and appropriations and possible rescissions of funds previously appropriated.

After we have heard from them we will then determine what we, as a committee, think ought to be done in the situation.

Mr. Secretary, will you please respond to my question as to the position of the Administration, and more particularly what is the position of the Secretary of the Treasury with respect to the issue now confronting us?

Will you please proceed?

General Statement of Secretary of the Treasury

Secretary Fowler. Thank you, Mr. Chairman.

You have very clearly described the many exchanges we have had in recent days, and I have, anticipating your query, prepared a statement to make to members of the committee which is available for their information.

In order to be very precise and responsive and to come quickly to the points of your query I will read that statement.

Last August, the administration asked the Congress to enact a 10-percent surcharge—amounting to an average of 1 cent on the dollar earned. For all these many months now, we have repeatedly urged that this measure be enacted:

To avoid the risk of inflation that will rob the poor, the elderly, and the millions of Americans living on fixed incomes.

To stabilize interest rates that are now climbing to new highs, despite the best efforts of the Federal Reserve System.

To support responsibly the needs of our fighting men in Vietnam.

To sustain confidence in our dollar, the bulwark of the international monetary system and world trade.

A tax increase is the cornerstone of fiscal responsibility. Without such action, our own economy and the economies of other free world nations stand in jeopardy. We have come too far to see the gains of the last 7 years of unparalled prosperity endangered by inaction over this vitally needed revenue measure.

The central fact is that because of the tax reductions of 1963 and 1964, just after President Johnson assumed office, Americans are paying lower taxes today than in any other period of great struggle. And we are engaged now in two enormous struggles—in our cities and in the field of battle in Vietnam.

A responsible fiscal policy requires that we keep our budget deficit within prudent limits. The revenues raised through the tax surcharge—about $10 billion for fiscal year 1969—will help us do that.

The budget the President submitted in January—which included the surcharge—was lean, prudent, and designed to do America's urgent work responsibility. That budget represents the best judgment of the President and the best judgment of the top officials in the administration.

But there are many Members of the Congress, perhaps a majority, who believe that more must be done and that reductions in expenditures are necessary if the surcharge is to be enacted.

Over the past few weeks, I have talked to the leadership and to other Members of the Congress. In budgetary matters, the executive branch does not decide alone. The Congress has the power and the duty to determine appropriations and levy taxes. As the President told the Nation on March 31, as part of the program of fiscal restraint that includes the tax surcharge, he would be willing to approve appropriate reductions in the January budget when and if Congress so decides that it should be done.

In light of the advice I have received from the leaders of the Congress and because I believe so strongly that it is critical for the economy and to the future of this Nation that the surcharge become law, the administration would approve, as part of a bill including tax increase proposals that would bring additional revenue equivalent to those we have long recommended, the following program of expenditure control:

A $4 billion reduction in already proposed expenditures for the fiscal year 1969.

A $10 billion reduction in new obligational authority for fiscal year 1969.

An $8 billion rescission in new obligational authority outstanding at the end of fiscal year 1969.

This "10–8–4" reduction formula should meet every reasonable demand for expenditure control. It will mean that eventually $18 billion will be cut from the current spending plans of the agencies, and that $4 billion of this reduction will actually occur in fiscal year 1969. It provides us with just enough of a margin to adjust our programs so that the highest priority needs of the American people can continue to be served.

The leadership has informed me that this combined tax surcharge-expenditure control program will generate the support of significant numbers of House and Senate Members.

That concludes my formal statement, Mr. Chairman. I will be glad to answer questions.

My colleague, the Director of the Budget is here, and is much more familiar with the expenditure side and the appropriations side that I am.

I could go on, as you know, for hours on this subject but I shall not delay your deliberations any further.

URGENT NEED FOR ACTION

Mr. MAHON. Mr. Secretary, what is the urgency which causes you to believe that we should take action now? The Committee on Appropriations plans to continue with its regular processing of the budget and present the various bills, as soon as we have processed them, to the House and send them on to the Senate. That is our time-honored procedure, the procedure which we generally prefer, and which is not only traditional but, in my judgment, appropriate.

Could we wait until after all the bills have been processed in the regular way? The three bills for fiscal 1969 which have been processed through the full committee, or in one case the subcommittee, have been reduced at this time in terms of new budget (obligational) authority to the extent of about $4.5 billion from the President's January budget requests. Those reductions, if sustained, would probably result in reductions in expenditures from those projected for 1969 in the January budget by between $800 and $900 million.

Last year, Congress cut budgeted obligations for fiscal 1968 by about $10 billion, as you know. That included cuts against obligations planned from both new appropriations requested and from unobligated carryovers.

I must concede that, in the last 6 years, the total cut in new budget obligational authority by Congress, according to figures prepared for me, was only about $20 billion, which is a relatively small figure when compared to the various targets for this single fiscal year of 1969, ranging from $10 to $14 billion.

What is your reaction, Mr. Secretary?

Secretary FOWLER. My answer to that is this: There are pending two bills before a conference of the Members designated by the House and the Members designated by the Senate from the taxwriting committees. One bill is the Tax Adjustment Act which was passed by the House in early March which would extend certain excise taxes for a period of time. They were due to expire on April 1 and this bill would extend those excise taxes until the end of next year, and would also accelerate the collection of certain corporate liabilities.

This bill was passed by the House and sent over to the Senate.

Hearings were held before the Senate Finance Committee, and during the course of those hearings two members of the committee, Senator John Williams, of Delaware, and Senator George Smathers, of Florida, raised questions as to whether or not this bill, the Tax Adjustment Act, should not be replaced by a measure they had introduced called the Balance of Payments and Domestic Economy Act

of 1968, which did what the House bill did; namely, extend the excises and accelerated the collection of corporate liabilities, but also did a number of additional things, two of which are pertinent to our discussion here. One was to include the 10-percent tax surcharge proposals of the administration. The second was to include certain provisions dealing with expenditure controls, one in the form of an expenditure ceiling which would have reduced the expenditures targeted in the January budget from $186.1 billion to $180.1 billion, or a total of $6 billion; and a second provision which would have required the Director of the Budget to submit a report suggesting where particular cuts in appropriations might be taken totaling $10 billion.

This bill passed the Senate. This bill also contained a number of other provisions which I will not go into here because they are extraneous to this subject.

This amendment was after long and extensive debate, and efforts to strike both the surcharge from the amendment and the expenditure limitation from the amendment nonetheless passed by the Senate on the 3d of April.

In the meeting of the conferees from the House and Senate the urgency of a prompt and favorable disposition of this question of fiscal restraint, of what we will do about this deficit in our internal Federal budget which so vitally affects the deficit in our balance of payments—this question came up to the conferees in a very positive and natural way.

The conference has met, and on various occasions there has seemed to be a general feeling that it would be good for the country, good for the world if there could be a prompt disposition of this question, this fundamental question of fiscal responsibility in the context of this conference.

Chairman Mills has taken a position in the Congress that the bill as enacted by the Senate is unsatisfactory to the House conferees because it does not include adequate provisions in his judgment in taking out of the upstream appropriations and existing budget authority and unobligated balances that would be carried over in the year following. It does not deal decisively with that aspect of expenditure control which he and the House conferees feel is an essential element in any combined package to deal with our deficit.

Obviously I cannot speak for Congressman Mills so I am reflecting only my interpretation of his position as discussed in conference, but the conferees as a whole are concerned with what the level of appropriations and spending is going to be.

Chairman Mills has taken the view that he will not and the House Ways and Means Committee will not discuss or consent, or agree in any conference in an area that pertains to the jurisdiction of the House Appropriations Committee, and that therefore any proposals that should be put before the Congress for consideration by the conferees as to whether or not they are substantively satisfactory and whether in view of a given measure of substantive agreement they could be treated within the confines of the conference under the rules—he will not do that until or unless the House Appropriations Committee has let its views be known on this subject and these views seem to meet then the standards of expenditure control that his committee has felt—and I think this is a well known fact since last October—are

a necessary prerequisite of any decision on their part to vote an increase in taxes.

In the comments I made yesterday, Mr. Chairman, which you may or may not have used earlier, I put it succinctly this way:

> . . . I had concluded and publicly stated back in March that it was my belief that a responsible majority in the Congress is coming to the inescapable conclusion that we must increase taxes temporarily and that if taxes are to go up the increase must be made temporary by conjoining it in a procedural form yet to be determined with a reduction in the financial outlays and obligations projected in the January budget.

I said further on March 26 on this in Philadelphia, and I want to quote because this is the position I have taken consistently in hearings before the Ways and Means Committee and the Senate Finance Committee and the conference:

> The procedure by which a formula for combining spending reductions and a tax increase is to be devised and enacted is a matter for decision by the Congress, its taxwriting committees, its appropriations committees, and its leadership.

That gives you as much background as I can give you on why it is essential in my view for this committee at this time to consider the questions that are proposed by the statement I have just read—consideration which will hopefully lead to a situation in which in this grave hour of financial concern and distress in this country and throughout the world the Congress can take the decisive action that is needed at this time to deal with these massive deficits in the Federal Budget which are facing us both in the fiscal year 1969 and in fiscal year 1968 which it is too late to do much about it, given its order of magnitude.

ESTIMATED BUDGET DEFICITS, 1968 AND 1969

Mr. MAHON. What is the deficit estimated to be in the current fiscal year 1968, which ends in 2 months, and what do you think it may be in fiscal year 1969 without a tax bill?

Secretary FOWLER. The deficit in 1968 without the tax bill—it will be in excess of $20 billion. In 1969 it is around $24 billion.

Mr. MAHON. On top of this current year. This would be a $20 billion, plus, deficit, probably more, followed by a $24 billion deficit. Is that your best estimate?

Secretary FOWLER. That is my best estimate. I have some figures here which I usually keep with me.

Mr. YATES. I didn't get those figures, Mr. Chairman.

Mr. LAIRD. Did he say "1968"?

Secretary FOWLER. Talking about fiscal year 1968 without the bill, under the new unified budget it would be 22.8. Since that budget was presented in January, the President in his March 31 message to the Nation indicated there would be a need for an additional $2.5 billion for fiscal year 1968, so in terms of fiscal year 1968 we are looking at about $25 billion, and in terms of fiscal year 1969, about $24 billion, back to back.

What is happening as the result of the coincidence of this budget deficit in fiscal 1968 with an economy that is expanding on all fronts is that our trade surplus, which has been the main reliance of our balance-of-payments position, has just been shot down very badly, and

we had in the month of March a trade deficit for the first time in many years.

Mr. MAHON. Do you unequivocally support this package which you laid out a moment ago—$4 billion cut in the January budget expenditures for fiscal 1969, a $10 billion reduction in the January new appropriations or budget obligational authority requests, and $8 billion of recisions from carryover balances? Are you solidly and unequivocally behind this, Mr. Secretary?

Secretary FOWLER. I am with every ounce of conviction that I can summon.

Mr. MAHON. If we should take unfavorable action on the package, and if the Congress should take unfavorable action, and we do nothing about the present situation as here recommended, in what position would that leave the U.S. Government?

Secretary FOWLER. I think in the most serious state of financial jeopardy that certainly I can recall in my time.

GENERAL STATEMENT OF CHAIRMAN OF FEDERAL RESERVE BOARD

Mr. MAHON. Chairman Martin, may we now hear from you? Will you respond to the situation here? We are seeking guidance.

I read your recent speech before the American Society of Newspaper Editors. Some people said you were an alarmist and some people disagreed with you, but apparently most people agreed with you. I happen to have agreed with you and I think most Members of Congress probably agreed with you.

This is serious business involving the destiny of the country. Meaningful expenditure restraint involves many programs dear to the hearts of a lot of people, including many Members of the Congress. We want to do what is right in the overall best interests of the rich, the poor, the old, the young, those of the middle class—all of our people. We want to do what is best for the country.

I want you to tell us what you think the present fiscal situation is.

I read from Secretary Fowler's speech of yesterday, on page 9, the following:

> In their recent communique on March 17 the Central Bank Governors noted that an underlying premise for the measures taken was their belief that "It was the determined policy of the U.S. Government to defend the value of the dollar through appropriate fiscal and monetary measures and that substantial improvement of the U.S. balance of payments is a high priority objective.

I wonder if we have promised, directly or indirectly, to other nations that we will take steps to meet the situation which is resulting in a trend which is eroding the dollar.

Will you speak to us for several minutes?

Mr. MARTIN. I think you all know it is not my purpose to enter into the discussion of where cuts ought to be made or how they ought to be made. That is not my role in the Federal Reserve, but I do have a responsibility in a situation such as this to point out to you, as I have publicly and privately to a good many of you, that I believe that we are in the most serious financial crisis since 1931. Now that is not a business crisis. Business has not been better in my lifetime in the country, but this is a financial crisis.

93-801—68——2

People will argue about this but I have related it to 1931 because at that time the French were putting great pressure on the British pound, and they succeeded really at that time in getting the pound into a very serious situation.

Today the French have been putting great pressure on the American dollar. There are dissimilarities in the situation but we see coming together here an intolerable balance-of-payments deficit which the United States is currently running and an intolerable domestic deficit.

These are overall observations, and I think that we have had three gold crises, three runs on our gold. I hope we will not have another.

Whether we have another will certainly depend on whether there is some action to get our fiscal house in better shape than it is today.

You just put the figures in the record here on the budget deficit, let us say, roughly $20 billion for 1968. These are very rough. It is more than that for 1969 without any tax reduction at a time when we have been having serious inflationary pressures.

In the third quarter of 1967 we had an increase in our gross national product of $16 billion and we lost roughly half of it in an increase in prices.

In the fourth quarter of 1967 we had another increase in our gross national product of about $16 billion, and about half of that was lost in prices.

We had a very, very strong quarter on some measurements of record for the first quarter of 1968, $20 billion, and we lost 40 percent of that in an increase in prices.

The second quarter of 1968 is already underway and in the second quarter of 1968, if I were making a projection today I would say it would be equally as good as the first quarter, and there will be a tendency for us to lose more than the 40 percent in prices that we lost in the first quarter.

The impact of this, gentlemen, is on the competitive position of the United States in world trade and this is unquestionably responsible for the protectionist sentiment that has begun to develop in the Congress.

We can keep competitive only if we keep our general competitive position in such a way that this trade surplus will not continue to diminish and have an alarming decline as in the month of March of this year.

What this does to the financial side of the picture is that there is a relationship here between the balance of payments and the requirements of the Federal Reserve to try and keep the economy in balance, and we have very reluctantly but very steadily had to push interest rates up—not so much pushing them up but keeping interest rates in tune with the market so that people who need funds can get funds.

Actually we have a situation now where the pressure for higher interest rates is steadily growing, and you now have a prime rate of 6½ percent, and I for one deplore rates of this magnitude but there is no alternative under the present state of affairs.

If you have an unsound fiscal situation you are bound to have pressures on your monetary side.

We pursued an easier monetary policy than some of us thought

was desirable in 1967 on the assumption that at some point we would get some complementary fiscal action. It has not been forthcoming.

The financial crisis I am talking about—and I am not talking about a business crisis—is that if we continue on this course we will have another run on gold and we will have pressure on the interest rate side which is going to make it very, very difficult for a great many worthwhile enterprises to get financing at any reasonable rate of interest.

We have usury laws in many of the States at the 6-percent level. With the high level of employment we now have and with the utilization of plant and equipment that we presently have, if the Central Bank under these conditions, even with these high interest rates, creates any more money it can do nothing but push prices up.

I stated this privately and publicly—I happen to consider this one of the worst situations that the country has faced in a long time. I do not want to exaggerate by giving you an indication that I think the country is going to completely collapse if you do not do this. I do not want to say that the world is going to come to an end if you do not do it. However, I do say that you will have a setback for the United States in world trade and finance that is going to take us a good many years to overcome.

That is all I have to say, Mr. Chairman.

URGENT NEED FOR ACTION

Mr. MAHON. If we do nothing you predict dire consequences. Would that be 5 or 10 years from now or would it be sooner?

Mr. MARTIN. I will not put any time limit on it but I think it would come very rapidly. I would say that this matter of fiscal responsibility on the part of the United States has been exaggerated now in Western Europe out of proportion to what actually is the situation, but it has now become a symbol of whether the United States intends or is willing to try to keep its affairs in order.

I think that is the best way I can answer the question. I think if we continue to run this sort of a budget deficit and this sort of a balance-of-payments situation, which I think is related to this budget deficit, over any period of time here, we are just asking for serious trouble.

Mr. MAHON. What do the financial people in Europe feel? What is their attitude? Are they interested in protecting the dollar or do they want to see it fall?

Mr. MARTIN. With the possible exception of the French, and I would not even say that the French are in this situation today, almost to a man they are anxious to see this country conduct itself responsibly because they realize the importance to them of the dollar. The dollar is the last fulcrum of monetary responsibility. Gold and the dollar are really all we have today.

It used to be the pound and the dollar. The pound has been devalued now and the dollar is not in as strong a position even today with devaluation as it should be.

I think they feel almost united that without fiscal responsibility in the United States they do not want to continue to hold dollars on the scale that they have and they believe that this will be a real setback to them as well as to us.

General Statement of Director of the Budget

Mr. Mahon. Mr. Zwick, will you state the position of the Director of the Bureau of the Budget with respect to the package which has been projected here by the Secretary?

Mr. Zwick. Yes, Mr. Chairman. I will be very brief on the need for this action.

I think both Secretary Fowler and Chairman Martin have stated the case. I think we all agree that these are extraordinary times and they do require extraordinary action. The Buerau of the Budget is in complete agreement with this committee that the correct, standard, and traditional way to handle appropriations is for the President to submit a budget and for the Appropriations Committees to act on it, and that out of congressional action we get the budget decisions.

But these are extraordinary times, and there has been a widespread feeling that the administration must speak out on this issue. Therefore, we are prepared today to agree that we would live with a reduction in spending of $4 billion for fiscal 1969, a $10 billion reduction in appropriations from what we asked for in the budget, and an $8 billion rescission of balances of obligational authority.

I think that package meets every reasonable demand for expenditure control.

Reduction in "Pipeline" of Carryover Balances

I went back and checked. There has been a lot of attention focused on unspent authorizations, shown in that famous flow diagram on page 56 of the budget, and on the need for reducing that amount. If we enact this package, we will come out of fiscal 1969 with a $7.8 billion reduction in unspent balances of Federal funds, which is comparable to the old administrative budget.

The last time we had a reduction of that magnitude was in 1955 as we came out of the Korean war and we had large unspent balances in defense. This is an unprecedented and extraordinary action which would reduce unexpended balances, other than trust funds, by $7.8 billion by the end of fiscal 1969.

Mr. Mahon. Thank you, Mr. Zwick. Mr. Bow, any questions?

Development of Budget Reduction Package

Mr. Bow. Yes, I have some questions, Mr. Chairman.

Secretary Fowler, as you know, the minority has been trying its best to cooperate in this fiscal situation in its work with you and with others and with this committee. I am a little surprised that we now find a package which the minority has never had an opportunity to discuss with those who have brought it up.

We have had meetings at the White House in the past, and I understand there was one last night to which the minority was not invited. So this package comes to the minority as a complete surprise. None of the leadership of the minority and none of the working members of the committee were in that meeting.

I am wondering why a package now comes to us which the minority had no opportunity to discuss with those who prepared it.

Secretary Fowler. Mr. Bow, I cannot answer that question.

Mr. Bow. Is there anyone here who can answer it?

Secretary FOWLER. I would like only to say that we have felt in the meetings of the conference that there has been a great deal of emphasis placed upon what is the position of the administration, and on various occasions Mr. Zwick and I have been in difficulty in commenting on the Senate bill and on the proposals in the Senate bill and expressing a position of saying this is wrong with this provision, and this is wrong with that provision.

The question always come back, "If there is something wrong with this, what is the administration ready to do and ready to approve?"

Mr. Bow. I know that is your position, but it still does not answer the question.

Secretary FOWLER. No, it does not.

Mr. Bow. Mr. Secretary, we have tried our best to make this a bipartisan effort to try to save the integrity of the dollar. I am a little surprised at this $10 billion figure on new obligational authority. I have been to the White House at meetings at which, as I recall it, the Director of the Bureau of the Budget indicated we might go as high as $14 billion.

Why this change from $14 billion to $10 billion?

Mr. ZWICK. The meeting at the White House you are referring to, I presume, is the April 3 meeting.

Mr. Bow. I do not remember the date.

Mr. ZWICK. That is the evening we met there.

At that meeting there was a dialog between Congressman Mills and myself as to technique. There was no discussion at that meeting as to specific numbers.

Mr. Bow. I remember one where there was discussion that we might be able to save $14 billion.

Mr. ZWICK. I would beg to differ. No numbers were discussed at that meeting. Only the technique was discussed.

There has been a dialog, though, based on $14 billion. You are certainly correct on that, Mr. Bow. The question, of course, is where the $14 billion is to come from.

For example, I have personally thought that we could do more in defense than other people think we can do in defense. At one time I was talking about doing something on pay. You remember the dialog that evening on the pay raise now scheduled by law, and there was very little enthusiasm around the room to do anything on pay. So, we lost about $1½ billion there. We have just whittled away the $14 billion, Mr. Bow.

Mr. MAHON. If you will yield to me, Mr. Bow, I think I should comment at this point.

It is true that the minority has cooperated very well indeed in connection with the problems with which we have been confronted. A difficulty has been that I have not known just exactly what the administration would support in the way of reductions, and without the support of the Speaker and the majority leader, the Secretary of the Treasury and the Director of the Bureau of the Budget, I did not feel I should seek action by this committee, nor did I feel Congress would favorably act without that support. So, this specific problem in developing this package was not with the minority. It was on the majority side.

Late yesterday, it was decided that we would get those on the majority side together and decide just what the group attending the White House meeting could expect. This was basic to the solution of the problem.

Arriving at the figures was difficult. We have talked about expenditure reductions of from $4 to $6 billion, even $8 billion. I did not want to hold out false hopes or to participate in a futile operation. I was seeking what I felt was a meaningful package, in touch with legislative realities, one the President would support.

If Congress were to withdraw the pay raise which goes into effect in July, that would save $1.6 billion in the budget. If we did that, then we could increase to $5.6 billion the expenditure limitation. That possibility has been in the picture all the time. But it is now the consensus, as I understand it, of the leadership, and it is my belief, that we cannot bring Congress to the position of eliminating the $1.6 billion in pay increases for the military and for civilians.

If we are unable to do that, we have to come below the $5.6 bllion, or the $6 billion figure that has been discussed.

I take the major responsibility for insistence upon something positive and unequivocal from the leadership. I pressed on that point for several weeks. We have now received it. I have reported to Mr. Bow this situation. I realize that he wants to go deeper in some respects than this package goes.

Whatever the Committee on Appropriations wants to do, or the House wants to do, or Congress wants to do, we should remember that the amounts in this package are minimum figures. They are not maximum figures.

I did not invite anybody to the latest White House meeting, but I assume the reason that only majority Members were invited is that the major problem with respect to the exact figures rested with the majority, and the majority had to come to an agreement before it was in a position to make an overture to the committee and to the minority. That is where we find ourselves.

I further yield to the gentleman from Ohio.

Mr. Bow. I would suggest, then, that the Secretary's statement should be amended on page 4 in the last paragraph to read that "The Democratic leadership has informed me that this combined tax surcharge-expenditure control program will generate the support of significant numbers of Democrats of the House and the Senate," because we certainly have not gone along with this. We have the feeling it ought to be at least $6 billion.

Tell us why we cannot take $6 billion.

Question of $4 Billion Versus $6 Billion Expenditure Reduction

Mr. Mahon. Mr. Zwick, will you respond?

Mr. Zwick. If we want to get into a long discussion of the arithmetic, let me tell you the magnitude of the problem. The 1969 budget is up $10.4 billion over 1968 in terms of outlays. Of that $10.4 billion increase, $2.6 billion is due to increases in trust funds. There is a greater increase than that in the social security trust fund, but you have a reduction in the FNMA trust fund, so you have a net increase in trust funds of $2.6 billion.

Then, you have an increase—I am talking now of the January budget—you have an increase for Vietnam of $1.3 billion. That gives you a total of $3.9 billion.

You also have $1.6 billion of pay increase in there. In addition, there is an increase of $1.4 billion that is made up of $900 million for interest and $500 million for public assistance.

Those increases total $6.9 billion. Now, you subtract $6.9 billion from $10.4 billion and you get $3.5 billion, if I do my arithmetic correctly.

There is some netting and grossing in here. As you know, we have recommended some reductions and some increases. So, when you talk about going above $4 billion, you are talking about taking programs below their 1968 level.

Mr. Bow. What is wrong with that? If I may interrupt, we have gotten ourselves in a position where we are faced with a $25 billion deficit because we were spending too much. We have had other deficits. What is wrong with going below? What is so sacred about the 1968 level?

Mr. Zwick. We believe it is more appropriate to orderly Government to take out of the spending stream over a period of years $18 billion, not to do it in a way that means in a given year you have a big wrench in the program.

We have gone into 1969 with a very tight budget. We are saying we would tighten it up even more by $4 billion. This is a judgment, obviously, but at this point you are talking about closing down projects half completed. You are talking about not meeting the Government's commitments in terms of power in the Northwest. You are talking about fairly drastic actions.

How far one should go in any 1 year is, obviously, a matter of judgment. We thought, in terms of the consensus that came out of the meeting last night, that this was an appropriate package which would allow us, first, to make a cut of an amount unprecedented since 1955 in unspent authorizations and, secondly, to provide for an orderly transition to lower expenditures.

Mr. Bow. Thank you, Mr. Chairman.

Mr. Whitten. Mr. Chairman.

Question of Downward Revision of the Budget

Mr. Mahon. The gentleman from Mississippi.

Mr. Whitten. Mr. Chairman, I do not exactly see this as a package. The Senate passed a bill that cut $6 billion, but it did not point out a single, solitary place. The next day we met in conference on the supplemental and they added millions of dollars over the budget, and would not yield an inch, and the conference is still pending.

Observing our friends here this morning, they are disturbed, but they have not pointed their finger to a single place to cut. They say that is not their job. I am sure we will meet our responsibility, however, we could well look at some recommendations. The Budget Bureau has never hesitated to send an amended budget down before. I have been on committees where we were prepared to save considerable money as against the budget request, and the Budget Bureau saw that we would get a little credit in Congress, would send an amended budget down,

reducing it in the amount the Congress intended to cut in order to claim credit. There is nothing wrong with Mr. Zwick and the executive sending down an amended budget.

The last 6 or 7 years, just about every Monday morning a new program has been recommended to Congress from the executive department. The Congress has passed most of them. This has accumulated. I have been one to ask, please get Federal employees to forego a pay increase for a year and, as you recall, Mr. Chairman, I did not get far.

If in my limited knowledge of economics I understand it correctly, there are Federal programs that generate wealth, and to cut them out would do injury to our overall situation. There are others which may be highly desirable or even necessary, but they do not generate anything. They are a deadweight.

So, rather than asking the Appropriations Committee to repeal, without any advice as to where, these programs which everybody has shouted about and which are the cause of our present predicament, we do not have a word of advice about that which would help the immediate problem and that part of our expenditures which, whether you have them or do not have them, will not affect the growth and development of our economy.

Mr. Chairman, you know this has been a longtime view of mine. The one thing that I have always felt might add to the situation here is this matter of full funding of the military. I have always felt full funding has cost us $3 billion or $4 billion a year. You have a military program and provide the full amount of money. That is the present practice though there have been some exceptions to it. If you give the full money for procurement of a given number of a certain plane, you do not review the contract as regularly as if you just provide the money for 1 year's payment. The aircraft and other manufacturers know that, so they are all on the side of full funding, knowing if they have all the money committed by the Congress, we are much less apt ever to cancel it.

I think if these gentlemen would get out of this general attitude about what a whale of a fix we are in and get busy and send us an amended budget down so we could see where you want to apply the cuts, then the Appropriations Committee and the Congress could decide. But you ask us to repeal the increase in social security benefits and bills on this, that, and the other. You ask us to repeal numerous acts, without a word of counsel and advice as to where.

I think all three of these gentlemen will have to agree that within the field of government there is much difference in the effect on the general economy of eliminating some programs as against some others. I am not trying to point my finger at the moment. I just say they are down here asking us to make a firm commitment without a word of advice, or an ounce of assurance as to where the executive department may freeze funds.

They would not be violating any past experiences if they should go back and bring us a package in which whatever is desired is spelled out.

Secretary FOWLER. May I respond to that?

Mr. MAHON. Yes, Mr. Secretary.

Secretary FOWLER. In two ways. I come here because, as the statement indicates, we need to do something right now that will be de-

cisive in dealing with these twin deficits that Chairman Martin has referred to. Time has been going on for 9 months in which the Congress, the administration, and the people of the United States have been confronted by the fact that we were running at a deficit in our budget in excess of $20 billion. That was known and fully labeled last August. There was a great deal of talk about a tax increase and a great deal of talk about reducing expenditures.

This committee and the Appropriations Committee on the other side of the Capitol and the entire Congress since August 3 have enacted appropriation bills covering the fiscal year 1968, covering the whole gamut of Government. Indeed, the administration came in in December and asked for a special measure dealing with fiscal 1968 that, if the cuts that came out of the individual appropriation bills, the 14 or 15 bills, did not constitute a reduction of $4.3 billion in the controllable expenditures that were subject to control in fiscal 1968, the President would then be charged with the responsibility of withholding appropriations to effect specific reductions in these specific areas in that amount.

The Congress did finish its action on the individual bills. You have the figures well in mind as to the total of the appropriations that were reduced, but the end result was that they reduced expenditures in the fiscal year 1968 in the areas affected about $1.7 billion.

So, it was then up to the so-called continuing act of December. It became applicable and specific reductions amounting to $4.3 billion have been effected in those areas.

In the meantime, expenditures have gone up in the uncontrollable areas. They have gone up in Vietnam. They have gone up in interest on the public debt. They have gone up in the welfare payments that we are required by law to pay to the States.

So, today that budget deficit for fiscal 1968 is just as high as it was when we first began talking about it in August of 1967, and in the light of all of the actions that were taken on expenditures in the meantime.

We are here asking that this process not be repeated for fiscal 1969, and that we deal decisively with this deficit by this combination measure, the action by the Congress, hopefully within the confines of this conference, subject to whatever procedural action may be necessary, so that we can decisively deal with this problem in such a way as to assure ourselves, the American people, and the financial communities of the world that this deficit will be sharply reduced from its presently projected level to somewhere around the $8 billion figure or less that was projected in the January budget and was the premise of the January budget.

This is not going to interfere one whit with the way in which you gentlemen formulate it in your regular processes. You go ahead in each individual appropriation bill and work your will on that particular sector. What it will do, as I anticipate, is leave the monkey on the President's back. If, after you have completed this particular process, there are still outstanding expenditures projected that are more than the target figure of $4 billion of reductions, it will then be up to the President to do as was done last year, to withhold expenditures accordingly.

I can say for the President when you come to the end of the session and you have added up what you have accomplished in the appropriations process and there is still a gap to be filled, to be reduced in order to meet this target, the President will be willing to go ahead on his own and do that, or he will be willing to accept any guidance that is provided by law or resolution from the Congress as to the method of effecting the reductions.

Mr. WHITTEN. Since that is directed to my question, may I make one comment at this point?

I would like to say at this point, having reported the bill on agricultural appropriations yesterday, which is coming up this afternoon, contrary to the press the bill cuts obligational authority $1,400 million, and it cuts expenditures 414 million hard dollars. I do not want to be misunderstood. We have accepted our responsibility on the bill which is up this afternoon. We have cut it 414 million hard dollars out of about $2 billion subject to congressional action, and we cut obligational authority by $1.4 billion.

I repeat, we are willing to do our part, Mr. Fowler, but the procedures are that the Executive recommends and we act on the recommendation. Certainly, as an individual I am not trying to add anything to the President's load. But with the statement you make, one way you look at it, we would be giving the executive department what amounts to an item veto. I know we have no power to make the Executive spend funds appropriated by Congress. I insist, under the Constitution, he has no authority for an item veto.

We, in turn, are entitled to your advice in the key places that you occupy so we may look at this problem and do a minimum of damage to the economy, because there is much difference in the value of the various programs handled by the Congress.

Mr. MAHON. Of course, if the gentleman would permit, the Committee on Appropriations is now in the process of amending and modifying and taking action on the President's budget as we markup and report the individual bills. I insisted on the $10 billion new budget authority or appropriation cut rather than, say $12 billion or $14 billion, because I felt that this was a goal that with reasonable effort this committee and the House could be expected to achieve. Thus we would write the whole ticket with respect to the $10 billion appropriations reduction; that is, Congress would make the decisions as to where the cuts would be made.

If this Committee, or the House, or Congress, wants to go to $12 billion or some other amount, that is within our power to decide. If, however, we do not make reductions up to $10 billion, then the President would be authorized under the plan here, not unlike last year's plan under House Joint Resolution 888, to take the additional actions necessary to secure the $10 billion goal.

Will you comment, Mr. Zwick?

Mr. ZWICK. I just wanted to add a few thoughts. First, on the $10 billion, it is clear that if your forecast is correct, then the Appropriations Committees and the Congress will in fact have taken all the action. I can assure you that the President would like nothing better than to have the Appropriations Committee do it rather than for him to have to do it at the end.

With regard to the $8 billion of rescissions, we can only recommend, and we will recommend to you, where those rescissions should come.

So, the only change from normal procedures would be the difference between the $10 billion and the amount by which the Appropriations Committees in fact reduce the budget. The $8 billion of rescissions have to be recommended as specific actions that the Congress must take because the President has no authority to rescind them. So, the difference, if there is any, between us, Mr. Whitten, is the difference between what the Congress will in fact cut and the $10 billion.

The only reason for that is the urgency of this. Every day that goes on we lose $30 million worth of revenue.

Mr. MAHON. We hope to vote the sentiments of the committee with respect to this problem this morning. In the meeting here yesterday, I believe several Members remarked that the time had come to end the talk and to act.

Mr. Cederberg has a question.

Mr. CEDERBERG. If this situation is as serious as it is—and I believe it is—then it seems to me a great deal of the leadership will have to come from the White House, from the President himself, if he expects to get a tax bill along with the spending reduction.

He has the forum.

It concerns me when I know that meetings have been going on at the White House regarding possible budget reductions, and have been going on for a month or more, and then when the President signed the civil rights bill he made a public statement that the Congress now must get busy, pass all the appropriation bills and implement every message that he sent up since January.

We know very well if we implement all those programs, if we fund all those proposals, worthy as they may be, you cannot have a spending reduction. It just is not in the cards.

So, I think we have to have direction out of the Bureau of the Budget. I think the Bureau of the Budget should send an amended budget up here and tell us where these cuts are to take place, and tell the Nation they have to take place because of the serious situation for our dollar internationally and domestically.

If you are to get a tax bill through this House, you will need a lot of votes, and you will need great understanding from the public. The President is the one who will have to make public statements in that regard, and support spending reductions. You cannot tell the public one thing and have meetings at the White House on the other side of the question. You cannot implement the appropriation bills and all the messages and then come back and blame the Congress later. It just will not work.

RESTORATION OF INVESTMENT TAX CREDIT

Mr. JONAS. Mr. Chairman.

Mr. MAHON. The gentleman from North Carolina.

Mr. JONAS. I do not get a chance to ask the Secretary many questions.

The thing that puzzles me, Mr. Secretary, is how we got into this crisis so suddenly. A year ago you were up here approving a tax reduction, restoration of investment credits and accelerated depreciation.

Secretary FOWLER. Not a year ago, Mr. Jonas.

Mr. JONAS. I think it was just about a year ago—early in 1967.

Secretary FOWLER. I advocated nothing but a tax increase.

Let us come to the investment credit.

Mr. JONAS. It amounted to a tax reduction for eligible concerns. And now you suddenly find we are in a crisis requiring a tax increase. Some of us thought we were in one or were approaching it a long time before that. How can you advocate a tax reduction one year, and several months later be in such a financial crisis that requires raising taxes?

Secretary FOWLER. Mr. Jonas, the proposal to suspend the investment credit was made in September of 1966 at the time when the capital goods industry—the plant and equipment area—was the sector of the economy that was in a tremendous boom. The level of expenditure for plant and equipment which was stimulated by the investment credit was increasing not at anything like a normal 5- or 6-percent per annum rate of increase, but an 18-percent rate of increase.

So, we came up in the middle of the situation in September of 1966 with a 3-point program.

Mr. JONAS. I understand the reason for the suspension. What I want to know is why you advocated its restoration so soon thereafter?

Secretary FOWLER. At the time we asked that it be suspended, both the President and the House Ways and Means Committee and the Senate Finance Committee in their reports made very clear that this was a request for a temporary suspension to deal with the situation, the boom in this particular sector of the economy which was creating great strength throughout the economy, and the President took a contract and the Ways and Means Committee took a contract and the Finance Committee took a contract to come back and ask that the suspension be lifted as soon as that situation was corrected.

By the middle of March it was very clear to everyone that the boom had faded as far as plant and equipment were concerned, and that in that particular segment of the economy the anticipated rate of growth was not 18 percent but about 2 or 3 percent. So, we lived up to our contract to restore the investment credit when the condition to which the suspension had been addressed had receded.

Mr. JONAS. I do not see how you can advocate reducing taxes one year and a few months later say that disaster will strike unless taxes are raised.

QUESTION OF ACCURACY OF EXPENDITURE ESTIMATES

Mr. MAHON. Mr. Laird has a question.

Mr. LAIRD. Mr. Secretary, I happen to be one who favors a tax increase and an expenditure reduction in order to keep our budget deficit in 1969 at least at a deficit level of $8 billion.

With this package that you present to us today, what kind of tax bill will we have to pass? Certainly the 10-percent surtax will not keep your budget deficit at the $8 billion level.

Secretary FOWLER. Yes; it will, Mr. Laird.

Mr. LAIRD. You recommend this tax bill and a $4 billion expenditure reduction knowing full well, as I do—and I am sure you have been told—that Defense expenditures are underestimated presently for 1969.

Secretary FOWLER. Let me deal with that.

Under the excise tax extender and the corporation collections, there is $3.1 billion involved in fiscal 1969. Under the surcharge there is $9.8 billion. And with the $4 billion expenditure reduction there is a total of $16.9 billion.

Since the budget was submitted, the President stated on March 31 that the level of expenditures in Defense would go up, I think, $2.6 billion.

Mr. LAIRD. $2.6 billion in fiscal 1968.

Secretary FOWLER. $2.5 billion in 1968.

Mr. LAIRD. For 1969 that is an underestimation, is it not?

Mr. ZWICK. I want to make completely clear that I disagree completely with your assertion that we have underestimated the fiscal year 1969 budget request for Defense.

Mr. LAIRD. You disagreed with me when I made the statement—and I have it in the record—when I used the figure that the President now uses. I used that figure when you were before this committee, and you completely and emphatically disagreed with me at that time, and it has proven to be correct.

Mr. ZWICK. No, sir. You said we would have $5 billion more——

Mr. LAIRD. $5 billion more in expenditures in 1968 and 1969.

Mr. ZWICK. We will not have it in 1968, which is what I had understood you to say.

Mr. LAIRD. 1968 and 1969, my statement was——

Mr. ZWICK. Our programs have increased for 1969. You also stated we would be up for another supplemental for medicaid before the end of 1968; that we had underestimated that in this January's budget.

Mr. LAIRD. You underestimated in last January's budget for fiscal 1968? You were up for a supplemental?

Mr. ZWICK. No; the supplemental was sent up after your statement but the amount was included in the budget estimate this past January.

Mr. LAIRD. We have not passed it yet. You asked for 1.1, and the supplemental came up a few days after you were here. You are underestimating that already, we developed in our committee, by $300 million for 1969.

Secretary FOWLER. May I complete my answer to your question, Mr. Laird?

Taking the President's March 31 statement and Mr. Zwick's estimate, and leaving the question of whether they will prove to be correct, the answer to the question is, indeed of $8 billion, the projected deficit under this package would now be $6.6 billion.

Mr. MAHON. Whatever the deficit may be, it will be too big, and we want to reduce it.

Secretary FOWLER. $6.6 billion. In other words, we are taking $4 billion off the $8 billion by the expenditure reduction. You are putting back on $2.6 billion as a result of the additional Defense spending projection in the President's March 31 statement.

Mr. MAHON. Mr. Zwick and Mr. Fowler and Mr. Laird may amplify their remarks for the record.

(The following statement was furnished for the record by Mr. Zwick:)

The following are the facts concerning the two estimates mentioned in the discussion with Mr. Laird in connection with 1968 and 1969 estimates:

Defense.—The President has stated that Defense expenditures for Vietnam are now expected to exceed the January budget estimates by $2.5 billion in fiscal year 1968 and $2.6 billion in fiscal year 1969. There has been no statement and there is no plan to increase proposed budget authority for fiscal year 1969. There has also been no indication that the expenditure estimate for the entire Government will increase in fiscal years 1968 and 1969 in any areas other than Defense.

Medicaid.—The January budget contained an estimate of $568 million for a 1968 supplemental for the medicaid program together with $567 million for other public assistance programs. This supplemental was transmitted on February 8, 1968, in the exact amount contemplated in the January budget. No change has occurred in the January estimate for the medicare program and none is now being planned.

Mr. MAHON. Gentlemen, thank you very much for your help this morning. The committee will now go into executive session to consider the question of what position the committee will take. I have prepared a resolution to offer, incorporating the package proposal.

INDEX

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