THE FEDERAL BUDGET FOR 1971

HEARINGS

BEFORE THE

COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

NINETY-FIRST CONGRESS

SECOND SESSION

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THE FEDERAL BUDGET FOR 1971

MONDAY, FEBRUARY 9, 1970.

WITNESSES

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MURRAY L. WEIDENBAUM, ASSISTANT SECRETARY FOR ECONOMIC POLICY
THOMAS F. LEAHEY, ASSISTANT DIRECTOR, OFFICE OF TAX ANALYSIS
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ALBERT COX, SPECIAL ASSISTANT TO THE CHAIRMAN

OPENING REMARKS OF THE CHAIRMAN

Mr. MAHON. Early in the session each year for several years we have had a meeting of the full appropriations committee for the purpose of hearing the Secretary of the Treasury and the Director of the Bureau of the Budget. We are having such a meeting today with the Secretary of the Treasury, Mr. David Kennedy, and Mr. Robert Mayo, the Director of the Bureau of the Budget. At about 11 o'clock, Mr. Paul McCracken, the chairman of the President's Council of Economic Advisers, will also be with us.

There is a great deal of concern—in fact, there is a great deal of alarm—throughout the country with regard to the fiscal situation. People are worried about high interest rates. They are concerned about tight money. They are deeply disturbed by galloping inflation.

The Government plays a role in all of these fiscal matters largely through its budget and monetary policies. Today we will be hearing Secretary Kennedy, Director Mayo, and Chairman McCracken discuss the new budget, which is just about the most important document that the President sends to Congress each year.

The President is recommending that the spending for the forthcoming fiscal year approximate slightly more than \$200 billion as compared to spending during the current fiscal year of about \$197.9

billion. He recommends a relatively nominal rise in overall budget spending. But the budget suggests that we increase new budget authority—the authority to commit the Federal Government to new spending—by a net of about $9 billion. This more significantly indicates the trend—upward.

I think it would be well to hear you both without interruption, and then we will have a questioning period. You may proceed in your own way, Mr. Secretary.

Secretary KENNEDY. Thank you, Mr. Chairman.

GENERAL STATEMENT OF SECRETARY OF THE TREASURY

I am particularly pleased to meet with this distinguished committee which bears so great a share of the responsibility in our total effort to halt inflation and restore a sound and healthy economy. The decisions that will be made over the next few months by the men in this room will influence the course of our economy and the well-being of the average American for a good many years to come.

INFLATION

Our economy—indeed our economic system—is I think approaching one of the key junctures that have appeared periodically in our Nation's history. We have experienced over the past few years the strongest sustained surge of inflation since World War II. This has created doubt in some quarters whether the kind of economic countermeasures that have served us well in the past—actions which still leave a maximum of economic freedom to the individual—have become outmoded. As a result we hear rising demands for direct economic controls—on prices, wages, credit—and from some surprising sources. This administration has rejected the direct controls approach, which we believe is unnecessary—if we make the right fiscal decisions now.

A year ago the economy was in a highly inflationary condition. Strong and rising market demand by business, consumers and Government for many months had been in excess of the Nation's capacity to produce the required goods and services. Eight successive years of Federal deficits, culminating in the high $25 billion deficit of fiscal 1968, had steadily fueled the fires of inflation.

We recognized that an inflationary condition which had developed momentum over a period of years could not be stopped short without resort to Draconian measures which could change and disrupt our entire economic system. The real need was a shift in the emphasis of our stabilization measures—in the posture of our Government—from uncertainty to firm restraint. Reliance was placed on vigorous use of the established economic stabilization tools that we believe in the long run are most compatible with the maintenance of a strong free enterprise system.

So a tight restraint was placed on Federal spending with cutbacks made wherever possible. The Congress was urged to maintain the level of tax revenue required by the inflationary situation. As a result, the near record budget deficit of fiscal 1968 was followed by a surplus in 1969. With your cooperation a surplus will be maintained through 1971.

On the monetary front, the Federal Reserve held a tight rein on credit. This has created real difficulties—not least for the Treasury. But firm control on credit was indispensable to the success of the overall effort. In short, the established stabilization actions that have worked effectively in the past were applied with vigor across-the-board.

We believe that given time these measures will do the job. I recognize that the results up to now—in terms of price changes—will not satisfy any of you in this room. They don't satisfy me. But there are definite indications that the policy of restraint is taking hold. The rate of expanding GNP in the past three-quarters has slowed. Consumer demand is easing. There are growing signs that business is taking a hard look at planned expansion in investment. And, of course, Federal spending has been very definitely leveling off.

None of this is pleasant. But it is an essential part of the process to "cool" the economy, and to slow the price increase and the demand for credit and—ultimately—reduce the cost of credit. We have reached a difficult point in the fight against inflation, but if we maintain our resolve and work together—the administration and the Congress—I am confident that the fight will be won. And all of you in this committee have a vital role to play.

In preparing the new budget we have worked hard to come up with tight and realistic figures both on the expenditure and receipts side. We believe that the economic effect of this budget will be to further strengthen the resistance against rising prices we have been building up during the past year. While the level of overall spending has been restrained, this administration fully recognizes that some increase in spending will be required to meet essential national needs in certain areas. But these and other vital programs that will be needed in the years to come can effectively move forward only in the context of a strong and stable national economy. A return to price stability and sustainable economic growth must, therefore, be of the highest priority.

There are, of course, risks in maintaining a general policy of economic restraint. While risks are inherent in any anti-inflation program, this administration has attempted to minimize them. This is why we have avoided excessive and abrupt restraint actions. I believe that our present economic policy will avoid a serious downturn while successfully reducing inflationary pressures. However, there are discretionary powers in competent hands which I think give us pretty good assurance that timely countermeasures will be taken if and when they become clearly required.

ESTIMATES OF FEDERAL REVENUE

My colleagues will cover the expenditure and economic implications of the budget in more depth. At this point I want to review with you the Treasury's primary responsibility in the budget process—the inflow of Federal revenue. In past years Treasury estimates of Federal revenue in the January budget have tended to be on the conservative side. I think it particularly important for the 1971 budget to be in this tradition. President Nixon has made it clear that the budget is to continue in surplus. He has also made it clear our assumptions on expenditure and revenue must be realistic. The estimate of Federal revenue is therefore based on a cautious appraisal of the economic outlook. Similarly, we consider realistic our assumption that Congress will act favorably on the minor tax changes we have requested.

ECONOMIC ASSUMPTIONS

Briefly here are the major features of the revenue side of the Federal Budget. Budget receipts in fiscal year 1971 are estimated at $202.1 billion, an increase of $2.7 billion over fiscal 1970. This estimate is based on an expectation that the gross national product in calendar 1970 will total $985 billion, an increase of $53 billion over calendar 1969. This contrasts with a GNP increase of $67 billion in calendar 1969 over 1968. Corporate profits in calendar 1970 are estimated to be $89 billion—a drop of $5 billion compared with 1969.

We are working hard to speed the time when price stability will be achieved. While I am confident that these efforts will be reflected in an improved price picture during 1970, it would be unrealistic to project a halt in price increases during this year. Our estimate, therefore, assumes a further rise in prices but at a slower rate than in 1969.

To understand the major causes of the change in budget receipts in fiscal 1970–71 I refer you to the second of the tables on budget receipts appended to my statement. In the absence of any change in tax rates—that is under the rates in effect during December 1969—the expected economic expansion during calendar 1970 would have increased fiscal 1971 revenues by an estimated $8.5 billion. If we add the effect of administrative actions to be taken by the Treasury to speed the collection of withheld income and excise taxes, the total revenue increase in fiscal 1971 unrelated to any legislative change would have been $9.7 billion. I might add that the planned acceleration of income tax collections does not require any earlier payments by individuals but merely a shortening of the pipeline time until these payments actually reach the Treasury.

However, the ending of the tax surcharge on June 30 will reduce potential 1971 revenue by an estimated $8.5 billion offsetting the effect of economic growth. Other changes in tax rates already scheduled under existing law will, on balance, about offset each other. The major one is a social security rate increase effective January 1, 1971. Therefore, in the absence of any further legislative action this year on taxes—and taking account of expected economic growth and the speed-up in tax collections—Federal revenues in fiscal 1971 would increase by about $1 billion.

The remainder of the projected $2.7 billion increase in revenues is based on proposed legislation. Of this $1.6 billion total, $0.7 billion is a recommended increase in user charges—more than half of which concerns aviation. The increase in aviation charges has already passed the House of Representatives and we expect early action in the Senate. Approximately $0.6 billion would result from continuation of present automobile and telephone excises for 1 year beyond the present expiration date of January 1, 1971. The Congress has continued these rates in the past when justified by the fiscal situation. Another $0.2 billion would result from raising the social security tax base from

$7,800 to $9,000. We think this should be done in order to keep the tax base consistent with the rise in personal income. Finally, $0.1 billion would come from an increase in railroad retirement fund revenues.

We ask your support of these proposals in the interest of sound budget policy.

We must recognize that the termination of the surcharge in June 1970 demands harder fiscal discipline throughout the budget. We need to wear very tight belts to validate the effective tax reduction that is already in the law. Under conditions of full employment, tax reductions which produce large deficits simply substitute an inflation tax for explicit taxes. This fiscal program, to offset the surcharge termination, therefore demands support for the modest revenue increase proposals that the President has advanced and stern resistance to additional expenditure increases.

Over the long run, additional revenues will be available under present law; and we can consider how these might best be employed for the public benefit through tax reduction, further assistance to State and local governments, new expenditure programs and debt reduction. These alternatives you should keep before you during this year and next when you are considering programs which seem to have small current cost but commit us to larger future costs.

BUSINESS TAX

The final decisions on budgets beyond fiscal year 1971 must be reserved for the future, but I would suggest one point of some importance. The Congress did enact a considerable increase in taxes on business in the Tax Reform Act of 1969 through repeal of the investment credit and otherwise. At the same time it provided substantial reduction for individuals. The business tax increases will undoubtedly have some impact on our ability to expand and improve our plant and equipment capacity. We should be prepared to face what may be a high priority need in the future for adjusting the business tax burden.

FEDERAL DEBT

With regard to the implications of the budget figures on our debt operations, I would first point out that the surplus in the unified budget will result in a decline in Federal debt held by the public. This surplus will help avoid excessive Government competition for the necessarily limited supply of credit available for private purposes—notably housing. I might add that under the policy of general credit restraint over the past year, a special effort was made to ease the burden on housing. Funds made available for residential and farm mortgages by FNMA and the home loan banks increased from $3.0 billion in all of 1968 to a $10.2 billion annual rate in the third quarter of 1969.

But despite the reduction in Federal debt held by the public in 1970 and 1971, an increase in the debt ceiling will be required by the end of this fiscal year. This reflects the expansion in debt obligations held by the trust funds, as well as the need to accommodate seasonal swings between receipts and expenditures. A decision on the amount of the debt increase will not be made until we see the actual figures on budget receipts and expenditures over the next few months. I might add that the current congressional ceiling on budget expenditures tends to reduce whatever importance the public debt ceiling may have had in the past as a deterrent to spending.

INTEREST ON THE PUBLIC DEBT

I might also comment briefly on the budget estimate for interest on the public debt in fiscal 1971. This estimate assumes that in 1971 a somewhat lower level of interest rates will result from a less inflationary economy. However, this will be roughly offset by a rise in interest costs due to refunding maturing obligations carrying low rates, and the need to invest surplus trust fund receipts in Federal securities. Hence, on balance, net interest costs are expected to show little change in 1971.

AID TO STATE AND LOCAL GOVERNMENTS

A discussion of Federal budgetary policy would be incomplete without mention of the interrelated role of the several levels of government in allocating our public resources. The Federal Government has become increasingly involved in supporting those public services traditionally provided by our State and local governments. Federal grants-in-aid for support or initiation of particuar State and local government services amount to $24.1 billion in the current fiscal year. In fiscal 1971 they will increase to an estimated $27.6 billion.

As the central tool of fiscal federalism, the grant-in-aid has fairly well defined the arrangement of intergovernmental responsibilities. Policy determination and financial support come from the Federal Government. Operating responsibility, within the framework of Federal guidelines, is assigned to the existing State and local government bureaucracies.

However, the enormous increase in the number and variety of Federal aid categories—there are now somewhere over 500 separate program authorizations—has produced serious inefficiencies and inequities. As one step toward improving our system of intergovernmental aid, the President has proposed that a portion of the future increases in State and local assistance be made in a broader and less conditional form. His proposal for sharing Federal revenues with State and local governments is designed to bring a small amount of assistance directly to every State and locality without the multiple forms, administrative requirements, application experts, and other overhead costs. This is a very sensible and important reform, and I hope the Congress will consider it favorably during the current session.

INTERNATIONAL MONETARY SITUATION

This committee has always maintained a close interest in the international monetary situation. In 1969, as you know, substantial progress was made toward strengthening the international monetary system when the International Monetary Fund accepted and implemented the use of special drawing rights in settlement of international balances. In October, a decision was reached on an initial 3-year activation of $9.5 billion. This decision was followed by a sharp decline in the price of gold on the private commodity market in October-December, and speculators became convinced that it was no longer possible to hope for an increase in the official monetary price of gold.

The Fund's executive board is also developing a plan for an increase in the Fund's quotas, which provide the resources used for regular Fund credits that assist member countries in dealing with temporary balance-of-payments problems. The board has recommended an increase of $7.6 billion or about 35 percent. The proposed U.S. share of $1.5 billion, and we will seek congressional approval to accept this increase, bringing the total U.S. quota to $6.7 billion. This additional subscription does not have any impact on the budget.

Later in the year the Fund reached an understanding with the Republic of South Africa providing basically that new South African gold production would flow into the commodity market unless the price there was $35 or below, in which case the Fund would acquire gold for the monetary system as a whole. This understanding filled in an area that had not been clarified in the two-tier gold understanding of March 1968, and gave a firmer institutional base to that earlier agreement.

Another encouraging trend in the past year was the substantial increase in the amount of lending to the developing countries by the three international development banks in which the United States has membership—the World Bank, the Inter-American Bank and the Asian Development Bank. President Nixon's policy is to use the multilateral channels to a greater extent in the effort to promote economic growth in the developing nations. That policy is in full accord with our judgment that Government expenditures must be held to the minimum. The important advantage of these banks is that all donor member countries bear an equitable share of the collective burden of providing development finance. A further benefit is that these institutions are able to draw on private markets as well as Government contributions to obtain resources.

BALANCE OF PAYMENTS

But while progress was made in modernizing our international financial structure and in sharing the burden of development aid, the U.S. balance-of-payments problem is still of deep concern to us.

The most important thing the Government can do at this time to improve our balance-of-payments situation is to continue actions that are necessary to restore reasonable price stability. Last year when currency speculation was rife, the factor more than any other that helped maintain foreign confidence in the dollar was the belief that the U.S. Government would deliver on its commitment to stop domestic inflation. Fortunately, foreigners have retained their trust in the dollar despite the poor balance-of-payments results we have been showing for many years.

Last year's results were no exception. Stripped of the window-dressing operations which had previously concealed its size, the deficit on a "liquidity" basis will show a sharp increase.

The dollar has been strong throughout the year, despite the very large liquidity deficit. Maintenance of a tight domestic monetary policy and the resulting high level of U.S. interest rates encouraged foreigners to place dollars in the United States and to earn high interest returns on them. Hence, dollars did not accumulate in the official reserves of foreign countries.

Therefore, on the "official settlements" basis—that is, the balance of our international transactions financed by changes in our reserve assets or in the dollar holdings of foreign governments—we had a very sizable surplus last year, the largest since the years immediately following World War II.

Nevertheless, our underlying position on goods and services account showed little improvement, and remains too limited to cover our governmental air programs and our export of private capital. The Federal Reserve and Commerce programs of restraints on capital outflow have been continued, though somewhat eased.

But elimination of domestic inflation is not all we need to do to strengthen our balance-of-payments position. We are seeking a more equitable distribution of the burden of mutual defense expenditures. We are seeking the reduction abroad of nontariff barriers which shut out many U.S. exports. We are trying to heighten the export consciousness of our business community. And we are investigating tax avenues which might help equalize our competitive position relative to exports from other countries.

To sum up my view on how well we have managed to cope with the broad range of national and international economic problems that confront us, I believe we are now on the right track and are making progress toward a stronger economy at home and abroad. My concern is that we maintain the patience and resolution to press ahead with the kind of corrective measures that, however unpopular in the short run, will ultimately restore strength and stability to our economy.

UNIFIED BUDGET RECEIPTS—RECEIPTS, ACTUAL FISCAL 1969 AND ESTIMATED 1970–71 UNDER LEGISLATION PROPOSED IN FISCAL 1971 BUDGET DOCUMENT

[In billions of dollars]

	Fiscal year receipts		
	Actual, 1969	1970	1971
Individual income tax	87.2	92.2	91.0
Corporation income tax	36.7	37.0	35.0
Employment taxes and contributions	34.2	38.9	42.8
Unemployment taxes	3.3	3.3	3.3
Premiums for other insurance and retirements	2.4	2.6	2.9
Excise taxes	15.2	15.9	17.5
Estate and gift taxes	3.5	3.5	3.6
Customs duties	2.3	2.3	2.3
Miscellaneous receipts	2.9	3.7	3.6
Total budget receipts	187.8	199.4	202.1

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

Unified budget receipts—causes of change in receipts 1970 to 1971

[In billions of dollars]

Estimated receipts, fiscal year 1970	199. 4
(*a*) Changes unrelated to legislation:	
Economic growth effect	+8. 5
Acceleration of tax payments	+1. 2
Total	+9. 7
(*b*) Effect of enacted legislation:	
Decrease in income surcharge	−8. 5
Repeal of investment credit	+1. 2
Tax reform and relief	−2. 3
Social security tax changes	+1. 6
Reduction in automobile and telephone tax rates (cancelled by proposed legislation below)	−. 6
Total from enacted legislation	−8. 6
(*c*) Effect of proposed legislation:	
Extension of automobile and telephone taxes	+. 6
Social security increase in tax base	+. 2
Increase in railroad retirement tax provisions	+. 1
User charges	+. 7
Total from proposed legislation	+1. 6
Total change, fiscal year 1970 to 1971	+2. 7
Total receipts, fiscal year 1971	202. 1

CHANGES IN UNIFIED BUDGET RECEIPTS, 1970–71

[In billions of dollars]

	Fiscal year receipts 1970	1971
1. Receipts under tax law in effect through Dec. 31, 1969	195.4	196.8
2. Revenue effect of Tax Reform Act of 1969:		
Individual income tax:		
Tax reform and relief	−.4	−3.3
Repeal of investment credit	+.4	+.6
Extension of surcharge	+1.7	+.4
Total, individual income tax	+1.7	−2.3
Corporation income tax:		
Tax reform and relief	+.3	+.9
Repeal of investment credit	+.9	+1.9
Extension of surcharge	+.3	+.7
Total, corporation income tax	+1.5	+3.5
Excise taxes: Extension of excise tax rates	+.6	+1.2
Total, Tax Reform Act of 1969	+3.8	+2.4
3. Acceleration of tax payments:		
Excise tax		+.5
Income and employment tax		+.7
Total		+1.2
4. Proposed legislation:		
Employment taxes:		
Increased tax base to $9,000		+.2
Increased railroad retirement taxes		+.1
Total, unemployment taxes		+.3
Excise taxes:		
User charges	(1)	+.7
Extend automobile and telephone taxes		+.6
Total, excises		+1.3
Miscellaneous receipts: Currency write off	+.2	
Total, proposed legislation	+.2	+1.6
Total, budget receipts	199.4	[2] 202.1

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

[1] Less than $50,000,000.
[2] Figures are rounded and do not add to totals.

Mr. MAHON. Thank you, Mr. Secretary, for your very helpful statement. Mr. Mayo.

GENERAL STATEMENT OF THE BUDGET DIRECTOR

Mr. MAYO. Thank you, Mr. Chairman. With your permission, I would like to extemporize a little bit with the charts in the first part of my statement, with the understanding that both the statement and the charts will be entered into the full record.

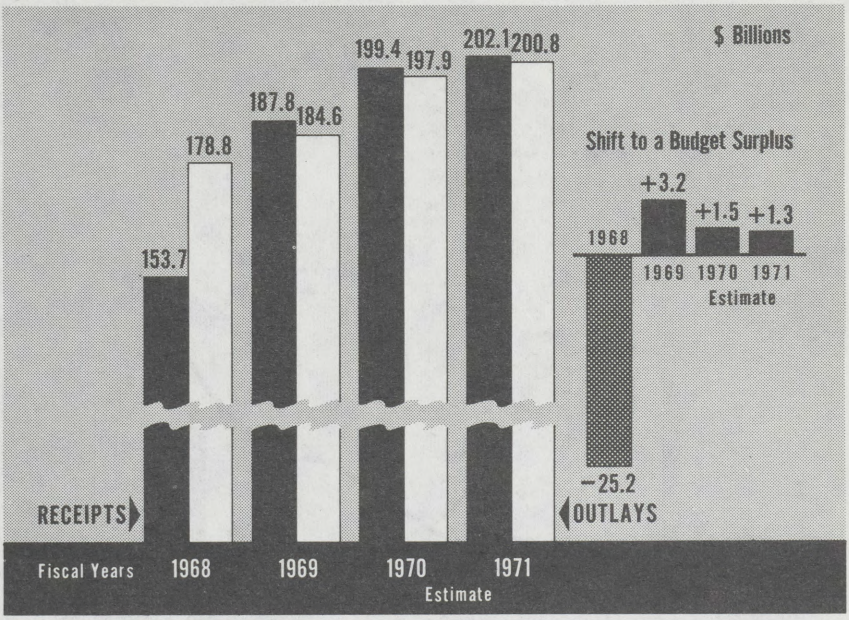
(The full text of Director Mayo's statement follows:)

STATEMENT OF ROBERT P. MAYO, DIRECTOR OF THE BUREAU OF THE BUDGET ON THE BUDGET FOR 1971

Mr. Chairman and members of the committee, the 1971 budget is an anti-inflationary budget. Outlays are estimated at $200.8 billion and receipts at $202.1 billion, yielding a surplus of $1.3 billion.

The surplus is the result of very strict expenditure restraint. Budget outlays in 1971 are estimated to be $2.9 billion higher than in 1970, an increase of only 1.5 percent and the lowest rate of increase since 1965.

Budget Totals, 1968–1971



Executive Office of the President / Bureau of the Budget

This is a prudent budget. It is as lean as we could make it. We might have produced a budget of under $200 billion for public relations effect. We chose instead to present a responsible budget.

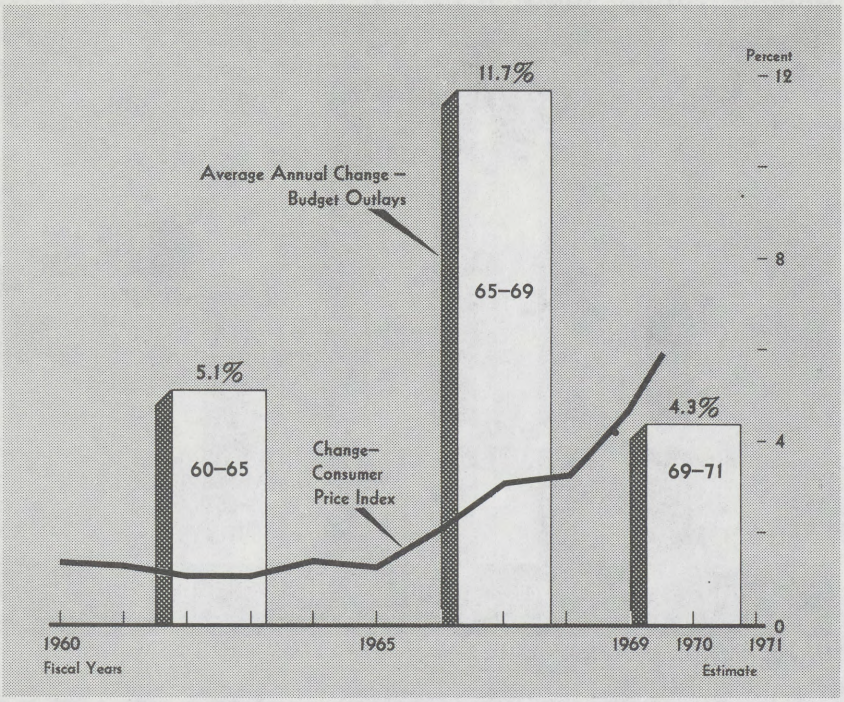
As Secretary Kennedy pointed out in his statement, the budget surplus will be achieved despite an $8.5 billion loss of receipts resulting from the termination of the income tax surcharge. Other tax rate changes under existing law will result in a loss of about $0.1 billion. These losses will be offset by $9.7 billion of higher receipts from economic growth and accelerated collections of income and excise taxes, and proposed legislation will produce an additional $1.6 billion. Thus, total receipts will increase by $2.7 billion.

Because Secretary Kennedy has already discussed the receipts side of the budget in some detail, my statement will deal largely with outlays and budget authority.

BUDGET OUTLAYS

The 1.5 percent increase in budget outlays in fiscal year 1971 is less than the expected increase in prices over the same period. This means that in real terms outlays will actually decline.

Budget Outlays and Prices



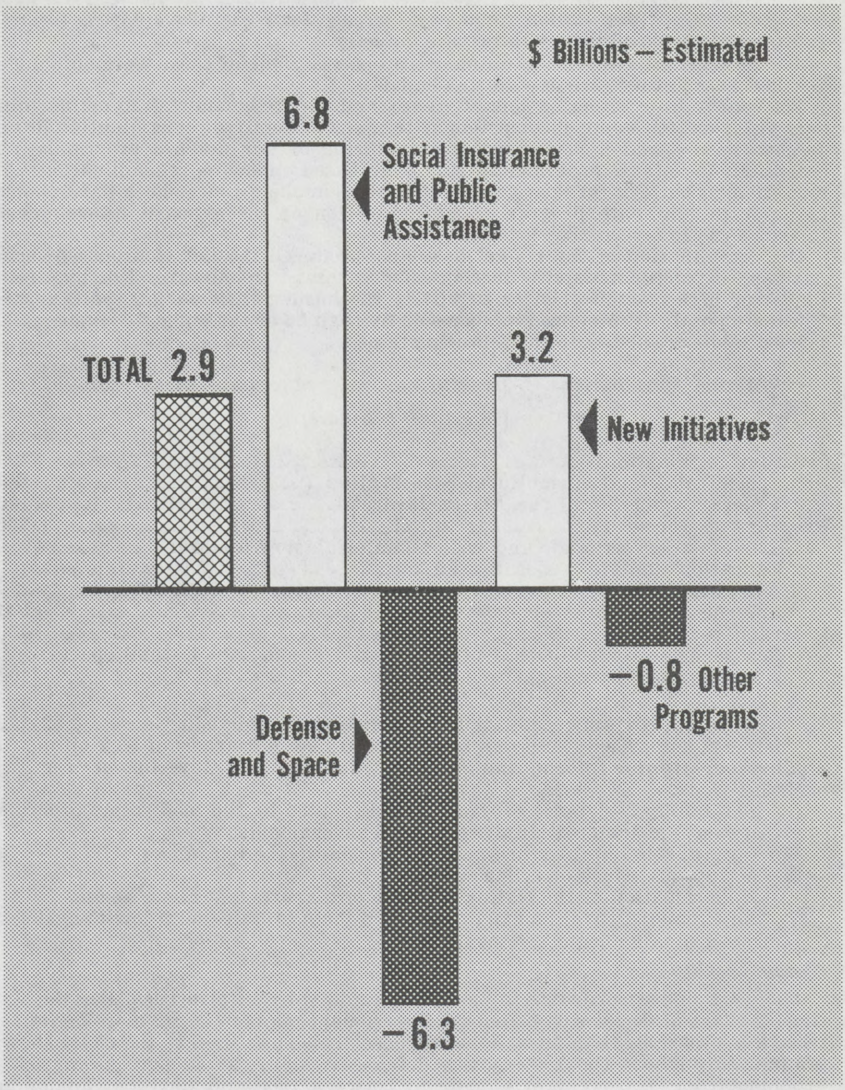
Executive Office of the President/Bureau of the Budget

This chart contrasts the rate of change in the consumer price index with the rate of change in budget outlays. Precisely because prices have been increasing at such a rapid rate—5.5 percent (June 1968 to June 1969) and 6.1 percent (December 1968 to December 1969)—it is imperative to hold Federal expenditures to as low a level as possible in the coming year. This is what we have done.

Changes in budget outlays

The total increase in budget outlays in 1971 is $2.9 billion. More than double that amount—in fact, $6.8 billion—is accounted for solely by increased public assistance and social security benefits, of which $2.8 billion is for the 7 additional months the recently enacted 15 percent increase in social security benefits will be in effect.

Change in Outlays, 1970–1971



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We know that the needs of the Nation are many. We also know that we cannot rely entirely upon the availability of increased tax receipts to finance new initiatives. Indeed, new initiatives—as we view them—include tax reduction and debt reduction as well as new or expanded programs.

Guided by the principle that we cannot rely entirely on increased tax receipts to pay for new programs, we examined the base of the budget along with proposed additions to the base. The results of our philosophy and our efforts to find ways to reduce the base are reflected in this chart.

Defense and space programs are estimated to decrease by $6.3 billion in 1971, and by $8.5 billion from 1969 levels.

A net decrease in other programs of $800 million, was made, even after allowance of $1.4 billion for a pay increase for Federal employees to move toward comparability with private industry.

New initiatives of $3.2 billion are proposed. Some of these were announced last year; others are new in this budget.

We believe in a strong national defense, and we are committed to maintaining one. This position is not inconsistent with a comprehensive reexamination of our defense needs—and a consequent restructuring of our defense programs. The reductions in defense programs in 1971 were based on such a reexamination. The reduction in outlays for space research and technology reflect both hard choices to defer or eliminate programs and completion of the expensive development phase of the lunar landing program.

Our examination of the budget base also produced the list of proposed terminations, restructuring, and reductions of programs that, however worthy, are no longer of high enough priority to justify the burden they put on the taxpayer. These proposals are itemized on pages 52 through 56 of the budget document. The largest items are shown in the following table:

Program terminations, restructuring, and reductions—fiscal year 1971

[In millions of dollars]

	Savings
Program terminations	$300
Special milk and agricultural conservation	(130)
Federal ownership of the Alaska Railroad	(100)
Program restructuring	1,396
Sale of excess strategic and critical materials now stockpiled	(751)
Education aid to federally affected areas more closely related to need	(196)
Reforms in veterans benefits	(106)
Program reductions	436
Postponement of additional procurement (launch vehicles and spacecraft) and lunar flight schedule	(402)
Total, program terminations, restructuring, and reductions	2,132

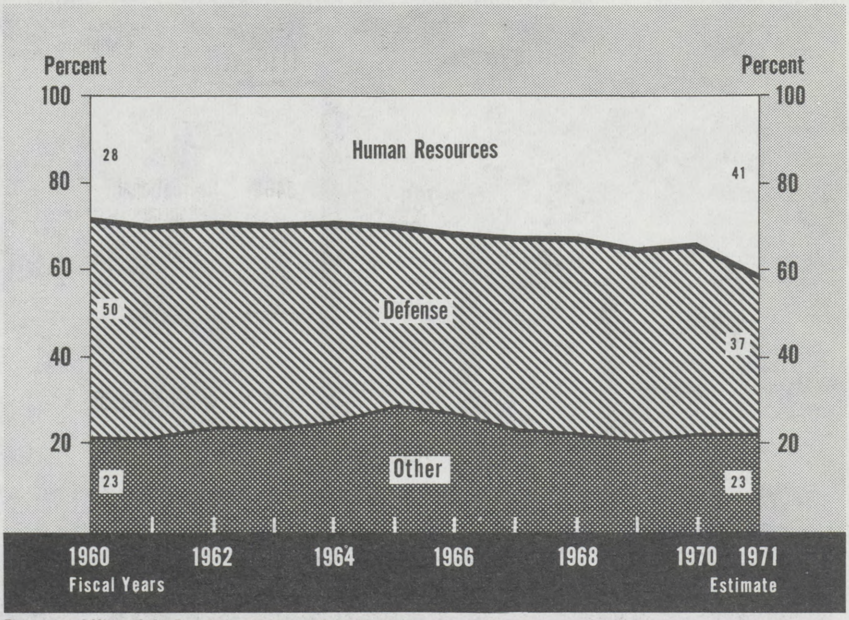
These reductions will help pay for proposed new initiatives of $3.2 billion, including long-overdue reforms and improvements in several Government programs, such as:

The family assistance program, supplemented by the food stamp program;
Revenue sharing with State and local governments;
Programs to improve the quality of our physical environment;
A vigorous attack on crime;
Modernization of the Nation's system of airports and airways, and
An expanded rural housing program to help families with low-to-moderate incomes obtain adequate housing.

Changing priorities

The 1971 budget provides for a considerable shift in priorities. For the first time in two full decades, the Federal Government plans to spend more on human resources programs than on national defense. This shift was, as the chart shows, gradual throughout the 1960's, with defense—which was 62 percent in 1953—dropping from 50 percent to 44 percent between 1960 and 1969 and human resources programs rising from 28 percent to about 34½ percent. The shift from 1969 to 1971 will be as great as during the preceding 9 years. Defense outlays will drop to slightly over 36½ percent in 1971, while outlays for human resources programs will rise to 41 percent.

Changing Priorities Percentage Distribution of Outlays



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Two of the programs receiving special emphasis in the 1971 budget are: improvement of the quality of the environment and crime reduction. The chart on major environmental quality programs shows Federal outlays for these programs for 1961 and 1969–71. Outlays in 1971 are expected to be $471 million higher than in 1969—an increase of 73 percent—as we step up our efforts to control air and water pollution and develop our recreational resources. Under the program proposed in the budget, 1972 outlays will reach $1.5 billion.

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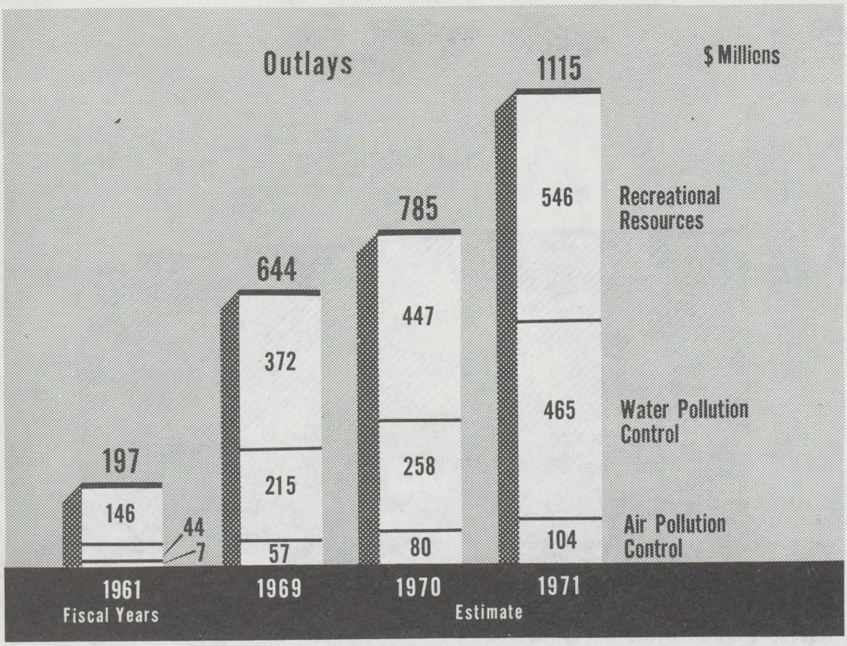
Major Environmental Quality Programs



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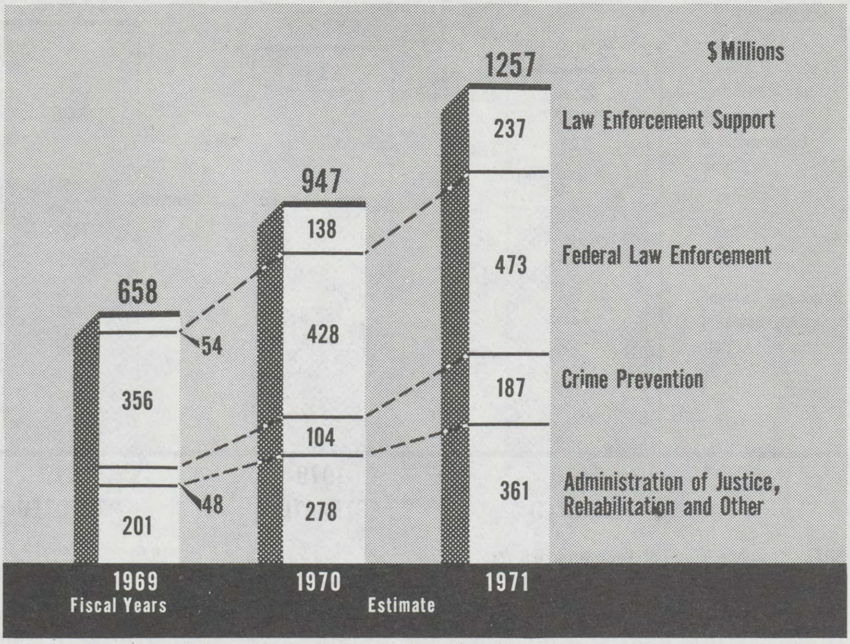
Outlays do not measure fully the strength of the administration's 1971 commitment to improvement of environmental quality. The growth in budget authority is far more dramatic, going from $816 million in 1969 to $1.4 billion in 1970 and $4.8 billion in 1971. About $4 billion of the 1971 budget authority is for a water pollution control program to stimulate $10 billion of construction for new waste treatment facilities.

Outlays for law enforcement and crime prevention activities are increasing at an equally impressive rate, rising from $658 million in 1969 to $1.3 billion in 1971—an increase of 91 percent. A further increase to $1.5 billion in 1972 is likely.

Outlays for Crime Reduction



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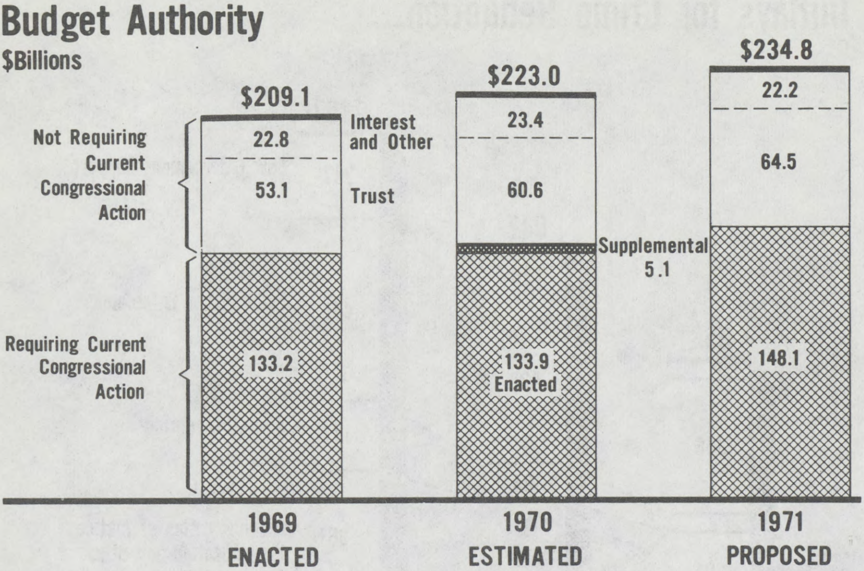
BUDGET AUTHORITY

Total budget authority, after deductions for offsetting receipts, is expected to rise from $196 billion in 1969 to $209 billion in 1970 to an estimated $218 billion in the fiscal year just ahead.



NOTE: Amounts have not been Adjusted for:	1969	1970	1971
INTRABUDGETARY TRANSACTIONS	8.7	9.7	11.2
PROPRIETARY RECEIPTS FROM THE PUBLIC	4.2	4.2	5.5

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As this committee is well aware, only about two-thirds of the budget authority for any given year requires congressional approval in that year (current budget authority). Current budget authority contained in this budget for fiscal years 1969, 1970, and 1971 is as follows:

$133 billion in 1969; $139 billion (including supplemental appropriations of $5 billion) in 1970; and $148 billion in 1971.

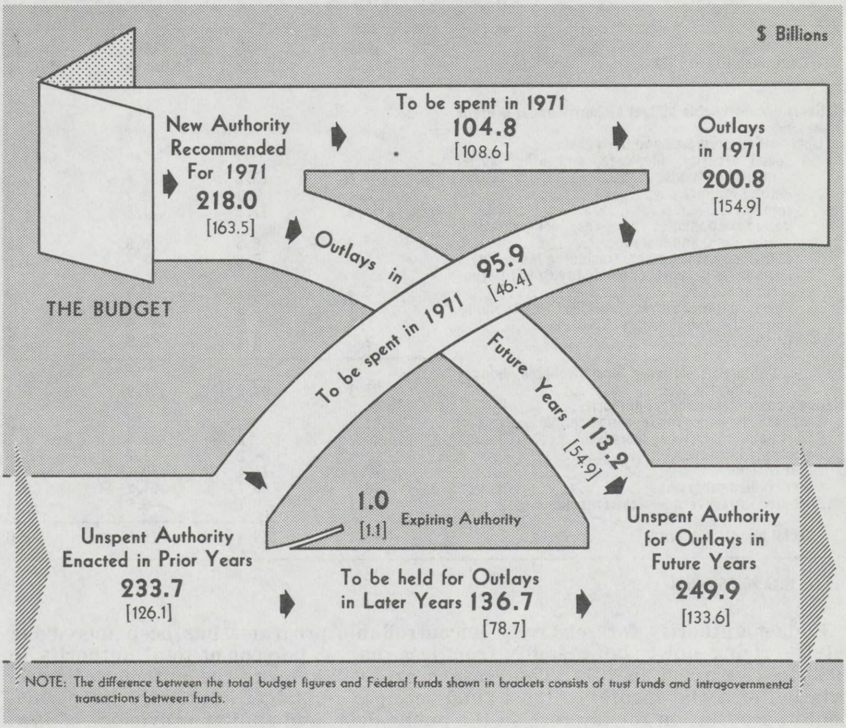
The increase from 1970 to 1971 exceeds $9 billion. Much of the increase is accounted for by transportation programs (urban public transportation, airways, and airports), water pollution control, and HEW programs—particularly public assistance, education, the new family assistance program, and payments to social security trust funds.

Trust funds account for the largest share of budget authority becoming available without current congressional action (permanent budget authority). Permanent authority for trust funds will rise from $53 billion in 1969 to almost $61 billion in 1970, and to an estimated $64.5 billion in 1971.

Interest on the public debt (a permanent indefinite appropriation) accounts for most of the remaining authority not requiring current congressional action. These interest payments rise from $16.6 billion in 1969 to $18.8 billion in 1970 and $19 billion in 1971.

Relation of budget authority to outlays

Of the $218 billion in budget authority being sought in 1971, approximately $105 billion is expected to be spent in fiscal year 1971. The remainder, more than $113 billion, will be carried forward for possible spending in later years.



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Unspent authority from prior years will finance outlays of $96 billion in 1971—or about 48 percent of total outlays estimated for that year. Almost $137 billion will be carried forward beyond 1971, with $1 billion of authority expiring.

CONTROLLABILITY

Controllability of budget authority

The large carryover of budget authority from prior years helps to illustrate another point with which this committee is familiar: Much budget authority is relatively uncontrollable in the near term without basic changes in laws.

CONTROLLABILITY OF BUDGET AUTHORITY, FISCAL YEAR 1971

[In billions of dollars]

Controllability in 1971	1969 actual	1970 estimate	1971 estimate	Change 1970–71
Relatively uncontrollable budget authority under present law:				
Open-ended programs and fixed costs:				
Social security, Medicare, and other social insurance funds	47.6	53.2	58.4	5.3
Retired military pay	2.4	2.9	3.2	.3
Interest	15.8	17.8	17.8	(1)
Veterans benefits: pensions, compensation, education, and insurance	5.9	6.5	6.8	.3
Public assistance grants (including Medicaid)	6.4	7.6	8.7	1.1
Farm price supports (Commodity Credit Corporation)	5.5	4.2	3.8	−.4
Postal operations directly related to mail volume	.7	.9	.9	(1)
Legislative and judiciary	.4	.5	.5	(1)
Other	2.6	3.1	2.8	−.3
Subtotal, relatively uncontrollable budget authority	87.3	96.6	102.9	6.3
Relatively controllable budget authority:				
Proposed allowance for revenue sharing			.3	.3
Civilian and military pay increase		.2	1.4	1.2
Postal rate increase		−.2	−1.2	−1.0
Other national defense	77.7	73.4	70.1	−3.3
Other civilian programs	36.2	45.1	51.2	6.1
Undistributed intragovernmental transactions	−5.1	−6.1	−6.6	−.6
Total budget authority	196.2	209.1	218.0	9.0

[1] Less than $0.05 billion.

Budget authority for relatively uncontrollable programs has been increasing lately—rising slowly but steadily from less than 45 percent of total authority in 1969 to 47 percent in 1971. The reasons are well-known—the automatic appropriation of social insurance trust fund receipts as budget authority, the permanent appropriation for interest on the public debt, and similar provisions of law. As the table above indicates most of the relatively uncontrollable budget authority is for such programs as social security, interest on the public debt, veterans' benefits, public assistance, and farm price supports.

Controllability of budget outlays

Once budget authority is granted, and obligations incurred, an even larger proportion of budget outlays than budget authority is relatively uncontrollable in the short run.

While 53 percent of budget authority is "controllable" in 1971, only 31 percent of budget outlays is subject to discretionary control.

Moreover, the proportion of outlays that is relatively uncontrollable is rising faster than the corresponding percentage for authority. Relatively uncontrollable outlays are expected to rise from 64 percent of total outlays in 1969 to 66 percent in 1970, to an estimated 69 percent in 1971. The major reason for the difference between the percentages for outlays and budget authority is outlays made out of prior-year contracts and obligations—about 22 percent of total outlays for the 3 years.

CONTROLLABILITY OF BUDGET OUTLAYS

[Fiscal years, In billions]

Controllability in 1971	1969 actual	1970 estimate	1971 estimate
Relatively uncontrollable outlays under present law:			
Open-ended programs and fixed costs:			
Social security, Medicare, and other social insurance trust funds under January 1969 laws	$39.8	$43.8	$46.9
Social insurance benefit increases recently enacted		1.8	4.6
Military retired pay	2.4	2.9	3.2
Interest	15.8	17.8	17.8
Veterans benefits: Pensions, compensation, education, and insurance	5.7	6.4	6.7
Public assistance grants (including Medicaid)	6.3	7.5	8.5
Farm price supports (Commodity Credit Corporation)	4.1	3.5	3.7
Postal operations directly related to mail volume	0.5	0.9	0.9
Legislative and judiciary	0.4	0.5	0.5
Other	1.5	2.2	2.2
Outlays from prior year contracts and obligations:			
National defense	25.5	25.5	23.7
Civilian programs	16.4	18.5	19.6
Subtotal, relatively uncontrollable outlays	118.6	131.3	138.4
Relatively controllable outlays:			
Proposed allowance for revenue sharing			0.3
Civilian and military pay increases		0.2	1.4
Postal rate increase		−0.2	−1.2
Other national defense	53.2	51.1	46.7
Other civilian programs	17.9	21.6	21.8
Undistributed intragovernmental transactions	−5.1	−6.1	−6.6
Total budget outlays	184.6	197.9	200.8

FEDERAL EMPLOYMENT

In line with strict control of expenditures, overall Federal civilian employment will decline for the second consecutive year in 1971. Reductions in Defense Department employment have been partially offset by selective increases in civilian agency employment to meet the needs of an expanding population. Such increases are for airway traffic safety, antipollution efforts, postal deliveries, and law enforcement; to meet increases in workload of both the Veterans' Administration and the Social Security Administration; and to audit more tax returns. The overall decrease in full-time permanent employment from 1970 to 1971 is projected to be 5,600. Total employment will decrease by a similar number. The decrease from 1969 to 1970 is estimated to be 31,000 in full-time permanent employment and 55,300 in total employment.

Full-time permanent employment is shown in the following table.

FULL-TIME PERMANENT EMPLOYMENT IN THE EXECUTIVE BRANCH AS OF JUNE 30

[In thousands]

Agency	Actual, June 1969	1970 January 1970 budget estimate	1970 1971 budget estimate	1971 budget estimate
DOD, military functions	1,225.9	1,235.0	1,165.9	1,110.1
Post Office	562.4	575.7	567.0	585.0
Subtotal	1,788.3	1,810.7	1,732.9	1,695.1
Agriculture	83.4	86.4	83.0	85.3
Commerce	25.4	26.0	25.6	26.7
DOD, civil	31.2	31.4	30.7	31.0
HEW	102.9	106.7	102.5	105.1
HUD	14.3	16.8	14.9	16.0
Interior	58.2	60.9	59.3	61.1
Justice	35.1	36.6	37.6	39.1
Labor	9.7	9.7	10.3	10.8
State	24.7	24.6	23.9	23.4
Transportation	60.4	65.4	63.6	70.3
Treasury	80.0	85.1	86.7	93.5
AEC	7.0	7.3	7.0	6.9
GSA	36.2	38.1	36.4	36.8
NASA	31.7	31.5	31.4	30.6
VA	147.6	152.3	148.5	150.2
Other agencies:				
AID	15.8	15.9	15.0	14.4
Civil Service	5.0	5.2	5.2	5.5
OEO	2.9	2.9	2.4	2.5
SSS	6.6	7.0	6.6	6.5
SBA	4.1	4.2	4.1	4.1
TVA	12.0	12.6	12.3	13.3
PCC	14.7	15.2	14.7	14.9
USIA	10.5	11.0	10.2	10.1
Miscellaneous agencies	26.2	27.5	27.8	28.9
Subtotal	845.5	880.3	859.9	887.1
Allowance for contingencies		2.5	10.0	15.0
Total	2,633.8	2,693.5	2,602.8	2,597.2
Total employment, executive branch	2,980.1	3,032.0	2,924.8	2,919.2

Note: Totals may not add due to rounding.

In addition to the reduction in civilian employment, the armed services personnel on active duty will decline substantially—to 2,947,000 in 1971.

In our efforts to combat inflation, we are asking that Federal comparability pay adjustments be postponed until January 1, 1971. The annual cost to achieve comparability with 1969 private enterprise rates is estimated at $2.4 billion for civilian and military pay combined. With a January 1, 1971, effective date, the total 1971 fiscal year cost will be $1.2 billion. We assume that one-sixth of this amount will be absorbed by the various agencies.

LONG-RANGE OUTLOOK

A major innovation this year is the inclusion of a look at what the future holds for us. Estimates of the effect in 1975 of 1971 budget decisions are presented in the budget document. These are rough and tentative estimates—as they must necessarily be. But they are critically important to us in the executive branch and, especially, to this committee as an aid in rational planning.

The projections are not shown in detail in the budget because detailed projections would be more illusory than helpful. The principal value of the projections is to measure in broad, general magnitudes the gap that may exist in 1975 between Federal revenues under existing and currently proposed legislation and Federal spending for programs that are proposed in the 1971 budget. This gap, or margin remaining, tells us the limits on new initiatives—tax reductions, debt reductions, or new or expanded programs—between now and 1975 unless we either cut further into the existing base or decide to raise taxes.

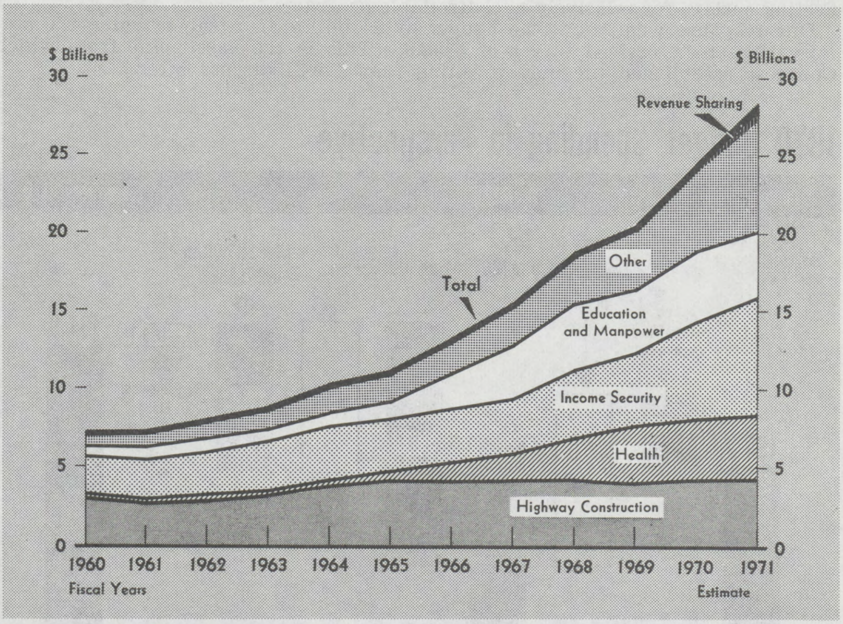
Under the assumptions used in preparing these projections, that gap or margin remaining will be $22 billion in 1975—only about 1½ percent of our estimated gross national product then. On the basis of current estimates little, if any, margin is available for 1972 initiatives.

This $22 billion margin is not available for spending now and may—because of actions taken in the interim—not be available by the time we get to 1975. At best, it is a very small margin when seen as the limit of the outlays required in 1975 for all initiatives between 1972 and 1975. It is not even enough to cover the likely demands for all initiatives in any one of these years, since initiatives tend to have a pervasive cumulative effect as the initial year's cost grows in later years.

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

Federal aid to State and local governments will amount to more than $27½ billion in 1971, $3½ billion more than in 1970 and nearly four times the amount of Federal aid in 1961. Federal aid will account for nearly one-quarter of total domestic Federal outlays in 1971 and more than 18 percent of total State and local revenues.

Federal Aid to State and Local Governments



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Grants for human resources programs—mainly health, income security, and education and manpower—compose nearly 60 percent of the total in 1971 as compared to 51 percent in 1961. The fastest growing programs in 1971 are:

- Income support for the poor, reaching almost $5 billion in 1971;
- Medical care for the needy at $2.9 billion;
- Water pollution grants of $394 million; and
- Law-enforcement assistance of $368 million.

The most significant initiative in Federal aid policies in 1971 is the proposed revenue-sharing program. The first payment of $275 million would be made early in the last quarter of fiscal year 1971. Though the initial revenue-sharing outlay is small it is estimated to reach $4 billion in 1975. The funds are not confined to specific purposes and would be distributed on a formula representing need and effort.

Other new initiatives in Federal aid include:

The family assistance program, with initial outlays of $500 million;

A new 12-year program to assist urban transportation, through $10 billion of grants to communities to modernize and expand mass transit facilities and services;

A new environmental financing authority to ease the pressures in State and local bond markets; and

A revamped food stamp program of $1,250 million, reaching an estimated 7.5 million Americans.

Federal aid to urban areas will be almost $19 billion in 1971. This is an increase of about $15 billion, or more than four times, since 1961, and almost $5 billion in the period 1969 to 1971.

1970 OUTLAYS AND THE CONGRESSIONAL CEILING

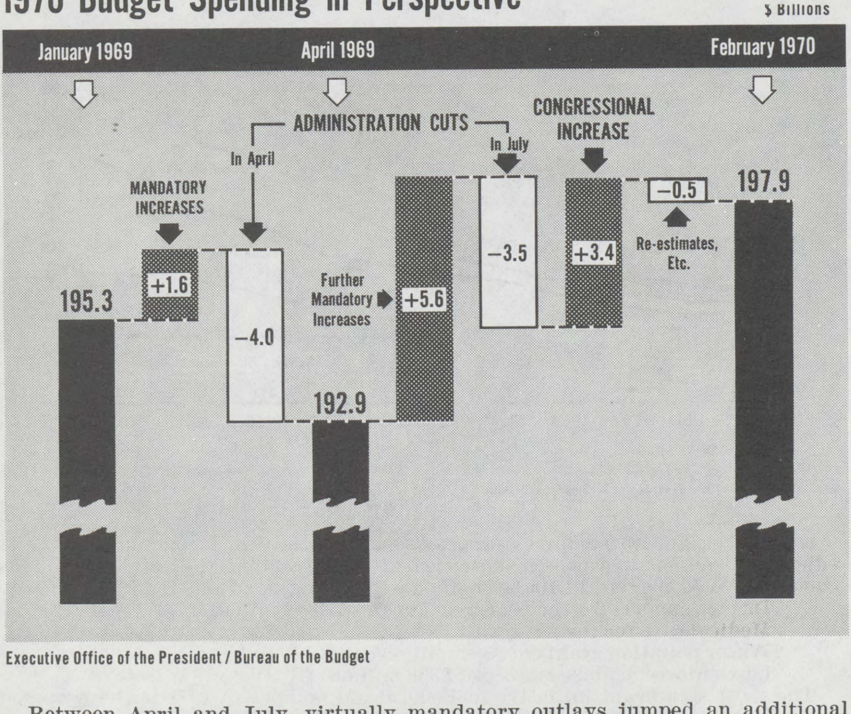
Finally, I want to describe what is happening to spending in the current year and what our status is with respect to the outlay ceiling imposed by the Congress in Public Law 91–47.

1970 budget spending in perspective

Much has happened to the budget for 1970 since it was first submitted by the Johnson administration a year ago January. Shortly after the Nixon administration took office the $195.3 billion Johnson estimate rose by $1.6 billion—reflecting outlays for relatively uncontrollable programs.

Our response was to cut the budget by $4 billion in April, bringing the outlays down to a revised target of $192.9. (This is the base point from which Congress established the outlay ceiling that I will discuss later.)

1970 Budget Spending in Perspective



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Between April and July, virtually mandatory outlays jumped an additional $5.6 billion. The increase is accounted for by a rise of: $1.7 billion for social insurance trust funds; $1.5 billion for interest on the public debt; $1.3 billion for lesser sale of assets than anticipated; and $1.1 billion due to other causes, such as increased veterans pensions, public assistance, and delay in enacting increased postal rates.

Responding to the increase in uncontrollables, the administration pared an additional $3.5 billion from the 1970 budget in July. Of this amount, $3 billion was cut from the Defense budget—a cut that was later ratified by the Congress. The $3.5 billion decrease was, however, almost entirely offset by an increase of $3.4 billion in spending as a result of congressional action.

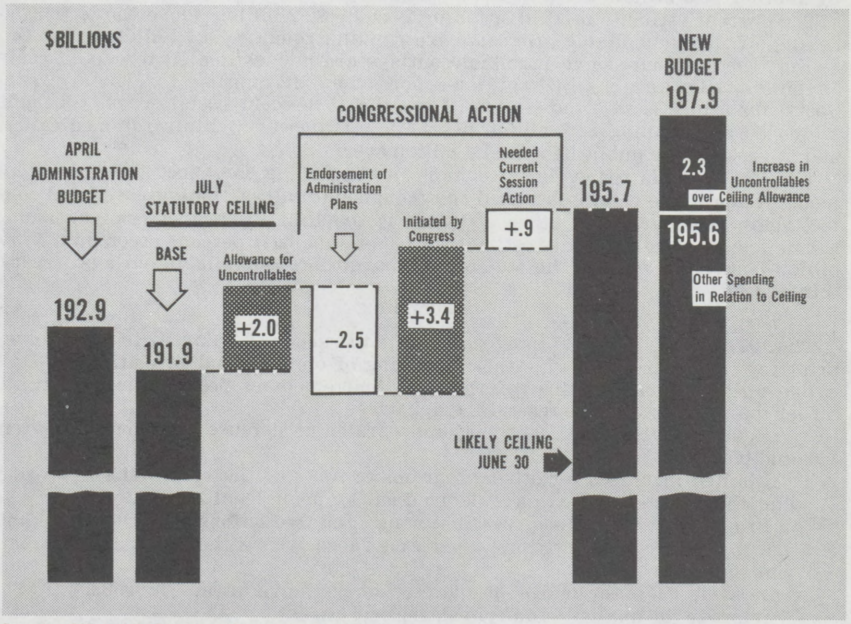
Downward reestimates of less than a billion dollars since that time bring us to the current estimate of $197.9 billion for fiscal year 1970. This is about one-half of 1 percent more than the revised estimate in the Johnson budget—after many ups and downs.

The 1970 statutory spending problem

These several changes in outlay estimates affect and are affected by the congressional ceiling on outlays for 1970.

After the January 1969 budget was revised in April to bring it down from a potential of $196.9 billion to $192.9 billion, the Congress established an outlay ceiling of $191.9 billion, $1 billion below the April estimate. The Congress, recognizing the uncontrollability of many budget outlays, then provided an allowance of $2 billion for likely increases in certain specified mandatory payments above their April levels.

The 1970 Statutory Spending Problem



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Aside from the first $1 billion of net decrease, congressional actions correspondingly raise or lower the outlay ceiling. Congressional action in the first session, when related to the April estimates, resulted in a net increase in the ceiling of an estimated $0.9 billion. This is the sum of congressional endorsement of administration plans that would reduce outlays by $2.5 billion and congressional initiatives that would raise the ceiling by $3.4 billion. The largest example of the former is congressional ratification of the administration's $3 billion outlay cut in military and military construction programs, and the latter point is illustrated by an increase of $1.1 billion above the administration's recommendation for social security and other retirement benefits. The following table shows the detailed figures.

1970 OUTLAY EFFECT OF CONGRESSIONAL ACTIONS ON APRIL ESTIMATES, 91ST CONGRESS, 1ST SESSION

[In billions of dollars]

	Endorsement of administration plans	Initiated by Congress	Net change from April estimates
Appropriation bills:			
Defense and military construction	−3.0	+.1	−2.9
Other appropriations [1]	+0.4	+.6	+1.0
Total appropriation bills	−2.6	+.7	−1.9
Other legislation affecting budget totals:			
Social security and other retirement benefits	+.1	+1.1	+1.2
Inaction on postal rate increase, reforms in veterans benefits and other programs, and asset sales legislation		+1.3	+1.3
Other substantive legislation		+.3	+.3
Total	−2.5	+3.4	+.9

[1] For HEW appropriations, no change in amount of request is assumed.

Action during the second session of the Congress is expected to raise the ceiling by another $0.9 billion, bringing the ceiling to $195.7 billion for the year.

The current estimate of 1970 spending is some $2.2 billion above the legislated ceiling. While controllable programs are running roughly $0.1 billion under the ceiling, the designated uncontrollable outlays are now estimated to exceed their $2 billion allowance by $2.3 billion—more than accounting for the overrun. Social insurance trust funds—apart from the 15 percent social security benefit increase—are running $1.7 billion over April estimates (mainly for medicare), and interest on the public debt is $1.4 billion over.

The President is requesting a change in the ceiling to reflect these developments. Even if the ceiling is raised to accommodate all of the increase in uncontrollables, the margin on other spending is too thin for prudent management. Estimates are, after all, only estimates: a mere one-half percent error on a $200 billion base is $1 billion. The $0.1 billion margin on controllable outlays is very thin, indeed.

CONCLUSION

The 1971 budget is a tight budget. It meets the needs of today. It is also a blueprint for the future. It begins the reordering of our national priorities.

The anti-inflationary effect of the 1971 budget comes from outlay restraint rather than new taxes. The restraint emphasizes:

Reduced outlays for such major programs as defense and space research and technology.

Limited increases for other programs to those of the very highest priority and those whose outlays are determined by prior legal obligations.

Proposed terminations, restructuring, and reductions of programs that are ineffective or poorly designed and those where the original need has vanished.

At the same time, the budget proposes that we move ahead vigorously to:

Improve the quality of our physical environment.

Carry out a determined attack against crime.

Overhaul our outmoded welfare system.

Further other human resources programs.

Foster basic reforms in Government programs and processes.

The budget is, I believe, balanced in every sense.

The support of the Congress—and of this committee, in particular—is needed if the goals of the 1971 budget are to be realized.

BUDGET TRENDS, 1969–71

Mr. Mayo. We have charts that are intended, Mr. Chairman, and ladies and gentlemen, to illustrate some of the points that the Secretary has already brought out; namely, the slowing down of the rate of increase in both spending and receipts. The shift in the Government's position on a fiscal basis has been from a deficit of $25.2 billion to a $3.2 billion surplus last year, $1.5 billion estimated for this year, and $1.3 billion estimated for next year. Indeed, these are thin surpluses in a budget of $200 billion total, about two-thirds of 1 percent for the year being projected, and only a billion in an economy that now totals about a trillion dollars in terms of gross national product.

BUDGET OUTLAYS AND PRICES

I want to use this chart (See chart: Budget Outlays and Prices p. 12) to illustrate a point which we may want to elaborate on in the question period, Mr. Chairman. The chart indicates that during the fiscal years 1960–65, budget outlays grew at a rate of 5.1 percent. During the period 1965 through 1969, it grew at a rate of 11.7 percent. This was one of the big factors in the inflation that developed late in this period, and, of course, with the time lags of which we are all keenly aware, the inflation has taken place since. Witness this line on the way the consumer price index has risen. These are changes in the consumer price index year by year.

We have come out with budgets here for 1970 and 1971 put together, with an increase of 4.3 percent, only about a third the rate of increase in the preceding 4 years, and less than the increase in the 1960–65 period, and indeed far less than that if you take into account the rate of inflation. To put it simply in terms of the fiscal year 1971, we have an increase in the budget of approximately one and a half percent, as against an increase in prices that will indeed, even if we get inflation under better control later this year, be significantly above one and a half percent.

We do not think we can get that low in terms of price increases this year. So what I am saying is for all practical purposes we are dealing with a level Federal budget in terms of outlays and its impact on the economy, both from 1969 to 1970 and from 1970 to 1971, indeed, because of the inflation that must permeate the entire budget picture.

CHANGES IN OUTLAYS

I want to spend just a moment on what you might call the ingredients of the increases in the budget and outlays—not authority—from 1970 to 1971. (See chart: Changes in Outlays, 1970–71, p. 13.) This one and a half percent increase that I was talking about in the budget gives an increase of $2.9 billion in outlays from 1970. We have an increase in social insurance benefit payments and public assistance alone during this year of $6.8 million. Obviously, to achieve this there had to be cuts in other programs. We did cut defense by $5.8 billion, and space by a half billion. We have made room by doing that not only for the funding of some of the increase in uncontrollables, but also for new initiatives which the President has either suggested during the calendar year 1969 or in his current budget.

New initiatives that relate to environmental quality, to welfare reform, to revenue sharing, to mass transit, to airport airways, and so forth. We are able to undertake all of these new initiatives and meet the uncontrollables, therefore, within a budget that is only up one and a half percent, by cutting not only defense and space, but other programs in many different ways, including an emphasis on an overall cut in some programs that we believe are programs that have outlived their basic usefulness from an economic standpoint and should either be cut back significantly, or perhaps should be terminated.

CHANGING PRIORITIES

Our budget illustrates changing priorities. These figures (See chart: Changing Priorities, p. 15) include, as you know, the results—as do indeed all of the figures we are showing here today—of the effect of trust fund transactions, as well as all Federal fund transactions. This method of presentation shows the distribution of all resources the Federal Government has available, regardless of financing method, in terms of their allocation to human resources, to defense, and to other spending.

The "other" category—with some ups and downs—is remarkably stable over the years.

Defense, which by the way was as high as 66 percent back in 1953, fell to 50 percent in 1960. It is now at 37 percent, despite the fact that the war in Southeast Asia is still going on. The human resource increase from 28 percent 10 years ago to 41 percent now, we think, is a significant increase, an increase that reflects not only the trust fund benefit payments and congressional action last year increasing some of those payments, but also shows greater aid to education, and so forth. By the way, the aids to housing are in here, and they have been increasing, too, with greater federally assisted aid to housing last year than any year in our Nation's history.

ENVIRONMENTAL QUALITY

Two areas that the President feels particularly strong about are major environmental quality programs and the reduction of crime. This chart (See chart: Major environmental quality programs, p. 16) is a modest chart because it does, indeed, just refer to the increases in the programs for outlays for major environmental quality. For recreational resources, for water pollution control and air pollution control, these figures would indeed come out at something like a billion and a half for the fiscal year 1972 on the basis of the figures that we have in hand now and the projections we have made. Further increases beyond 1972 would reflect the dedication of the administration to the desirability of water pollution control, to devotion of more resources, to parkland and open space acquisition, and to other forms of control of pollution, too.

As is the case in any major construction program, the outlays here, as I said in the beginning, represent a modest interpretation of where the program is going. Obviously, if I wanted to balloon this I would refer not only to these figures, but to the decision by the President to ask for $4 billion of obligational authority during the fiscal year 1971 in order to permit the construction of a $10 billion waste treatment pollution control program over the next 5 years. I think this is an important factor to keep in mind.

We are spending the $800 million that the Congress authorized last year. In addition, we are asking for an additional $4 billion to establish a comprehensive program, which with Federal lump-sum grants, and the creation of an environmental financing authority—which the President will outline in more detail in his environmental message tomorrow—will permit the State and local governments to ease a little of the financing of their share of such projects.

CRIME REDUCTION

On crime reduction we have again a significant increase, a doubling in effect, of outlays from 1969 to 1971 on law enforcement support, Federal law enforcement through the Law Enforcement Assistance Administration (LEAA) with the States, crime prevention, and of course, better administration of justice and rehabilitation efforts. (See chart: Outlays for crime reduction p. 17.)

BUDGET AUTHORITY

I turn now to the translation of some of this to budget authority because, indeed, this is something that we are all very much concerned about, particularly with the appropriation committees.

We have here (See chart: Budget authority, p. 18), as you all know, three different categories of budget authority—essentially only two different kinds of budget authority—that do not require current congressional action: interest on the public debt, and trust account benefit payments.

Although the interest and other line is down from 1970 to 1971, the trust line is up by $3.9 billion. Part of it, of course, reflects the full-year effect of the benefit payment increases in social security benefits. As far as that part of budget authority requiring current congressional action, we have the figures in the cross-hatched part of the chart: $133.9 billion last year, plus the supplementals to cover last July's pay increase and various other things that are essential and are outlined in the budget. We will have $139 billion for fiscal 1970 and, as you suggested at the beginning, Mr. Chairman, $148 billion for 1971 which, indeed, is a $9 billion increase in budget authority from 1970 to 1971.

Basically, the $9 billion increase consists of $3 billion on the mass transit bill which is already well along the way, $4 billion for the various programs of HEW outside of trust funds, about three and a half billion for water pollution and other Interior programs, and two billion for airport, airways and other transportation authorizations. These are increases now from 1970 to 1971. They are offset by a $3½ billion decline in defense authorization that we are requesting and other items, as you know.

"Miscellaneous" is one of the banes of existence—both in your business and ours. We think it is important to emphasize detail in the budget authority figures because I think it does explain how we got to a figure as high as $9 billion.

The $9 billion figure reflects also the pressure that has been placed on the administration and on the Congress, pressure that suggests that in long-term construction projects, such as the waste treatment plants and mass transit projects, it is imperative from the standpoint of the State and local governments, that an assurance of Federal money be given ahead of time in a way that is now available in housing, and in certain other programs—an assurance which enables them to go ahead to let contracts and to indeed float their bonds and all.

CONTROLLABLE AND UNCONTROLLABLE FUNDS

I would like to turn for a moment, if I may, Mr. Chairman, to the question of controllability.

The large carryover of budget authority from prior years helps to illustrate another point with which this committee is familiar: Much budget authority is relatively uncontrollable in the near future without basic changes in laws.

Budget authority for relatively uncontrollable programs has been increasing lately—rising slowly but steadily from less than 45 percent of total authority in 1969 to 47 percent in 1971. The reasons are well known—the automatic appropriation of social insurance trust fund receipts as budget authority, the permanent appropriation for interest on the public debt, and similar provisions of law. As the table indicates, most of the relatively uncontrollable budget authority is for such programs as social security, interest on the public debt, veterans' benefits, public assistance, and farm price supports.

CONTROLLABILITY OF BUDGET AUTHORITY, FISCAL YEAR 1971

[In billions of dollars]

Controllability in 1971	1969 actual	1970 estimate	1971 estimate	Chang 1970–7
Relatively uncontrollable budget authority under present law:				
Open-ended programs and fixed costs:				
Social security, medicare, and other social insurance funds	47.6	53.2	58.4	5.3
Retired military pay	2.4	2.9	3.2	.3
Interest	15.8	17.8	17.8	(1)
Veterans benefits: pensions, compensation, education, and insurance	5.9	6.5	6.8	.3
Public assistance grants (including medicaid)	6.4	7.6	8.7	1.1
Farm price supports (Commodity Credit Corporation)	5.5	4.2	3.8	−.4
Postal operations directly related to mail volume	.7	.9	.9	(1)
Legislative and judiciary	.4	.5	.5	(1)
Other	2.6	3.1	2.8	−.3
Subtotal, relatively uncontrollable budget authority	87.3	96.6	102.9	6.3
Relatively controllable budget authority:				
Proposed allowance for revenue sharing			.3	.3
Civilian and military pay increase		.2	1.4	1.2
Postal rate increase		−.2	−1.2	−1.0
Other national defense	77.7	73.4	70.1	−3.3
Other civilian programs	36.2	45.1	51.2	6.1
Undistributed intragovernmental transactions	−5.1	−6.1	−6.6	−.6
Total budget authority	196.2	209.1	218.0	9.0

1 Less than $0.05 billion.

Let me make a further point on the controllability of budget outlays: Once budget authority is granted, and obligations incurred, an even larger proportion of budget outlays than budget authority is relatively uncontrollable in the short run. While 53 percent of budget authority is "controllable" in 1971, only 31 percent of budget outlays is subject to discretionary control.

Moreover, the proportion of outlays that is relatively uncontrollable is rising faster than the corresponding percentage for authority. Relatively uncontrollable outlays are expected to rise from 64 percent of total outlays in 1969 to 66 percent in 1970, to an estimated 69 percent in 1971. The major reason for the difference between the percentages for outlays and budget authority is outlays made out of prior year contracts and obligations—about 22 percent of total outlays for the 3 years.

CONTROLLABILITY OF BUDGET OUTLAYS

[Fiscal years. In billions of dollars]

Controllability in 1971	1969 actual	1970 estimate	1971 estimate
Relatively uncontrollable outlays under present law:			
Open-ended programs and fixed costs:			
Social security, medicare, and other social insurance trust funds under January 1969 laws	$39.8	$43.8	$46.9
Social insurance benefit increases recently enacted		1.8	4.6
Military retired pay	2.4	2.9	3.2
Interest	15.8	17.8	17.8
Veterans benefits: Pensions, compensation, education, and insurance	5.7	6.4	6.7
Public assistance grants (including medicaid)	6.3	7.5	8.5
Farm price supports (Commodity Credit Corporation)	4.1	3.5	3.7
Postal operations directly related to mail volume	0.5	0.9	0.9
Legislative and judiciary	0.4	0.5	0.5
Other	1.5	2.2	2.2
Outlays from prior year contracts and obligations:			
National defense	25.5	25.5	23.7
Civilian programs	16.4	18.5	19.6
Subtotal, relatively uncontrollable outlays	118.6	131.3	138.4
Relatively controllable outlays:			
Proposed allowance for revenue sharing			0.3
Civilian and military pay increases		0.2	1.4
Postal rate increase		−0.2	−1.2
Other national defense	53.2	51.1	46.7
Other civilian programs	17.9	21.6	21.8
Undistributed intragovernmental transactions	−5.1	−6.1	−6.6
Total, budget outlays	184.6	197.9	200.8

FEDERAL EMPLOYMENT

The President is quite concerned about Federal employment, and he is also mindful of the workload increases which will be necessary if the Federal Government is to carry out the will of the Congress with regard to specific program execution.

In line with strict control of expenditures, overall Federal civilian employment will decline for the second consecutive year in 1971. Reductions in Defense Department employment have been partially offset by selective increases in civilian agency employment to meet the needs of an expanding population.

Such increases are for airway traffic safety, antipollution efforts, postal deliveries, law enforcement; to meet increases in workload of both the Veterans' Administration and the Social Security Administration; and to audit more tax returns. The overall decrease in full-time permanent employment from 1970 to 1971 is projected to be 5,600.

Total employment will decrease by a similar number. The decrease from 1969 to 1970 is estimated to be 31,000 in full-time permanent

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employment and 55,300 in total employment.

Full-time permanent employment is shown in the table below.

FULL-TIME PERMANENT EMPLOYMENT IN THE EXECUTIVE BRANCH AS OF JUNE 30

[In thousands]

Agency	Actual, June 1969	1970: January 1970 budget estimate	1970: 1971 budget estimate	1971 budget estimate
DOD, military functions	1,225.9	1,235.0	1,165.9	1,110.1
Post Office	562.4	575.7	567.0	585.0
Subtotal	1,788.3	1,810.7	1,732.9	1,695.1
Agriculture	83.4	86.4	83.0	85.3
Commerce	25.4	26.0	25.6	26.7
DOD, civil	31.2	31.4	30.7	31.0
HEW	102.9	106.7	102.5	105.1
HUD	14.3	16.8	14.9	16.0
Interior	58.2	60.9	59.3	61.1
Justice	35.1	36.6	37.6	39.1
Labor	9.7	9.7	10.3	10.8
State	24.7	24.6	23.9	23.4
Transportation	60.4	65.4	63.6	70.3
Treasury	80.0	85.1	86.7	93.5
AEC	7.0	7.3	7.0	6.9
GSA	36.2	38.1	36.4	36.8
NASA	31.7	31.5	31.4	30.6
VA	147.6	152.3	148.5	150.2
Other agencies:				
AID	15.8	15.9	15.0	14.4
Civil Service	5.0	5.2	5.3	5.5
OEO	2.9	2.9	2.4	2.5
SSS	6.6	7.0	6.6	6.5
SBA	4.1	4.2	4.1	4.1
TVA	12.0	12.6	12.3	13.3
PCC	14.7	15.2	14.7	14.9
USIA	10.5	11.0	10.2	10.1
Miscellaneous agencies	26.2	27.5	27.8	28.9
Subtotal	845.5	880.3	859.9	887.1
Allowance for contingencies		2.5	10.0	15.0
Total	2,633.8	2,693.5	2,602.8	2,597.2
Total employment, executive branch	2,980.1	3,032.0	2,924.8	2,919.2

Note: Totals may not add due to rounding.

In addition to the reduction in civilian employment, the armed services personnel on active duty will decline substantially—to 2,947,000 in 1971.

FEDERAL PAY COMPARABILITY

In our efforts to combat inflation, we are asking that Federal comparability pay adjustments be postponed until January 1, 1971.

The annual cost to achieve comparability with 1969 private enterprise rates is estimated at $2.4 billion for civilian and military pay combined. With a January 1, 1971, effective date, the total 1971 fiscal year cost will be $1.2 billion. We assume that one-sixth of this amount will be absorbed by the various agencies.

I think it is important for you and your colleagues to appreciate just why the President came to the conclusion that, indeed, the comparability principle which he, of course, accepts—there is no question about that—be postponed for 6 months.

I would say it was only secondarily a budget issue as such. It was primarily an issue that relates to his determination that the Federal Government, indeed, should set the stage and set a good example for limiting pay increases in the private economy during the calendar year 1970. This he has done in this budget.

EFFECT OF 1971 BUDGET ON FUTURE PROGRAM INITIATIVES (5-YEAR PROJECTION)

A major innovation this year is the inclusion of a look at what the future holds for us. Estimates of the effect in 1975 of 1971 budget decisions are presented in the budget document. These are rough and tentative estimates—as they must necessarily be. But they are critically important to us in the executive branch and, especially, to this committee as an aid in rational planning.

The projections are not shown in detail in the budget because detailed projections would be more illusory than helpful. The principal value of the projections is to measure in broad, general magnitudes the gap that may exist in 1975 between Federal revenues under existing and currently proposed legislation and Federal spending for programs that are proposed in the 1971 budget. This gap, or margin remaining, tells us the limits on new initiatives—tax reductions, debt reductions or new or expanded programs—between now and 1975 unless we either cut further into the existing base or decide to raise taxes.

Under the assumptions used in preparing these projections, that gap or margin remaining will be $22 billion in 1975—only about 1.5 percent of our estimated gross national product then. On the basis of current estimates little, if any, margin is available for 1972 initiatives.

I would also note that if, as we look at the product of the Congress, which the President indeed signed in December on the tax bill, this figure would be $34 billion in 1975 if the Congress had adopted the administration's April 1969, tax proposals. However, the tax bill took $12 billion away from it, getting down to this $22 billion.

This $22 billion margin is not available for spending now and may—because of actions taken in the interim—and there will be plenty—we will have suggestions; I know it will not all be available by the time we get to 1975. At best, it is a very small margin when seen as the limit of the outlays required in 1975 for all initiatives between 1972 and 1975, and indeed some in 1971 if the Congress should wish to do that.

It is not even enough to cover the likely demands for all initiatives in any one of these years since initiatives have a pervasive cumulative effect as the initial year's costs grow in later years.

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

We will turn now to a chart on Federal aid to State and local governments. (See chart: Federal Aid to State and Local Governments, p. 23.) The Secretary has given the point of this chart which is basically to illustrate the tremendous increase that has taken place over the last decade in Federal aid to State and local governments.

For highways, which is now fairly level; for health, expanding rapidly; and for income security, expanding a little more evenly but nevertheless in dollars expanding greatly.

There has been vast expansion in education and manpower and in other aid to State and local government. The revenue sharing portion at the top of the chart illustrates what we hope to widen out in later years of revenue sharing—Federal revenues going to State and local governments. Along through the period beyond 1971 we will indeed have some initiative at the congressional and at the executive level to shape reforms in some of these programs and restore initiative to the States.

OUTLAY CEILINGS AND SPENDING

Finally, I want to describe briefly what has been happening to spending in the current year and what our status is with regard to the outlay ceiling imposed by Congress in Public Law 91–47.

Much has happened to the budget since it was first submitted by the Johnson administration as they left office a year ago. I think you will recall our story and I will go over it very quickly. This is not with reference to the ceiling as such. This is the total picture of the 1970 budget in terms of what has happened to it overall as the public would view it without the technicalities of the ceiling in mind. (See chart: 1970 Budget Spending in Perspective, p. 24.) I will later have my final chart on the ceiling itself.

The Johnson budget a year ago then was \$195.3 billion. When we had a chance to do a full reevaluation of the figures in that budget by April 15, just 3 months after the Johnson budget had been submitted, you will recall we determined that mandatory increases in interest on the public debt and social security and so forth had already added \$1.6 billion to the budget. That gave us then a total of \$196.9 billion and we determined and made a cut of \$4 billion in April 1969. That got us to the figure which is now well known to all of us as the benchmark for the administration and, indeed, for the Congress to some extent in 1969 with reference to the 1970 budget.

Since we put that figure out in April, however, we found further mandatory increases in the budget and we found that in July it was incumbent upon us—this was after the ceiling was passed, you will remember—to cut \$3.5 billion out of the budget. The Congress validated the \$3.5 billion of decreases we cut in July but it also, in the process of its deliberations during the calendar year, added almost an equivalent amount to 1970 budget spending through social security benefit increases in excess of our recommendations and so forth.

Now that meant that with the reestimates and so forth that took place in the budget process this year we came out with a February 1970 budget of \$197.9 billion. Now, that is only a billion dollars or so over where we were before we started our cutbacks in April, in case any of you have forgotten that, but many cuts were necessary: namely, \$7.5 billion of administration cuts were necessary to keep this budget, the budget for 1970, under \$200 billion.

STATUTORY SPENDING CEILING

Now, to go to the more technical approach—and this will be the conclusion, Mr. Chairman—of what the problem is at the moment with regard to the statutory spending ceiling, this is it, and there are small copies of these charts around. (See chart: The 1970 Statutory Spending Problem, p. 25.) Here is our famous $192.9 again. When the Congress passed the statutory ceiling in the second supplemental early in July, they formed a date, a statutory date for ceilings of $191.9 billion. They also recognized that uncontrollable items in our old $192.9 billion figure were indeed as the words suggest, very difficult to do anything about, if not impossible. So we were given an allowance of $2 billion for uncontrollables. Then what happened during the rest of the first session of the Congress is simply this: The Congress did endorse $2.5 billion of expenditure cuts in terms of the ceiling accounting here during the rest of the session; cuts that the administration had announced earlier in the year.

The Congress again, as we noted on the preceding page, added $3.4 billion of new initiatives on its own or indeed preferred not to endorse administration positions. For instance, postal rate increase legislation that we had proposed that was involved in the creation of the $192.9 figure in the first place. The fact that the legislation was not enacted meant that this contributed $600 million or so to this, and so on.

Now, in our budget we expect that the Congress will want to take action in this session in relation to the 1970 budget expenditure outlook; will want to take action which indeed would raise the ceiling by $900 million. Again, as we all know, when Congress cut the budget it cut the ceiling, including cuts that are validation of our earlier announced cuts. When the Congress adds to the expenditures, it indeed adds to the ceiling. So we come out with a likely ceiling as best we can estimate it now on June 30, 1970, of $195.7 billion, but remember, we only have $2 billion allowance for uncontrollables here. We have, in effect, $4.3 billion of uncontrollable increases over the original base line for our budget.

What we have in the new budget then is very simply this: We have a new budget total of $197.9 billion. Obviously, $2.3 billion is an increase in funnelling controllables over the ceiling allowance. If those were eliminated for the ceiling, if, indeed, you gentlemen, in your wisdom, were to decide that the word "uncontrollable" is kind of inconsistent with the word "ceiling," we would just abolish it and that would in effect take $2.3 billion off of our backs and would mean that we would have literally one-tenth of a billion dollars margin under the ceiling, $2.3 billion being then the increase in uncontrollables over the ceiling allowance.

Now, one-tenth of a billion dollars under the ceiling, considering the fact that we have indeed cut the budget by $4 billion last April and $3.5 billion in the summer, the $4 billion before this, the $3.5 billion afterward, we think it is to small a margin within which to operate the U.S. Government during the remainder of this fiscal year. Therefore, we will be back to you in terms of suggestions as to what we think needs to be done in order to modify the ceiling in order to make it operative, in order to make it a prudent sort of restraint. If we did not have relief from the ceiling, it is pretty obvious we would be required to cut tremendously and really slash existing Federal programs between now and June 30, 1970, in order to maintain a legal status under the ceiling.

In a year two-thirds of which is already gone, this would, of course, result in tremendous decreases in various programs and extensive reductions in force.

That, Mr. Chairman and ladies and gentlemen, is basically my presentation.

Thank you.

Mr. MAHON. Thank you very much, Mr. Mayo, for a very illuminating statement.

NEW BUDGET CONCEPTS

Mr. Bow and I and others in and out of Congress served on a commission appointed by President Johnson known as the President's Commission on Budget Concepts. That was back in 1967. This commission recommended a change in the budget concept and that changed budget concept was applied to fiscal 1969 and 1970 and is being applied to fiscal 1971.

Mr. Bow and I made several exceptions informally to the conclusions of the commission, but nevertheless, the new system went into effect. In an effort to promote understanding through use of a single expenditure concept rather than three or four different concepts, we did recommend this unified concept.

1970 AND 1971 DEFICIT UNDER PREVIOUS BUDGET CONCEPT

As I see it in operation currently, the present system which was endorsed by the commission, tends to create a false sense of financial security in the country. Mr. Mayo, if the budget guidelines were the same now as they were when President Eisenhower submitted his last budget for fiscal year 1961, and when Presidents Kennedy and Johnson submitted their budgets—except the budget for fiscal year 1969—isn't it true that the present budget for fiscal 1971 would show a deficit?

Mr. MAYO. Yes, sir. It would be a deficit in both 1970 and 1971 in the magnitude of $7 billion. I would add this, that particularly in the Kennedy-Johnson era the tendency became greater and greater for the public and the press to use three different budget concepts and indeed that was one of the major reasons for the formation of the Budget Commission. By the definitions of the cash budget these figures are pretty consistent all the way back. By the definition of the national income accounts budget, on many occasions they show less of a deficit, or more of a surplus. We realize very clearly, Mr. Chairman, that there are good reasons for an analysis of what we call the Federal funds as well as the unified budget, but we feel that the main message of the Budget Commission was to give basic prominence to the single concept.

To then come back to the figures, the trust fund is something like $8.6 or $8.7 billion of trust fund receipts net in each of the 2 years—1970 and 1971—and if you matched those up with the budget surpluses as we have reported them—$1.5 billion and $1.3 billion—that is how you get the $7 billion deficit on Federal funds basis.

Mr. MAHON. Of course, Secretary Kennedy was the Chairman of this Commission which generally, I think, did a very good piece of work and, Director Mayo, of course, you were the staff director of the Commission.

CONFUSION IN PRESENTATION OF BUDGET UNDER UNIFIED SYSTEM

I realize, Mr. Mayo, there was confusion in the prior method of submitting a budget to the Congress by the President. I think there is likewise some confusion in submitting budgets to the Congress under the present setup.

Now, the table which I have before me indicates that if the budgets for fiscal years 1969, 1970, and 1971 had been submitted in accordance with the previous guidelines, we would show a deficit in fiscal year 1969 of $5.5 billion——

Mr. MAYO. That is correct.

Mr. MAHON. A deficit for fiscal 1970 of $7.1 billion and a deficit for fiscal 1971 of $7.3 billion.

Mr. MAYO. Yes, sir.

Mr. MAHON. Now, if the President had submitted a budget under the old guidelines with a deficit of $7.3 billion, this probably would have created some alarm in Congress and in the country, and it might have been a truer picture of the critical fiscal situation which confronts us.

This is a matter which I wanted to discuss with you.

Here is my hometown paper of last Monday—The Lubbock Avalanche-Journal—with this big streamer across it, "Budget Puts U.S. in the Black."

Now, that seems comforting, as you know. We seem to be involved in cosmetics, in imagery, in how things look, and it disturbs me that on the surface things appear to be better than they actually are.

Now, this budget surplus for the current fiscal year and for the prior fiscal year and the budget surplus projected for the coming fiscal year is brought about entirely by the fact that we are considering the trust funds in the overall unified budget. The system which we now follow we call the unified budget plan. The collections from the trust fund for social security, for highways, for the civil service workers retirement plans, and so forth are greater than the outgo from these trust funds, and you have a surplus here of about $8 billion more or less. The Government borrows these trust funds for the expenses of regular Federal programs and that is the way we are getting what we call a surplus. Is that correct?

THE CASH BUDGET

Mr. MAYO. Yes, that is correct, Mr. Chairman. As a practical matter, the reasoning behind the idea of the cash budget achieved great prominence in the years long before the Budget Commission was formed and, indeed, is reflected in even finer tuning within our recommendation. The whole intent here is to show the cash flow, the flow of real resources—not just for accounting purposes, but also economic purposes, to and from the Federal Government.

In other words, looking at it apart now from the trust funds, and we in no way suggest anything that would affect the sanctity of those funds—I must emphasize that—but, looking at it quite apart, it is of minor concern in the analysis of the use of the resources of the U.S. Government as to whether a highway is built out of moneys going into a trust fund and back out or whether it is indeed a forest road or trail that is built by money going just directly into the general fund.

Similarly, let's say the recipient of an old-age pension is also the recipient of a veteran's pension. The veteran's pension is paid to him out of what we call the general fund or the Federal fund; the old-age pension is paid to him out of a fund called the old age and survivors' trust fund.

This has significance in terms of the way we have desired to set up our accounting. In terms of real resources, though, it has no significance.

Mr. MAHON. What you say is valid. I do not question that.

ROLE OF TRUST FUNDS IN BALANCING THE BUDGET

We are borrowing from the trust funds about $8 billion, more or less, with the effect that the budget appears to be in balance. It is in balance this year and is projected to be in balance next year under the unified budget plan. But when we borrow from the trust funds, such as social security, highways, and so forth, we will, eventually, have to repay it to those funds.

Mr. MAYO. Just as we will any borrowings through the public of course.

Mr. MAHON. It is because of this borrowing from the trust funds and applying it to the regular Federal funds that, while you propose to expend only about $2.9 billion more in fiscal 1971 than now reestimated for fiscal 1970, the debt has to go up by about $8 billion or so. This is correct, is it not?

Mr. MAYO. The debt defined as gross public debt outstanding, yes, Mr. Chairman.

Of course, debt held by the public which is really the debt that is in the market and that makes interest rates go up and down and competes with other forms of borrowing is declining in both of these years and that ties to the unified budget.

ILLUSORY SURPLUS UNDER UNIFIED BUDGET CONCEPT

Secretary KENNEDY. Mr. Chairman, I have one comment I would like to make on this point. There is a very important point here as far as I am concerned. We discussed it, as you well know, at great length in the Commission on Budget Concepts, of which you and Mr. Bow were members, and made great contributions.

One of the reasons we had the variation in budget concepts before was that students, economists, and others did not accept the old administrative budget as a measure of the Government's impact on the economy. Many of the programs of the Government would be run through the trust accounts. A good deal of the taxation the Congress was asked to impose on the public was in the area of the trust funds. Even the highway item was put in the trust fund so you had only a partial measure of the impact on the national economy and on inflation. The unified budget, it seems to me, is a much better measure.

In the Congress where you have been working with the administrative budget over such a long period of years, and it is well understood by the Members of Congress, it might be that when the unified budget shows a surplus some of the Members of the Congress say it is available for spending, but that is not the case.

Mr. MAHON. But, Mr. Secretary, I am afraid that is the problem. We wanted to show and highlight total Government spending and we do that through the unified budget, but I am not sure how well the new system is understood.

When the citizen reads that the budget puts the United States in the black he may say, "Well, thank heavens we have got everything under control at last. Let's relax."

Of course, he can't relax long because he faces tight money, high interest rates, and galloping inflation. Nevertheless, to relax would be the general tendency.

Then the spenders in and out of Government say, "Well, well, here is a surplus of $1.3 billion. Now, let's figure out ways to spend this money. Let's spend this money to further battle the problems of poverty, education, pollution and so forth."

I have sensed the feeling of urgency withering on the vine in Washington and elsewhere as a result of this illusory surplus under the unified budget plan. What can you say to a man when he argues, "Well, what are you worried about? We have got a surplus now. And we had a surplus last year and the year before?"

It makes a difference.

Secretary KENNEDY. Looking backwards, though, when the administrative budget was used it seems to me it didn't stop the Government spending and that you had deficits in that period.

Mr. MAHON. But my point is that except for those deficits the spending would have been greater. Congress was so shocked and the administration was so shocked by the $25 billion deficit in 1968 that actions were taken to produce a surplus the next year.

Mr. MAYO. The $25 billion is on the new basis.

Secretary KENNEDY. The trust funds will not be in surplus all the time. There were periods in the past when the trust funds were in deficit.

Mr. MAHON. But currently they are in surplus and they are scheduled to be in surplus for several years, and we have this misleading budget with an illusory surplus for which I must accept some responsibility.

CONTROL OF TRUST FUNDS

Mr. MAYO. Mr. Chairman, I would like to make one other observation which I think is critical to the success of the Appropriations Committee in its efforts to keep control over Federal spending.

The combining of the trust funds with the old administrative funds no longer gives the pressure groups the incentive to say, "Let's set up a trust fund and get it out from under the Appropriations Committee and get it out from under direct annual congressional control." They don't have that incentive because we sit there and tell them, "Look, it doesn't make any difference whether it is a trust fund or not."

This is the point that I myself, spent hours and hours and days and days knocking down during this past year. Mr. Chairman, with reference to the mass transit and various other proposals for Federal trust funds. If they were out of the budget, then we are off to the races. You have more Government spending and the Appropriations Committee has lost control and I feel it is terribly important that the Appropriations Committees keep control.

ADDITIONAL TAX REVENUES

Mr. Mahon. Mr. Secretary, there was considerable speculation before the budget was presented that a tax increase would be called for in the fiscal 1971 budget. Since the Federal funds budget is in the red by more than $7 billion and the unified budget is balanced only as a result of borrowing the surplus trust funds, why didn't you ask for a considerable additional tax revenue?

Secretary Kennedy. As you know, we considered various possibilities of tax proposals and concluded it was not likely or credible that you could get those tax increases through this year. We went through the pains last year of not only tax reform, but major tax changes as well, and decided that this year from the standpoint of the overall control of the economy the main job should be done on the expenditure side and not just increase taxes. So we omitted tax increases from this budget—except for those minor areas that I commented on and left that for a future time. We put strong emphasis even at the last minute on further cuts on the expenditure side which we felt would be much more important.

Mr. Mahon. As I understand your response, you just didn't think it would be reasonable to assume that you could secure the passage of a new tax bill this year.

THE "ETERNAL" POSTURE OF A PRECARIOUSLY BALANCED BUDGET IN RELATION TO SURTAX EXPIRATION

Hindsight is not all bad by any means. Let's look back at the surtax question. It is to expire altogether this June 30; it was reduced from 10 to 5 percent on January 1, 1970.

If we know anything about Government spending, we know it is always rising.

We know the pressures are always for more and more—relentlessly so.

We know we have been and are in an unacceptable inflationary situation.

We know it will not go away overnight, no matter what our efforts are.

We know that taxes are the source of support for public spending.

We know there are great unmet needs—or what a majority would so consider.

We know a majority of the American people—and of Members of Congress—want more spending for education, anticrime, hunger, housing, environment, et cetera, et cetera.

We know how vital it is to contain inflation.

We know that a chief danger to our form of government is that the people may abandon discipline and restraint.

I am a pay-as-we-go believer. I believe if a program's worth having it's worth paying for.

Now, this budget is so precariously balanced—I say it will come unbalanced. And it is likely to do so—if it does—primarily because more spending will be demanded.

Looking back—and laying aside, if we can for the moment—the political aspects, why shouldn't the surtax have been continued—at 5 percent if not 10 percent. That would have afforded the opportunity at least to put a greater margin of safety under the surplus projection. Would that have been inappropriate economic medicine, and if so, why? Would, in your opinion, a surplus of $5 or $6 billion be unacceptable as an economic factor right now?

In other words, rationalize why a thin, $1.3 billion surplus is about the right amount—if it is about the "right" amount from the standpoint of impact on the economy at this time?

Suppose a great majority of the American people were willing to pay many additional billions in taxes to cover the many desirable programs they demand, and the budget were increased by billions of dollars. Would that be bad from an economic and inflationary impact standpoint—what are the prudent outer economic limits, so to speak, to that?

Mr. Mayo. We are more likely to discipline ourselves to control Federal spending if we do not have the cushion of an income tax surcharge. To be sure, a surtax would give us a greater margin to safety in fiscal 1971. We have tried, however, to look beyond 1971, and to impose effective control over Federal spending in the longer run. This objective was furthered by letting the surtax drop to 5 percent on January 1, 1970, and expire completely on July 1, 1970. On balance, this seemed preferable to having a $5 billion or $6 billion surplus in fiscal year 1971.

If a great majority of the American people were willing to pay additional billions in taxes to pay for additional Federal programs, a Federal fiscal position could be proposed that would be prudent from an economic and inflationary impact standpoint.

EMPHASIS ON EXPENDITURE REDUCTIONS

Secretary Kennedy. The greatest pressure was put on us to cut expenditures and, as Mr. Mayo knows, even at the last he was going through each of the departments trying to find further savings. This, I think, was a very good exercise on the part of the whole cabinet and on the part of the administration, to go through on the expenditure side of the budget in more detail and with more emphasis.

Mr. Mayo. I am not trying to advocate a tax increase, but there is no doubt that a tax increase would be anti-inflationary and would probably be fiscally sound, and if we are not able to reduce expenditures and we are determined to spend at a relatively high level, it would seem we have no alternative other than to provide additional revenues.

Secretary KENNEDY. I think long term, that is right. I think looking at the budget from this year's standpoint, the impact on the economy will be anti-inflationary in my judgment.

Mr. MAHON. I assume, Mr. Secretary, you would have been happy to have seen the 5 percent or 10 percent surtax continued through fiscal 1971?

Secretary KENNEDY. I would have been happy to see more taxes and I would have preferred, of course, rather than an extension of the surtax, to see less tax relief in the tax reform bill.

NEW SPENDING PROGRAMS

Mr. MAHON. Mr. Secretary, I have a question which embraces some concerns which I think we all share.

Last Friday, the President said in Chicago that the total mobilization of the Nation's resources was necessary to fight pollution. He said: "Whatever the cost, we are going to do the job."

I endorse the President's fully embracing the fight on pollution.

But, others are saying that we must spend billions to reduce poverty regardless of the costs.

Others are saying we have only scratched the surface in providing Federal aid to education and that we must spend more and more and more. The President is not singing that chorus but that is a chorus, as you know.

Others talk about housing and propose the expenditure of billions. That would include Secretary Romney.

Others are saying that the cities will die without mass transit. We have been talking about mass transit here this morning. We all know that mass transit programs will cost billions.

I won't go on and mention space and innumerable other opportunities of spending for this purpose.

RAISING REVENUE FOR SPENDING PROGRAMS

My point is that everybody is talking about big spending but nobody is talking in a very loud voice about attractive new tax programs which will raise massive sums of additional revenue to pay for the spending programs.

Unless there can be some way found to provide a rectification of this situation, it seems to me that we will be confronted with a critical fiscal situation; not immediately, but in the longrun.

If there is to be a hero in the 1970's—Mr. Secretary, I nominate you for that—he will be the man who entices the people to vote upon themselves the taxes required to pay for all our programs to clean up the environment, stamp out disease, eliminate poverty, and educate everybody. This seems to be what we are dedicated to doing regardless of the cost, but we must do it without destroying this country economically and sending the dollar down the drain at home and abroad. We have just got to have the revenue. I am getting tired of the Appropriations Committee being repeatedly called upon by our colleagues and by others to recommend appropriations of funds which we don't have. This is creating a very bad situation and everyone who is thoughtful realizes that the situation is approximately as I have described it.

How are you going to create an atmosphere, Mr. Secretary, which will enable us to get the money to pay for these big expensive programs which are very, very attractive? The great majority is for them, and yet no loud voices are clamoring for an opportunity to pay additional taxes to finance them.

Secretary KENNEDY. I applaud your statement. I wish I could make it as strongly and as well as you make it, Mr. Chairman, because we must pay for what we need, what we have to have.

I think that the cutting of budget expenditures is part of this same exercise in the areas where we can. There are some areas yet of programs that have outlived their usefulness, that are not effective. We are working on these.

On the question of the revenue, I think the look ahead for 4 or 5 years that for the first time this year was put in the budget report and in the Council of Economic Advisers' report, enables us to focus directly on the point that, if we are going to spend these large sums of money, we must get them from taxation. Otherwise we have to cut down on our expenditures.

DWINDLING BUDGET SURPLUS

Mr. MAHON. If you will look at the overall picture, you will see we are going downhill, budgetwise. Fiscal year 1969 shows that we have, under the unified budget concept—a surplus of about $3.2 billion; and then fiscal 1970 shows we will have a surplus of about $1.5 billion. That is a reduction. I predict it will go down further, Mr. Secretary.

Secretary KENNEDY. We hope that you will see that it doesn't.

Mr. MAHON. And then it goes down further for fiscal 1971 with a tentatively projected surplus of only $1.3 billion. We are doing that nevertheless in the light of the fact that we are borrowing from the trust funds and in the light of the fact that these funds must be restored.

We have just got to dramatize this problem some way or another. If it can't be dramatized, the Committee on Appropriations cannot hold the line on these bills.

Secretary KENNEDY. I hope we can dramatize it.

Mr. MAYO. I would like to commend the chairman for saying in exemplary fashion how hard it is to come out even.

PRECARIOUS BUDGET SURPLUS

Mr. MAHON. The Congress has this budget before it. The budget projects this $1.3 billion razor-thin budget surplus, which assumes actions that Congress may not in every instance carry out. For example, every President going back 16 or 17 years or so has been proposing a reduction in the Agriculture conservation program funds and Congress has just as regularly restored these funds.

You are proposing to help balance the budget and have the surplus in part through additional postal revenues. I hope you are successful. I will be glad to support that.

You have a number of other proposals, such as cuts in aid for impacted school districts, and in the special milk program. If there is anything that touches the heart strings of the mother and the father and John Q. Citizen generally, it is the proposal of reducing milk programs for children.

Mr. MAYO. But we are increasing school luncheons by a larger amount.

Mr. MAHON. This sounds good but once you start a program, especially a temporary program, you can hardly ever bring it to an end. You know that.

I am just afraid that the estimated surplus is not too impressive. I commend you for your efforts and determination to do something about it and I hope we can do a good job in the Congress. But this is election year and there is generally a strong tendency to want to get on the bandwagon to do more and more good things for the good people at home.

THE $1.3 BILLION SURPLUS WILL DISAPPEAR

Mr. Mayo, in my opinion, the $1.3 billion projected surplus under the unified budget will disappear.

Suppose it does. I believe you have indicated that a billion or so—deficit or surplus—one way or the other in a trillion dollar economy isn't really very significant. What about the psychological impact on the money markets; on foreign bankers; on the people generally? What about the "inflationary expectations" angle?

Mr. MAYO. As you suggest, my comment referred to the economic impact of a $1 billion or so shift from surplus to deficit in a $1 trillion economy. The psychological impact—the "inflationary expectations" angle—will undoubtedly be greater, but less than in years past. We take these aspects of the problem seriously, too. This is why we have emphasized the importance of restraint on spending—and why we have emphasized the importance of cooperation by the Congress if we are to maintain responsible fiscal policy during this period of delicate balance in the economy.

I think it is important, Mr. Chairman, to emphasize again that the President's budget is indeed his financial plan. It is not a projection as to how he thinks things may come out June 30, 1971, when the books are all closed but, rather, what he thinks is good for the country in terms of a sound financial plan.

People have said to me, "Well, Bob, what are you doing proposing we increase postal revenues further when the Congress has found it difficult to come up with even the 7-cent postage stamp?" My answer is very simple: The Post Office is supposed to be a business enterprise. Once you allow for public service costs, the operation breaks even. If, indeed, the cost of procurement and, more importantly, wages keep going up, you can never reduce total postal costs.

WORLD MONEY MARKET

Mr. Mahon. Mr. Secretary, could you visualize the dollar possibly reverting to something of a crisis in world money markets like it was back in 1968 when we adopted the surtax and the $6 billion expenditure cutback?

Mr. Kennedy. I would not expect the crisis of November-March 1967-68 to be repeated in all its aspects. At that time there was a large drain of gold from U.S. and other official reserves to meet a massive private demand for gold in London. The general market atmosphere was one of gloom and crisis affecting both the dollar and other currencies.

Since then the two-tier gold system has been established, and the exchange rates of France and Germany have been changed. Speculation in gold and in these currencies has subsided. The special drawing rights have been activated to provide for an adequate growth in world reserves, making the monetary system no longer dependent on new gold supplies or U.S. deficits for the needed secular additions to world reserves.

All these improvements do reduce the incentives to speculation. Even more important, however, has been the application of firm fiscal and monetary restraint in the United States and the United Kingdom. Both currencies have strengthened in the market.

Pressures could again develop if foreign monetry authorities were to become distrustful as to our will to restrain inflation and our ability over the longer run to improve our trading position. They could under such conditions convert their official dollar holdings into gold and special drawing rights, and put our reserves in jeopardy again. While the two-tier gold market means that private demands for gold can no longer be a drain on official reserves, persistent weakness in our trade and balance-of-payments position and a poor record on price stability could again lead to mistrust of the dollar.

PAYING FOR GREAT SOCIETY PROGRAMS

Mr. Mahon. We talk about reordering our priorities. That is a good phrase now. A better and even more recent one is "improving our environment" and not overlooking the "ecology."

The spending side of the budget went up in the period 1964 through 1968 as a result of the war. We were in a war and the budget went up. There was a big deficit because we weren't willing to pay for the cost of the war. I think it was a mistake that we didn't. Now, war costs are coming down and instead of doing something very dramatic otherwise, you are just taking the savings and reductions in defense spending and applying them to the so-called Great Society social programs and other domestic spending purposes. We really started Great Society programs some time ago, and we accelerated them from 1961 on up through 1969.

Now, this administration is continuing to increase nondefense spending, and there doesn't seem to be anything too imaginative about that. I must agree this is in keeping with the tempo of the times, and that certain of these programs have been laudable. But the Committee on Appropriations can't raise taxes and we don't want to recommend appropriations of money which we don't have.

General Statement of Chairman, Council of Economic Advisers

Mr. Mahon. Dr. McCracken, we are glad to have you join us. We recognize the fact that you have a very important responsibility as Chairman of the President's Council of Economic Advisers. We are aware of the report which was released last week and we know that you are heavily involved in the important problems of government. We welcome your views. And we welcome you before the Committee on Appropriations today. We will insert the complete text of your statement in the record at this point.

(The statement follows:)

Statement of Paul W. McCracken

We begin 1970 with some visible progress in the fight against inflation. Today there is a better balance than there was a year ago between the demands being made on the economy and the economy's capabilities. The first necessary steps have been taken on the road to retard the rise in prices.

A year ago it was clear that inflation was our No. 1 economic problem and that subduing it would be a formidable job. The problem we were faced with was not that of an economy which had slid temporarily onto an inflationary path and could be nudged gently back onto a proper noninflationary course. Inflationary pressures have been with us for several years. The task of eliminating a deep-seated inflation was a complex one that involved getting at the sources of inflationary pressures and not merely attacking their symptoms.

In order to reduce inflationary pressures it was necessary first of all to slow down the expansion in demand and output since our difficulties stemmed from excessive demands. We recognized at the same time that restraints could not be applied too abruptly since that might cause an excessive rise in unemployment. We decided at the outset to place our major reliance on general measures of fiscal and monetary restraint. The Federal Reserve had shifted to a policy of monetary restraint around the end of 1968, and their policies became still more restrictive during the second quarter of 1969. A start on fiscal restraint had been made through the passage of the Revenue and Expenditure Control Act of 1968. That legislation was important in helping to bring about a major shift in the Government's fiscal position—from a deficit of $25 billion in fiscal 1968 to a surplus of $3 billion in fiscal 1969. The administration followed through with this policy by keeping a tight rein on the growth in Federal expenditures during calendar 1969 in order to bring about a budget surplus for fiscal 1970.

The policies of monetary and fiscal restraint pursued last year appear to have paid off so far as demand and output are concerned. To be sure, the results were somewhat slower in coming than had been anticipated a year ago, but by the fourth quarter of 1969 there could be little doubt that policies were moving the economy in the desired direction. Total demand as measured by money GNP, which had grown at a 9.1 percent rate in 1968 and 7.7 percent in 1969, rose at an annual rate of 4.4 percent from the third to the fourth quarter of last year. And the growth in output or real GNP, which had slowed to 3 percent last year, fell to zero in the final quarter.

In one sense the problem we face in the coming year is more difficult than the one we faced a year ago. Although the economy has slowed down, the deceleration in the price rise is still to be realized, and for that to be achieved means a continuation of policies of restraint. But these policies cannot be too restrictive since, with output showing no growth, too severe a policy could mean excessive slack in the economy. Yet if policy is not sufficiently restrictive, all or much that has been accomplished up to now will be undone. It is easy to find many instances in the past where policies pursued after the economy began to cool off shifted toward ease too abruptly and helped to restore the very conditions against which policies were initially directed. The objective of policy for the year 1970 is to find that path of moderate expansion in demand which will permit the rate of price increase to subside and at the same time will establish the basis for output to resume its growth.

Chiefly as a result of the fiscal and monetary policies that were pursued in 1969 the course of economic activity in the first half of this calendar year is already largely determined—although that does not mean that we know it with a high degree of certainty. In late 1969, many crosscurrents were already visible, and over the next two quarters the growth in total demand is likely to remain sluggish. Increases in demand in some sectors will be largely offset by decreases in others. With interest rates remaining high and financial markets disrupted, housing expenditures are likely to continue downward. Also, projected reductions in defense purchases will decrease the size of the Armed Forces and civilian personnel of the Defense Department. These reductions will in part offset the rise in demand of State and local governments, of business for investment in new plant and equipment and of consumers, whose incomes this year have been and will be bolstered by tax cuts and increases in transfer payments. But altogether the rise in demand will be rather small and output in the first half of 1970 is not expected to change much from the fourth quarter rate.

With three quarters of little output growth, the economy by the middle of the year should be operating well under its capacity to produce or its potential. These conditions should make for markets less and less receptive to price increases. Some of this will be visible in the first half of 1970, but more of it will be seen in the second half. With profits being squeezed, businessmen will be seeking ways to keep their costs down. They will show a stiffer attitude toward wage increases. And workers, finding the labor market a little less tight, should tend to moderate their wage demands. Under these circumstances, a policy that brings about an increase of demand will permit output to grow somewhat more rapidly while avoiding upward pressure on prices.

The policies of restraint followed so far are likely to bring about increased slack in the economy during the first half of this calendar year. There has already been some evidence of this in the labor market data. In recent months, payroll employment has been on a plateau and the average length of the workweek has been cut; in January, unemployment increased. This is one of the costs that must be paid for having let inflation continue unchecked for such a long time. These costs must be kept as low as possible, and when they are incurred their impact must be cushioned through improved training and unemployment compensation programs.

Combined with appropriate monetary policy the unified budget that has been prepared by the President for fiscal 1971 should permit a reduction in the rate of inflation and at the same time allow output to resume its expansion. With output rising in the second half, following the slow first half, gross national product is expected to total about $985 billion for the current calendar year, an increase of about 5½ percent over 1969.

At the same time it is important to emphasize that gross national product increases at annual rates of 8 to 9 percent per year must not again be allowed to occur. We must resist this temptation if we are to avoid the stop-go policies of the past.

The new budget continues the administration's anti-inflationary stance by projecting a surplus of $1.3 billion as compared with an estimated surplus of $1.5 billion for fiscal 1970. Moreover, Federal expenditures in the coming fiscal year under the unified budget are projected at $200.8 billion, an increase of $2.9 billion, or only 1.5 percent, over the estimated total for 1970. The net rise in outlays is a consequence of divergent movements. Increases that for all practical purposes must be made under existing law—such as trust fund expenditures and public assistance grants—account for all of the total increase on balance. All other Federal expenditures are expected to be lower in the coming fiscal year than they are estimated to be for fiscal 1970.

Receipts in the coming fiscal year are expected to total $202.1 billion, a rise of $2.7 billion over fiscal 1970. The rather small increase is due to the termination of the income tax surcharge at the end of this present fiscal year, the tax cuts embodied in the Tax Reform Act of 1969, and the comparatively slow rate of growth anticipated for the economy in the current calendar year. Receipts in fiscal 1971 include an additional $1.6 billion to be obtained from new user

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charges, extensions of excise taxes, and other increases under proposed legislation.

In order to achieve the objectives of the administration's economic program it was necessary to hold down the rise in expenditures because of the fiscal stimulus from the tax cuts and from the increases in social security benefits in calendar 1970. The tax cuts and benefit increases went considerably beyond administration proposals. It is conceivable that this fiscal stimulus could be offset by a continuation of a highly restrictive monetary policy, and indeed, it is entirely possible that two such policies in combination could bring about an appropriate degree of disinflation. However, this would not be desirable in terms of other national objectives—e.g., housing. Such a combination of policies would be accompanied by credit scarcity and high interest rates and these would continue to suppress residential construction. Tight credit markets in this country would also have undesirable effects in international markets since they would lead to an unwanted inflation of interest rates in international money and capital markets.

This year's budget is not only directed toward curbing inflationary pressures, it also looks to the future—in a number of different ways. Many new programs initiated under this year's budget, which start off in a modest fashion, are expected to grow rapidly over the next several years. But the budget looks ahead in another very important respect. The budget for fiscal 1971, while exercising restraint on expenditures, also provides for a transition to a sustainable noninflationary rate of growth with high employment.

One of the lessons of 1969 was that the administration's ability to alter the level and composition of Federal spending was severely limited by decisions and commitments made before it assumed office. In similar fashion, budget decisions taken today can result in major commitments in the future. Since the Government must choose among competing programs, it is clear that the long run implications of budgetary decisions must be spelled out if the Federal Government is to conduct its affairs on a rational basis.

The problem of making choices among Governmental programs goes beyond the Federal budget because the totality of demands for goods and services—public as well as private—must be tailored to fit the capability of the economy. If total claims on the economy exceed the value of what the economy is able to produce at existing prices, then prices must rise. That has been the experience of the past several years when major new demands were imposed on an economy already producing close to its limit. Under the circumstances that we experienced in recent years, inflation allocated the competing claims made on our resources. However, that is not a policy for a mature nation to follow.

This year's Economic Report breaks new ground by providing an analytical framework designed to help the Nation in making decisions regarding its priorities over the next 5 years. On the one hand, it makes a projection of what the economy will be able to produce over this period. The capability of the economy will grow over the next 5 years because the labor force and its productivity will expand. On the other hand, it projects the totality of claims upon that output which are likely to be made—by consumers, by business for capital investment, for homebuilding, and by governments at all levels. The claims of the Government reflect programs already in existence plus new programs that have already been proposed by the administration. Accompanying the array of Government claims is a set of projected revenues based on the tax system as it is expected to be in the next fiscal year.

There are, of course, many uncertainties about these projections. The growth of the economy may turn out differently. Costs of various programs may be more or less than projected. The mix of programs may be altered. Even so, a comparison of total available output with total claims reveals that, rich as this Nation is, our resources are not unlimited. All the Nation's production would be absorbed by claims as now projected through 1972. Not until 1975 will the Nation have sufficient resources to accommodate a substantial addition over and above claims as now projected. This does not mean that we will not enjoy new programs between now and 1975. It does mean that the Nation must choose among competing programs. If it is to choose wisely, it cannot adopt a poorly conceived fiscal policy that permits less important claims to displace more important ones.

Policy will therefore have an important bearing on which claims on the Nation's output are satisfied and which are not. Many possible courses of action are open. If, for example, we decide that a large increment of resources should be devoted to our urban and other social problems, this can be done if we increase taxes to limit the rise in personal consumption expenditures. If we want to make sure that resources will be ample for housing and other investment activity, the volume of private saving should be supplemented by a surplus in the Federal budget. Generally speaking, the more private investment (including housing) that is desired, the larger must be the budget surplus. Viewed in these terms the budget surplus is not merely a symbol of sound government finance. It is an instrument for achieving the Nation's goals.

COOLING OF THE ECONOMY

Mr. McCracken. I would like to associate myself with the statement you were making when I came into the room. I think there are two basic points that might be in order for me to comment on specifically. They are touched on in my prepared statement. One of these is that we are now beginning to see some progress in cooling off the economy. The visible effects of policies of monetary and fiscal restraint are now beginning to show up. This has not been reflected yet as much as all of us would have hoped in the price level but, on the other hand, the price level is not one of the early things to start to respond anyway.

FUTURE DEMAND FOR SAVINGS

I would like to turn to the second matter, the somewhat longer-run issue. This is, I think, a far more fundamental issue and it is one that you were touching on in your own statement as I came into the room just a few minutes ago.

I think one of the problems of the Nation to which we are only now just beginning to face up is that for a variety of reasons the claims on our economic resources for a period of years ahead are going to be very heavy, relative to the resources available. The economy, in fact, is going to be expanding; the basic economy is going to be expanding at a very rapid rate in the 1970's. Our own projection indicated a rate of about a little over 4 percent a year in real terms which would be consistent with what the President indicated in his State of the Union message of a 50 percent increase in the economy in a decade.

On the other hand, if we take cognizance of the probable growth in both private and public claims on our productive capability, we find that there is surprisingly little elbow room left in our economy for a period of years ahead. As incomes rise consumers are going to be wanting to take some of this growth in the economy in terms of higher personal consumption expenditures.

Secondly, the programs that we have on the books at the Federal and, of course, State and local levels, will produce rising expenditures.

We have certain new initiatives to which the administration itself is already committed.

There is another area that sometimes gets overlooked. We happen to be in a decade where the rate of growth of the labor force is going to be relatively rapid. To be specific, our labor force will grow in the years ahead at the rate of about 1¾ percent a year. During most of the postwar period the figure was at about 1 percent a year.

This carries with it a very profound implication for the economy because if we are going to allocate enough of our output to capital formation so that the stock of productive capital is moving up along with this more rapid growth of the labor force, we will have to allocate a little more of our output to capital formation than has been true in much of the postwar period. Not much more, but a little bit more, and these small amounts can make a difference.

Then, secondly, we do have heavy needs for housing and indeed there is in the Housing Act of 1968 an explicit housing goal of 26 million units.

What all of this means is this: demands on our flow of savings for the period of years ahead are going to be very heavy. Now, our own rough calculations at the Council would indicate that there is some question as to what the flow of savings will be. There is no question about whether the flow of savings would be deficit if we would have to finance not only the housing needs and the capital formation but also would have the Treasury dipping into the savings stream to cover a deficit.

In that case the arithmetic does not work out. The probable flow of savings would be inadequate for that purpose.

PURPOSE OF BUDGET SURPLUS

The prospects for the period of years ahead will be immeasurably better if we can think about an ongoing surplus in the budget in order to supplement the flow of private savings so that we can achieve these national goals. This is why I outlined this problem in my statement.

If I may read the final two sentences of my statement, it will indicate what I think I had in mind:

"Viewed in these terms, a budget surplus is not merely a symbol of sound government finance. It is an instrument for achieving the Nation's economic goals."

I hope, Mr. Chairman, that your discussion of the longer run relationship between the resources that are apt to be available for the whole economy and the growing claims that we can see will help us to arrive at better decisions here.

Mr. MAHON. Thank you very much for that very interesting statement, Dr. McCracken.

Mr. Bow, do you have any questions?

Mr Bow. Thank you, Mr. Chairman.

Mr. Director of the Budget Bureau, I notice on page 594 of the budget a table which includes receipts and outlays under a "unified budget," from 1954 to the present. Is the budget that you have submitted this year based upon the same "unified" concept.

Mr. MAYO. Yes, Mr. Bow.

DEFICITS SINCE 1954

Mr. Bow. It shows that from 1954 through 1971 there were surpluses in only 5 years and the rest of the time there were nothing but deficits, even under the unified budget. Is that correct?

Mr. MAYO. There were surpluses in 1956, 1957, and 1960. In addition, there was a surplus in 1969 and we estimate surpluses for 1970 and 1971. Other than that, it was all deficits.

Mr. Bow. Is the deficit figure shown for 1968 of $25,161 million based on the same unified budget that is submitted to us this year?

Mr. Mayo. Yes, sir. That is the last in a succession of deficits that add up to close to $60 billion during the 1960's.

Mr. Bow. $60 billion under the unified budget?

Mr. Mayo. Yes, sir.

Mr. Bow. $60 billion of deficit spending, is that correct?

Mr. Mayo. Yes, that is correct.

Mr. Bow. Thank you.

DIVISION OF BUDGET AUTHORITY INCREASE BETWEEN CONTROLLABLE AND UNCONTROLLABLE AUTHORITY

Mr. Bow. I think that you have stated that there was an increase in this budget of $8 billion. Is that correct?

Mr. Mayo. The increase in budget authority is $9 billion.

Mr. Bow. How much of that increase is controllable and how much is uncontrollable.

Mr. Mayo. The increase in the uncontrollable budget authority is estimated to be $6.3 billion. The major increases are $5.3 billion for social security, medicare, and other social insurance funds and $1.1 billion for veterans' benefits programs.

REDUCTION IN FEDERAL EMPLOYMENT

Mr. Bow. I also noted a reduction in Federal employment in the 1971 budget.

Mr. Mayo. Yes, sir.

Mr. Bow. Will you give us those figures again?

Mr. Mayo. Yes.

I am looking at page 550, Mr. Bow, which shows total full-time permanent employment in the executive branch of the Federal Government at the end of 1969, 2,634,000. End of 1970, of course, still projected, 2,603,000; 1971, estimated, 2,597,000.

These are modest decreases which would not have been possible at all if it had not been for far more extensive cuts in the Defense Department. In other words, they are offset largely by increases in what I would call virtually uncontrollable increases in employment to carry the mail, to process social security and veterans' benefits checks, to audit tax returns, and so forth.

Mr. Bow. Although we have a decrease in the number of employees, there is an increase in dollars?

Mr. Mayo. Yes. Because Federal pay has been rising, as indeed it would have to in order to compete with private industry.

Mr. Bow. Would that have been a good place for us to offer a bill to increase taxes when Congress increased employment?

Mr. Mayo. I think that you could couple it that way, yes.

DEFENSE CUTS VERSUS NATIONAL SECURITY

Mr. Bow. In a very interesting television program which I watched yesterady, I recall that some of the people on that program suggested that we would have more money for human resources by a greater reduction in Defense.

My question is, Would a further reduction in Defense create problems that might affect the security of this Nation?

Mr. Mayo. I can say in all honesty, Mr. Bow, I believe that we have gone as far as we can in this fiscal year; that is, as far as we could in February 1970 in projecting a decrease in defense spending for 1971. By that I mean consistent with our national security. That does not mean that further cuts might be possible as our vision clears a bit as we get into fiscal 1971, and perhaps we will do even better in Vietnam than is assumed in the figures that we are using. We don't feel at this stage of having to make an estimate that it would be prudent respect for our national security obligations to go below these figures.

INCREASES FOR HUMAN RESOURCES

Mr. Bow. We often talk about changing our priorities and emphasizing human resources. I recently read an article that raised some question as to whether there is an increase in this budget for human resources inasmuch as this budget includes trust funds involving social security, medicare, and other programs.

Have we, in addition to the social security, medicare, and other trust fund activities, actually increased the funds for human resources?

Mr. Mayo. I have not broken it down that way myself because of a very firm conviction, Mr. Bow, that the man receiving the human resource aid in one way or another couldn't care less which funds it comes out of. We do, however, have some distribution by departments which I think may be of some significance.

Let us look at page 20 of the special analysis volume, if anyone happens to have it handy. I will give the figures.

Health, Education, and Welfare. These are Federal fund expenditures now, Mr. Bow. They do not therefore have anything to do with the trust funds. HEW spending in fiscal year 1969, $15,382,000,000. Fiscal year 1970, $17,324,000,000. Fiscal year 1971, $19,867,000,000.

I hasten to add that neither of those latter two figures include anything above the President's estimates for the HEW appropriation bill. If we were to add in the President's additional suggestion a week ago today for an amendment of that bill, it would add another $200 million to 1970, and a figure I don't have in mind for 1971, but it would indeed push it over $20 billion.

As we lok at some of the others, Labor is even more striking. Manpower training is a terribly important part of our human resources program. Labor Department spending went from $690 million in 1969 to an estimated $811 million in 1970, and more than doubled to $1,749,000,000 in 1971. This, again, is without reference at all to anything in the trust funds.

I could go on and talk about some of the other programs, too.

Mr. Bow. Would you agree with me that perhaps some of the funds requested for the Department of Justice have a great deal to do with human resources such as the fight against drug addiction, and so forth?

Mr. Mayo. Yes. We have been modest in our definition of human resources, but let me cite the Justice figures right here. Their outlays went from $515 million in 1969 to $743 million in 1970 and to $985 million in 1971.

I would explain one further modesty in our definition of human resources. We have not considered housing—one of the most important of the human resource programs—as literally human resources. We have considered it as physical resources. Housing and urban development expenditures have risen from $1,558,000,000 in 1969 to $2,776,000,000 in 1970, to $3,317,000,000 in 1971. That is more than a doubling in the 2 years. We are not talking just about the expansion of social security benefits when we are talking about the increase in human resources.

GROSS NATIONAL PRODUCT ESTIMATE

Mr. Bow. Mr. Secretary, I now refer to page 3 of your statement, the second paragraph.

We have estimates here that the gross national product will continue to increase, that corporate profits are decreasing, and that business and employment are tapering off.

How is it possible to have an increase in the gross national product if corporate profits and employment are down? What is this based on? How do you explain that estimated increase in the GNP?

Secretary Kennedy. With the fiscal and monetary restraints, we are estimating that there will be less of an increase in the GNP than in previous years. The $53 billion increase that we have for 1970 compares with an increase of $67 billion in the GNP in the previous year.

I might indicate, also, the personal income figure that is implicit in these figures.

In 1969 the figure was $687 billion. In 1969 the figure was $747 billion. We have it increasing to $800 billion in the period of 1970.

In the case of the corporate profits, whenever there is a change of economic climate you have a unit cost problem because of the reduced increase in volume. Corporate profits generally reflect volume activity. You also have their increased costs from labor and so on. We wanted to show a pattern of corporate profits that was consistent with previous periods when there was a slowdown in the economy and reduction of inflationary pressures.

I think it is consistent with the 1967 period. The $5 billion reduction in corporate profits seemed a reasonable figure to me.

Mr. Bow. Thank you.

Mr. Mayo. These are all estimates. No question but what they are basic to the rest of the revenue.

Mr. Bow. I yield to Mr. Rhodes.

DECELERATION OF VIETNAM ACTIVITIES ASSUMED IN BUDGET

Mr. Rhodes. For just one question.

Mr. Mayo, in the assumptions that you have to make for the preparation of the budget, what date did you assume the war in Vietnam would end?

Mr. MAYO. There is an assumption of significant deceleration all through this period, Mr. Rhodes. I know of no precise date for the assumption in budget planning.

Mr. RHODES. Thank you very much. I am happy at your answer.

Mr. MAHON. Mr. Whitten.

Mr. JONAS. Would you yield for one question?

Mr. BOW. Yes.

MONETARY AND FISCAL POLICIES

Mr. JONAS. I would like to ask this question. I confess that I am not an economist either and the more I hear about it the less I know. The cures that we have put into effect now, the ones we seem to be offering run counter to what I was taught when I studied economics. I thought the way to cure inflation was to make more goods available than people had money. Now we seem to be moving in the direction of creating shortages. Monetary policies which produce high-interest rates reduce the supply of money, not only curb expansion and thereby reduce the supply of goods but are creating a very serious problem for the businessman who has to borrow money in ordinary business operations. I was talking with a manufacturer yesterday who, quite aside from any expansion, told me it cost his company several hundred thousand dollars more in interest in 1969 than in 1968. What are we going to do to relieve the burden on the man who has to borrow money for ordinary operating expenses?

Secretary KENNEDY. Well, two or three thoughts occur to me with respect to your question.

In this period of inflation we had been placing more demands on the economy through the fiscal and easy money policies of the past than our labor supply and resources could handle. It would have been different if we had excess capacity and excess labor in the economy. We were pushing at forced draft inflation. The remedy, as I saw it, was to reduce those pressures by taxation, by reduction of Government expenditures, by restrictive monetary policy. These actions affect credit markets and interest rates but looking at it from the standpoint of the savers or lenders who put their money out, their net at the end of the year would not be the 8 or 9 percent that they are getting, but—because of inflation—perhaps half of that.

We are now seeing a slowing down of the economy and as that continues the demands for credit and the needs for credit will somewhat subside. At the same time, the Federal Reserve which has been holding back on the creation of money will be able to alter its policy moderately. This will create more funds and the interest rate then will tend to go down to a more normal or reasonable level.

Mr. JONAS. That is what worries me. I think the demand for credit will go up instead. How are you going to finance an inventory without borrowing money? If you cannot sell your goods as the economy slows down you have more difficulty disposing of your goods and you have to either throw them out the door or borrow money to carry an inventory.

Secretary KENNEDY. There will be temporary pressures on each side of the equation. Forced financing of inventory is certainly not good for the economy. Those with forced inventory accumulation don't want to finance at any rate for any period of time. Eventually they would have to reduce prices.

Mr. MAHON. I would like to yield to Mr. Whitten at this point.

COMPOSITION OF THE GNP

Mr. WHITTEN. The question was asked as to what constitutes the GNP. I believe we developed this in times past. As I recall foreign aid, Government expenditures, State expenditures, various other expenditures including that for services are counted in the arriving at the GNP on the basis that we wouldn't spend the money unless we got value received. Is that still the rule.

Mr. MCCRACKEN. Yes, sir.

Mr. WHITTEN. Credit cards would be included in the GNP, too, credit card spending?

Secretary KENNEDY. The total of all the goods and services, however financed.

Mr. WHITTEN. Thus the more in the red we get the larger the total GNP?

Secretary KENNEDY. Yes, sir.

Mr. WHITTEN. It leaves us with a figure that does not mean as much as it might otherwise mean for GNP or gross national product does not mean solid production at all—but it means sum total of spending. Thank you for your presentation. I fully appreciate the job that you are faced with.

COORDINATION OF PROPOSED WITH ESTABLISHED PROGRAMS

What gets more disturbing to me, is the fact that so frequently it looks like we now have Government by public clamor and through television public clamor can be created in a matter of minutes. We have to do something about our environment and, goodness knows, we need to, for the people that live today and if the population is going to increase.

Here is one of two volumes that this committee has developed in finding out what you are doing already about pollution. You will note it is several inches thick. Apparently we are already spending $2 billion annually now on antipollution measures. Yet, in your presentation I don't see any reference to present expenditures. What bothers me is that in the glamour of these new programs, there will be a whole lot of real good programs that will be junked. The same goes for the field of nutrition.

SCHOOL MILK PROGRAM

For instance, you pass over, rather lightly, this school milk program which is recommended for elimination. I deal with this program. The school milk program, for instance, which you would have us eliminate was renewed last year and the House of Representatives passed the act by a vote of 384 to 2. Under that program I believe that they would serve 3 billion additional half pints of milk. These servings are recommended to be eliminated at the time when we read in the paper about what all you are going to do about improving nutrition and health.

Now, on this other pollution business you recommend the elimination of the agricultural conservation program. Congress has had to restore this program about 15 times since I have been subcommittee chairman. Perhaps somebody in the Bureau of the Budget does not understand the need for this program. Here is a program on which we have the help of more than 1,100,000 Americans across the country. They put up about two-thirds of the total cost. Yet you are talking about doing something new about pollution and you eliminate this program which has and is doing so much at an average cost of $250 to the Government per land owner. The records show that despite present efforts about 40 acres of land flows down the Mississippi River on an average every day in the year. Despite our interest and present efforts we are losing 400,000 acres of land a year due to erosion, pollution, if you will. Yet you would recommend that we eliminate the program which is doing most to save our lands for present and future generations.

Annually urban and industrial uses are taking more and more land leaving less and less. This whole money business that we are talking about is very important, and I believe in a balanced budget so that business can have stability. But money is made out of paper and future generations could set up their own financial system but if we let this land go, you could leave all the money in the world to our children and they would have nothing.

I think that I would like to read into the record what we had in our report this year, I believe.

For example, in 3500 B.C. the valleys of the Tigris and Euphrates Rivers supported a large and prosperous civilization. By the year 2000 B.C., great irrigation developments had turned this part of the Middle East into the granary of the great Babylonian Empire. Today, however, less than 20 percent of this area is cultivated because, as they became urbanized, the people of that civilization failed to continue to preserve the productive capacity of the land, according to LaMont C. Cole of Cornell University:

"The landscape is dotted with mounds, the remains of forgotten towns; the ancient irrigation works are filled with silt, the end product of soil erosion; and the ancient seaport of Ur is now 150 miles from the sea, its buildings buried under as much as 35 feet of silt."

I could go on and on. The point of it is that, goodness knows, I don't know how you have done as good a job as you have, but when we have another volume to go with this one as to what we are doing now toward controlling pollution, the real job is to see that what we are doing now does not end in favor of more glamorous but less effective methods. Incidentally, since the public has become more and more conscious of our environment, seven departments and agencies have their plans for each to have a research laboratory so that they can get into the act. Yet we are doing away with something we need.

In the process we shouldn't eliminate something which has proven good. I think the record should show this.

Mr. MAYO. May I respond?

Mr. WHITTEN. Certainly.

Mr. MAYO. I don't want to get into great detail here because I know that your time is short, but I might just mention this. On the agricultural conservation program, our feeling has nothing to do with the erosion per se. We recognize the good that is being done by these farmers in arresting erosion, but we feel erosion could be taken care of by the farmers themselves with their own resources and does not need this input of Federal money to make it succeed.

Mr. WHITTEN. The question is—I caught your word very easily. You said "could." History shows that they did not. The history of this country shows that we wasted half of our natural resources when we left it up to the man on the soil. Perhaps as you say we shouldn't have to do any of these things. But the record of this country shows if the Federal Government does not evidence interest in protecting the soil, with limited income those on the soil simply don't do the job. If you can, by the payment of one-third of the cost, lead him to save the land for future generations, I say it is the best deal for the country I know of.

RURAL WATER AND WASTE DISPOSAL PROGRAM

One of the greatest programs for present and future control or preventing pollution is rural water and sewage program. There we would be able to help prevent what now we are trying to cure. In this budget $18 million appropriated by the Congress for grants is being withheld. Loan funds have been drastically reduced. Thousands of rural families are being denied the benefit of these programs which the whole Nation needs.

Mr. MAYO. Yes, we are, because we have four different agencies doing essentially the same thing. We are trying to assign priorities in the interests of doing the right thing in Government economy.

Mr. WHITTEN. You think it is sound to cut rural sewage and the water program back?

Mr. MAYO. Yes, sir. Because it can be handled through other Federal programs.

Mr. WHITTEN. Would you mind detailing how that will help this drive on antipollution?

Mr. MAYO. It is a consolidation of Federal efforts that already exist.

Mr. WHITTEN. Consolidation with whom and what and where?

Mr. MAYO. The Federal Government.

Mr. WHITTEN. What part of the Federal Government?

Mr. MAYO. I will be glad to submit something for the record on that. This was a very——

Mr. WHITTEN. You are going to find it awfully hard.

Mr. MAYO. Should we abolish the program in HUD or the program in another agency?

Mr. WHITTEN. No. The point I am arguing is that let's be sure that the programs we have gotten initiated don't get eliminated while we go off after these new programs. The programs I refer to come under the Farmers Home Administration.

Mr. MAYO. I subscribe completely to what you say.

Mr. WHITTEN. I want to compliment you and the Secretary and Dr. McCracken, too; for you have a real job and I merely try to point out areas for further consideration.

I think the record should show that we had better take inventory and be sure we don't work against our objectives.

Mr. MAYO. That is what we are doing. We feel very strongly.

Mr. WHITTEN. Take it in that light.

Mr. MAHON. Expand on that for the record.

(The information follows:)

In 1971, the budget request for the rural water and waste disposal grant program administered by the Department of Agriculture is being reduced, in part because of the large expansion being proposed for grants for municipal waste treatment facilities, and in part because the fund level requested should be sufficient to take care of urgent pollution problems.

Mr. MAHON. The committee will resume at 2 o'clock. Thank you very much.

AFTERNOON SESSION

Mr. MAHON. We will resume the hearing. Mr. Whitten has an additional word.

Mr. WHITTEN. Mr. Chairman, in connection with the earlier matter that I discussed, the elimination of the ACP program would have the effect of reducing about 870 Soil Conservation Service technicians. As it stands now, it would also eliminate personnel to run the farm program offices.

There is certain other information that I would like to have permission to put in the record. I think earlier the Director of the Bureau of the Budget was advised to enlarge his remarks.

Thank you, Mr. Chairman.

TRUST FUND SURPLUS FOR FISCAL 1971

Mr. MAHON. This morning we discussed the dramatic increase in the surplus in the trust fund accounts—social security, highways, and so forth. It was pointed out that we are currently collecting far more money in trust funds than we are currently expending. I have here a table—I do not know how accurate it is—that I would like for you to check, Mr. Mayo. This table shows that the trust funds are estimated to produce an excess of $8,667 million in fiscal 1971 which will not be needed for trust fund expenditures in 1971. In other words, that would be a surplus for a time.

Mr. MAYO. Yes, that is a correct figure, sir.

This is again the process of building up on actuarially correct grounds insofar as it is possible the surplus of the trust funds to meet benefit payments coming down the road.

TRUST FUND SURPLUSES AND DEFICITS, 1961–71

Mr. MAHON. I wish you would show the trend of trust funds, say, in the last 10 years.

Mr. MAYO. I would be glad to.

Mr. MAHON. As I understand it prior to about 3 years ago the income into the trust funds and the outgo from the trust funds was much closer to being even; that is, there was not such a dramatic surplus as is now projected.

Beginning in recent years, these trust funds tended to skyrocket beyond immediate requirements. I wish you would tell us when the trust funds did show the dramatic surpluses. I would like an explanation of why this happened. I would also like to have a discussion of how long this situation may continue.

(The information follows:)

TRUST FUND OUTLAYS, RECEIPTS, SURPLUS OR DEFICIT—1961–71

[In millions of dollars]

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Outlays:											
Federal old-age and survivors insurance trust fund	11, 839	13, 270	14, 530	15, 285	15, 962	18, 769	19, 842	21, 510	24, 690	27, 376	30, 794
Federal disability insurance trust fund	756	1, 089	1, 259	1, 341	1, 498	1, 937	2, 071	2, 163	2, 613	2, 994	3, 397
Health insurance trust funds						64	3, 411	5, 332	6, 598	7, 538	8, 774
Federal employees retirement funds	879	982	1, 138	1, 262	1, 410	1, 680	2, 091	2, 631	1, 826	2, 827	3, 226
Highway trust fund	2, 745	2, 784	3, 017	3, 645	4, 026	3, 966	3, 973	4, 171	4, 151	4, 427	4, 395
Other trust funds	7, 020	7, 076	6, 601	7, 352	6, 741	8, 448	7, 201	5, 722	3, 406	4, 355	4, 854
Total	23, 329	25, 201	26, 545	28, 885	29, 637	34, 864	38, 589	41, 529	43, 284	49, 517	55, 440
Receipts:											
Federal old-age and survivors insurance trust fund	11, 910	12, 011	13, 856	16, 043	16, 417	18, 461	23, 371	23, 641	27, 348	31, 531	33, 444
Federal disability insurance trust fund	1, 093	1, 092	1, 145	1, 211	1, 241	1, 616	2, 332	2, 800	3, 705	4, 345	5, 006
Health insurance trust funds						916	4, 373	5, 256	7, 255	7, 431	9, 829
Federal employees retirement funds	2, 033	2, 086	2, 255	2, 465	2, 674	2, 834	3, 105	3, 494	3, 776	4, 236	4, 643
Highway trust fund	2, 925	2, 955	3, 293	3, 540	3, 670	3, 925	4, 455	4, 427	4, 690	5, 170	5, 613
Other trust funds	5, 846	6, 181	7, 140	7, 072	7, 045	7, 101	7, 089	5, 151	5, 235	5, 428	5, 572
Total	23, 807	24, 325	27, 689	30, 331	31, 047	34, 853	44, 725	44, 724	52, 009	58, 141	64, 107
Surplus or deficit (—):											
Federal old-age and survivors insurance trust fund	71	—1, 259	—674	758	455	—308	3, 529	2, 131	2, 658	4, 155	2, 650
Federal disability insurance trust fund	337	3	—114	—130	—257	—321	261	637	1, 092	1, 351	1, 609
Health insurance trust funds						852	962	—76	657	—107	1, 055
Federal employees retirement funds	1, 154	1, 104	1, 117	1, 203	1, 264	1, 154	1, 014	818	1, 950	1, 409	1, 417
Highway trust fund	180	171	276	—105	—356	—41	482	256	539	743	1, 218
Other trust funds	—1, 174	—895	539	—280	304	—1, 347	—112	—571	1, 829	1, 073	718
Total	568	—876	1, 144	1, 446	1, 410	—11	6, 136	3, 195	8, 725	8, 624	8, 667

The preceding table shows major trust fund surpluses or deficits from 1961 through 1971.

As the table shows, the old age, survivors, and disability funds (OASDI) account for the largest portion of the surpluses—48 percent for the entire period and over half of the surpluses from 1966 to 1971. The Federal employees' retirement funds (mainly civil service) are the next largest group. Together these groups of funds account for 83 percent of the total for the entire period. These funds are established under law with long-term financing designed to make them actuarially sound. The method of calculating—and enabling legislation based on these calculations—calls for significant surpluses for the indefinite future.

The unemployment trust fund (included in "Other trust funds") also generally has a surplus. The bulk of receipts is State taxes collected to finance benefit payments; the tax rates vary, but for the entire fund they have been sufficient to accumulate surpluses in most years.

The hospital insurance and supplementary medical insurance funds (included in "Other trust funds") have accumulated some surpluses over the period since their founding, but these funds are not anticipated to be major sources of surplus revenues. The rates are designed to cover costs of operation and maintain a reserve for contingencies but not to accumulate large balances.

The other major trust fund that accumulated large balances during this period is the highway trust fund. Its receipts are fixed by law, but because of the downward pressure on Federal outlays in the construction area for anti-inflation reasons, outlays in recent years have been below the level that the fund could finance. Over the long run, however, this fund is also not likely to be a source of surpluses.

The other trust funds vary somewhat from year to year but over time the receipts and outlays are not likely to be far apart; in the 10-year period under study, for example, they had a cumulative surplus of $84 million.

SOCIAL SECURITY TRUST FUNDS

Mr. MAHON. In talking this morning with Mr. Robert Ball, of the Social Security Administration, we discussed generally what this excess of income to the trust funds would perhaps be in the future.

Will you give us a projection for 3 to 5 years forward as best you can under the circumstances.

Mr. MAYO. Yes. I might also mention that the trust funds had a big growth in their earlier years, too, and the leveling off was something of a temporary phenomenon.

Mr. MAHON. If you will make that clear and understandable, we would appreciate it.

(The requested data on Social Security Administration trust funds follow:)

PROJECTION OF SOCIAL SECURITY TRUST FUND BALANCES [1]

[In billions of dollars]

	OASI trust fund [2]	DI trust fund [2]
1971	2.7	1.6
1972	6.1	1.7
1973	8.7	1.8
1974	11.7	2.0
1975	13.1	2.2

[1] Under present law which includes the 15-percent benefit increase.
[2] Includes receipts which are also outlays of Federal funds (e.g., interest or trust fund-held securities).

The above figures suggest that for the next 5 years—and probably much longer—the old-age and survivors, and disability trust funds will operate with larger increasing surpluses. A larger part of these surpluses will result from receipts that came from the general fund of the Treasury, for interest on trust-fund-held securities and other Federal Government payments to those trust funds. Thus, a significant part of the trust fund surpluses derive from outlays of Federal funds.

For the foreseeable future, the OASI trust fund surplus looms so large that the trust fund totals will show a significant—although probably smaller—surplus. By the midseventies and later, the highway trust fund and the health insurance trust funds are likely to operate as close to a balance or even with a relatively small deficit, probably causing the total trust fund surplus to be somewhat less than that shown for the OASI fund itself.

Since tax collections—in one way or another—are the basic source of trust fund receipts, fiscal policy will have to reflect the burden of these (as well as other) taxes in relation to trust fund (as well as other) Government payments. The unified budget concept automatically makes this calculation and comparison.

Mr. MAHON. As I now understand it, whether you considered the trust funds or not prior to about 1967 was not so important with regard to the surplus issue. It was not a very large item. But it has turned out to be a large item in the last 2 or 3 years.

DEFICITS UNDER ADMINISTRATIVE AND UNIFIED BUDGETS

It was brought out in the testimony this morning the Government has been operating at a deficit for many years. I wish you would provide information showing how many years the Government has been in the black since 1930.

Mr. MAYO. Yes, sir.

Mr. MAHON. You have to differentiate as to whether you are talking about the unified budget or the administrative budget which was in operation prior to fiscal 1969.

On page 594 of the budget you show the unified budget calculations since fiscal 1954. Of course, we did not have the unified budget in operation during 1954. So I wish you would give us a table showing what the administrative budget was during that period.

The trust funds would have had a relatively unimportant relation to these figures, I would think, prior to about 1967 or 1968.

(The information follows:)

ADMINISTRATIVE BUDGET/FEDERAL FUND SURPLUS OR DEFICIT, 1930 TO 1971

[In millions of dollars]

	Receipts	Outlays	Surplus or deficit		Receipts	Outlays	Surplus or deficit
1930	4,058	3,320	+738	1951	47,480	43,970	+3,510
1931	3,116	3,577	−462	1952	61,287	65,303	−4,017
1932	1,924	4,659	−2,735	1953	64,671	74,120	−9,449
1933	1,997	4,598	−2,602	1954	64,420	67,537	−3,117
1934	3,015	6,645	−3,630	1955	60,209	64,389	−4,180
1935	3,706	6,497	−2,791	1956	67,850	66,224	+1,626
1936	3,997	8,422	−4,425	1957	70,562	68,966	+1,596
1937	4,956	7,733	−2,777	1958	68,550	71,369	−2,819
1938	5,588	6,765	−1,177	1959	67,915	80,342	−12,427
1939	4,979	8,841	−3,862	1960	77,763	76,539	+1,224
1940	5,137	9,055	−3,918	1961	77,659	81,515	−3,856
1941	7,096	13,255	−6,159	1962	81,409	87,787	−6,378
1942	12,547	34,037	−21,490	1963	86,376	92,642	−6,266
1943	21,947	79,368	−57,420	1964	89,459	97,684	−8,226
1944	43,563	94,986	−51,423	1965	93,072	96,507	−3,435
1945	44,362	98,303	−53,941	1966	104,727	106,978	−2,251
1946	39,650	60,326	−20,676	1967	115,849	125,718	−9,869
1947	39,677	38,923	+754	1968 [1]	114,726	143,105	−28,379
1948	41,375	32,955	+8,419	1969	143,329	148,819	−5,490
1949	37,663	39,474	−1,811	1970 (estimate)	149,579	156,703	−7,124
1950	36,422	39,544	−3,122	1971 (estimate)	147,600	154,936	−7,336

[1] 1968 through 1971 unified budget, Federal funds only. The surplus or deficit (in millions of dollars) based on the unified budget for these 4 years is as follows:

UNIFIED BUDGET SURPLUS OR DEFICIT, 1968–1971

[In millions of dollars]

	Receipts	Outlays	Surplus or deficit
1968	153,671	178,833	−25,161
1969	187,792	184,556	+3,236
1970 (estimate)	199,386	197,885	+1,501
1971 (estimate)	202,103	200,771	+1,331

INTEREST ON NATIONAL DEBT

Mr. MAHON. Now I would like to ask you a few questions in regard to the interest on the debt. What is the present estimate as to what the interest will be on the debt for fiscal 1970?

Mr. MAYO. The exact figure for fiscal year 1970 is $18,800 million.

Mr. MAHON. Will you tell us what the increase is over the April 15, 1969 estimate for fiscal year 1970, and over the fiscal year 1969 figure?

(The information follows:)

The April 15, 1969, estimate for fiscal year 1970 was $17,300 million. The increase from the April estimate to the current estimate for fiscal year 1970 is $1,500 million. It is an increase of $2.2 billion over fiscal year 1969.

Mr. MAHON. How much is it estimated to go up in fiscal year 1971?

Mr. MAYO. $200 million.

Mr. MAHON. Incidentally a total for fiscal year 1971 of $17.8 billion is shown in some places in the budget, and $19 billion in others. In one place in the budget you see a $200 million increase; in another it shows no increase. Would you please clarify this?

Mr. MAYO. $17.8 billion is a net figure for total interest paid less interest receipts. Pages 180–181 of the budget document carries a full discussion.

Mr. MAHON. About what percent of the debt is in short term bills and notes?

Mr. MAYO. Fifty percent of the privately held marketable debt outstanding at the end of January 1970 will mature within 1 year.

Mr. MAHON. About how much of the debt is currently refinanced within a fiscal year?

Mr. MAYO. Excluding bills which are routinely refinanced, $23.7 billion of the outstanding marketable public debt held by private investors will mature in fiscal 1971; if the holdings of the Government investment accounts and the Federal Reserve banks are included, the figure is $29.4 billion.

Mr. MAHON. What are your most recent interest rates?

Mr. MAYO. The interest rates offered in the recently completed refunding operation are 8¼ percent on a 1½-year note, 8⅛ percent on a 3½-year note, and 8 percent on a 7-year note.

AVERAGE MATURITY

Mr. MAHON. What is the average "age" or maturity of the debt, and is it shortening in relation to a year or two or so ago?

Mr. MAYO. The average maturity of the privately held marketable debt at selected dates over the past several years is as follows:

End of January:	*Average maturity*
1965	5 years, 8 months
1966	5 years, 1 month
1967	4 years, 10 months
1968	4 years, 4 months
1969	4 years, 0 months
1970	3 years, 8 months

AVERAGE COMPUTED INTEREST

Mr. MAHON. What is the average computed interest rate on the whole debt as of some recent date—and how would that compare with recent years?

Mr. MAYO. There follows a table which shows the computed interest rate for each year since 1916 and for each month of this fiscal year.

AMOUNT OF INTEREST-BEARING DEBT OUTSTANDING, THE COMPUTED ANNUAL INTEREST CHARGE AND THE COMPUTED RATE OF INTEREST AT THE END OF EACH FISCAL YEAR FROM 1916 TO 1937 ON BASIS OF MONTHLY PUBLIC DEBT STATEMENT, AND FROM END OF THE FISCAL YEAR 1938 TO DATE ON BASIS OF DAILY TREASURY STATEMENT

End of June—	Interest-bearing debt	Computed annual interest charge	Computed rate of interest (percent)
1916	$971, 562, 590	$23, 084, 635	2, 376
1917	2, 712, 549, 476	83, 625, 482	3. 120
1918	11, 985, 882, 436	468, 618, 544	3. 910
1919	25, 234, 496, 273	1, 054, 204, 509	4. 178
1920	24, 061, 095, 361	1, 016, 592, 219	4. 225
1921	23, 737, 352, 080	1, 029, 917, 903	4. 339
1922	22, 711, 035, 587	962, 896, 535	4. 240
1923	22, 007, 590, 754	927, 331, 341	4. 214
1924	20, 981, 586, 429	876, 960, 673	4. 180
1925	20, 210, 906, 251	829, 680, 044	4. 105
1926	19, 383, 770, 860	793, 423, 952	4. 093
1927	18, 250, 943, 965	722, 675, 553	3. 960
1928	17, 317, 695, 096	671, 353, 112	3. 877
1929	16, 638, 941, 379	656, 654, 311	3. 946
1930	15, 921, 892, 350	606, 031, 831	3. 807
1931	16, 519, 588, 640	588, 987, 438	3. 566
1932	19, 161, 273, 540	671, 604, 676	3. 505
1933	22, 157, 643, 120	742, 175, 955	3. 350
1934	26, 480, 487, 920	842, 301, 133	3. 181
1935	27, 645, 229, 826	750, 677, 802	2. 716
1936	32, 755, 631, 770	838, 002, 053	2. 559
1937	35, 802, 586, 915	924, 347, 089	2. 582
1938	36, 575, 925, 880	947, 084, 058	[1] 2. 589
1939	39, 885, 969, 732	1, 036, 937, 397	[1] 2. 600
1940	42, 376, 495, 928	1, 094, 619, 914	[1] 2. 583
1941	48, 387, 399, 539	1, 218, 238, 845	[1] 2. 518
1942	71, 968, 418, 098	1, 644, 476, 360	[1] 2. 285
1943	135, 380, 305, 795	2, 678, 779, 036	[1] 1. 979
1944	199, 543, 355, 301	3, 849, 254, 656	[1] 1. 929
1945	256, 356, 615, 818	4, 963, 730, 414	[1] 1. 936

End of June—	Interest-bearing debt	Computed annual interest charge	Computed rate of interest (percent)
1946	268,110,872,218	5,350,772,231	[1] 1.996
1947	255,113,412,039	5,374,409,074	[1] 2.107
1948	250,063,348,379	5,455,475,791	[1] 2.182
1949	250,761,636,723	5,605,929,714	[1] 2.236
1950	255,209,353,372	5,612,676,516	[1] 2.200
1951	252,851,765,497	5,739,615,990	[1] 2.270
1952	256,862,861,128	5,981,357,116	[1] 2.329
1953	263,946,017,740	6,430,991,316	[1] 2.438
1954	268,909,766,654	6,298,069,299	[1] 2.342
1955	271,741,267,507	6,387,225,600	[1] 2.351
1956	269,883,068,041	6,949,699,625	[1] 2.576
1957	268,485,562,677	7,325,146,596	[1] 2.730
1958	274,697,560,009	7,245,154,946	[1] 2.638
1959	281,833,362,429	8,065,917,424	[1] 2.867
1960	283,241,182,755	9,316,066,872	[1] 3.297
1961	285,671,608,619	8,761,495,974	[1] 3.072
1962	294,442,000,790	9,518,857,333	3.239
1963	301,953,730,701	10,119,294,547	[1] 3.360
1964	307,356,561,535	10,900,360,741	[1] 3.560
1965	313,112,816,994	11,466,618,472	[1] 3.678
1966	315,431,054,919	12,516,397,677	[1] 3.988
1967	322,285,952,388	12,952,924,176	[1] 4.039
1968	344,400,507,282	15,403,874,631	[1] 4.499
1969	351,729,445,327	17,086,631,003	[1] 4.891
Fiscal year 1970 month ended:			
July	355,122,266,579	17,542,875,309	[1] 4.977
August	358,328,655,810	17,892,783,831	5.031
September	358,818,229,136	18,100,482,696	5.084
October	362,420,072,058	18,848,169,561	5.246
November	366,262,722,524	19,232,955,279	5.298
December	366,221,365,318	19,539,481,870	5.384
January	365,619,701,541	19,656,806,005	5.426

[1] On basis of Daily Treasury Statements.

Note: For monthly figures from June 1916 to June 1929 see report of the Secretary of the Treasury for 1929 p. 509; from July 1929 to June 1936 see report of the Secretary of the Treasury for 1936 pp. 442 and 443. For monthly revised figures covering subsequent fiscal years see reports of the Secretary of the Treasury for the respective years. "Interest-bearing Debt" figures include discount on Treasury bills amount being deducted prior to calculating the average interest rate.

Source: Treasury Department, Fiscal Service, Bureau of Accounts.

INTEREST RATES FOR SPECIAL SECURITIES

Mr. MAHON. What rate, or rates, are paid on the special securities issued to cover borrowings from the trust funds? Are those rates set, or prescribed, by law, or just what is the situation?

Mr. MAYO. The formula governing the rate on special issues is specified by law in the case of most of the major trust funds. The statute governing the Federal Old-Age and Survivors' Insurance Trust Fund, which is the pattern for most of the other funds, reads as follows:

> Such obligations issued for purchase by the Trust Funds shall have maturities fixed with due regard for the needs of the Trust Funds and shall bear interest at a rate equal to the average market yield (computed by the Managing Trustee on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States then forming a part of the public debt which are not due or callable until after the expiration of four years from the end of such calendar month; except that where such average market yield is not a multiple of one-eighth of 1 per centum, the rate of interest of such obligations shall be the multiple of one-eighth of 1 per centum nearest such market yield.

This formula produces a rate of 7⅞ percent for special obligations issued during the month of February 1970.

DEBT CEILING

Mr. MAHON. As I understand it, we have to increase the debt ceiling by $8 or $9 billion under the 1971 budget plans. When will that probably be submitted and when will action probably be required?

Secretary KENNEDY. I think the answer to that will be sometime perhaps in May.

We will need the increase by the end of the fiscal year. We would like to see how the expenditure and revenue figures look over the next few months before we pick a number.

Mr. MAHON. I would like to discuss with you at this point in more detail the precariously balanced budget which has been presented to us. The questions involved here have been covered in a general way, but I would like to have a little more specific answer to some of them.

FISCAL ENVIRONMENT FORECAST, 1971–75

Mr. MAHON. I want to commend you and Mr. Mayo for your discussion in the budget of the fiscal environment during the coming 5 years. You have, I think, performed a service in calling attention to this problem. I assume you, Mr. Secretary, and you, Dr. McCracken, also had a hand in it. I realize it is rough and arbitrary. It is also sobering. It seems to say that unless the people are willing to pay increased tax rates, there won't be much room for a lot of new programs within a prudent budget policy. I think it would be useful to insert pages 57 to 61 of the budget at this point.

(The information follows:)

THE LONG-RANGE OUTLOOK

The President's ability to control budget decisions is limited by the long-range impact of past decisions as to the nature and dimensions of resource allocation. Budget control can be improved by projecting available resources and potential claims on them. Such projections require assumptions about the future course of economic, legislative, international, and other events and are necessarily rough and arbitrary. Nevertheless, they should be undertaken to present a tentative indication of our future fiscal environment.

This portion of the budget presents a projection that sets forth, for the Federal sector of the economy, one possible combination of available resources and anticipated claims during the period fiscal years 1971–1975. The analysis is presented in current dollars, and is on a fiscal year, unified-budget basis. The major conclusion of the analysis is that projected claims leave only modest resources for future initiatives, including tax and debt reduction as well as new expenditure programs, through 1975.

Highlights.—Projections of Federal receipts and outlays through 1975 indicate:

Federal receipts under present law and legislation proposed in this budget gross national product—GNP—is likely to be slightly lower in 1975 than in 1970.

Estimated increases in existing and already proposed Federal programs will preempt almost 70 percent of the $67 billion increase in revenues expected between 1970 and 1975.

Funds to cover new initiatives in addition to those already reflected in this budget are projected at $22 billion in 1975. These are the funds that will be available to cover the 1975 costs of all new initiatives that are introduced subsequent to this budget.

This $22 billion is equal to approximately 1.5 percent of the gross national product estimated for 1975. On the basis of present estimates, little, if any, margin is available in 1972 for new initiatives.

The shape of the future.—The following discussion is concerned with projections of future revenues and outlays under current and proposed legislation, as well as the assumptions underlying the projections.

The Annual Report of the Council of Economic Advisers describes in more detail the economic assumptions and growth projection as well as the allocation of output among consumption, investment, and Government. The discussion of Federal Government finances, presented below, is consistent with the projection in the Council report.

Projection of the economy.—Between fiscal years 1970 and 1975:

The total economy—or gross national product—GNP—is expected to increase by $400 billion, to nearly $1.4 trillion.

Consumption expenditures are anticipated to rise by 45 percent. After allowing for population growth, this would result in an increase in per capita consumption of more than one-third.

Investment and total Government purchases together would rise by 35 percent to provide the plant and equipment, housing, and supporting facilities and services consistent with a larger economy.

The potential total supply of goods and services—potential GNP—will grow significantly during the 1970–75 period as the civilian labor force increases substantially and average output per man-hour rises. Actual GNP could be expected to amount to nearly $1.4 trillion in 1975, measured in current dollars, after allowing for a declining rate of inflation during the next 2 years, followed by relative price stability thereafter.

Economic and budget policy must solve the two problems of (a) keeping demand roughly equal to potential output, once inflation is slowed, and (b) allocating Federal resources among alternative uses.

Constraints: Revenues and built-in expenditures.—The growth of GNP will obviously generate substantial increases in personal income and corporate profits. Applying the tax rates in this budget to these larger bases results in estimated Federal Receipts amounting to $266 billion in 1975. Because of the termination of the surtax and the effect of the provisions of the Tax Reform Act of 1969, the ratio of revenues to GNP is anticipated to be lower in 1975 than in 1970. The net amount of additional Federal revenues and current program outlays will determine the margin available to the Federal Government to use itself or to return to private citizens or to State and local governments.

ECONOMIC AND REVENUE ASSUMPTIONS

[Fiscal years. In billions of current dollars]

Item	1970	1975
Gross national product	960	1,360
Federal revenue	199	266
Federal revenue as a percent of GNP	20.8	19.6

As far as Federal outlays are concerned, the most predictable increases in future budgets will reflect an expanding population and some further rise in the cost of living. Outlays under a number of programs (such as social security and veterans compensation and pensions) tend to increase on the basis of existing law because of a growing number of eligible beneficiaries, or to be increased by the Congress to provide for increases in the cost of living. Such expansion is virtually "built in" to budgets of the future. Larger outlays will also be required in some other programs, merely to accommodate increases in both the prices of goods purchased and the population served. Additional budgetary growth will occur as the result of future pay increases for Government workers. On the basis of the assumptions used here, the estimated net increase in outlays for current programs averages $7 billion a year between 1971 and 1975. The termination or restructuring of outmoded or uneconomic Government programs proposed in this budget can reduce these built-in expenditures by $2 billion in 1972, thereby reducing the spending base. Budget savings can be increased in the future with the addition of new program reforms.

The projection of revenues and expenditures provides an estimate of the funds that will be available for discretionary action, as shown below.

PROJECTED RESOURCES

[Fiscal years. In billions of current dollars]

Item	1971 estimated	1975 projected
Revenues [1]	202	266
Outlays:		
Current programs	200	228
Price, pay, and workload increases		(20)
Net increase in other current programs		(8)
Initiatives reflected in this budget	3	18
Less: Outlays for terminations, restructuring, and reductions	−2	−2
Total	201	244
Funds to cover new initiatives		22

[1] Includes effect of legislation proposed in this budget.

The $22 billion of funds to cover new initiatives during the 1972–75 period—including tax reduction or budget surpluses as well as new programs—is the difference between projected revenues and the budget base that is necessary to provide for built-in program requirements.

Though the amount may seem large when viewed in the abstract, it is quite small when seen as the limit of the outlays required in 1975 for all initiatives begun in 1972 and the other intervening years to 1975. It is not enough to cover the likely demands for all initiatives in any of these years, initiatives which have a pervasive cumulative effect as the initial year's costs are multiplied in subsequent years.

Effects of changing assumptions on the uncommitted resources.—In practice, revenues will depend on the future tax structure and the performance of the economy. Relatively small changes in the rate of economic growth, the rate of price increases, and the distribution of national income between personal income and profits can change revenues substantially.

The prices the Government must pay to obtain goods and services also reflect the general price level and productivity experience in the private sector. Thus, the level of built-in outlays could also vary significantly from this projection.

The estimates of 1975 outlays for the initiatives reflected in this budget are subject to the special uncertainties that attend new ventures. These outlays will depend on the number of individuals eligible for program benefits, the responses of State and local governments to grant programs, the price performance of specific sectors of the economy, and the success of research and development efforts. Neither the costs nor rate of progress toward distant goals can be accurately forecast.

Budget strategy.—Long-range planning involves developing a resource allocation strategy that specifies objectives, describes alternative approaches, and anticipates possible outcomes. The optimum budget would be one that most fully meets the objectives in each year and brings us nearest to long-range goals. Each year, projections should be revised and the best course of action again chosen. This approach emphasizes the value of comprehensive and flexible strategies.

Overall fiscal and monetary policy influence (and are influenced by) the level of employment, price trends, and conditions in financial markets. At the same time, the projected economic environment establishes the framework for specific program decisions and the likelihood of program success. For example, the kinds and levels of manpower training, income security, and housing programs must be geared to the economic environment. A comprehensive strategy must recognize these important policy and program interrelationships.

Feasible strategies are those that balance new programs with available resources. A comprehensive strategy includes consideration of tax changes, reductions in the base of the budget, debt reduction, and the addition of new programs. This year's proposals to terminate and reduce outmoded and uneconomic programs will help relax the constraint of limited resources.

Nonetheless, the funds available will be grossly inadequate to accommodate all meritorious new initiatives. Therefore, new initiatives for program increases, budget surpluses, or tax reductions can be fit into successive budgets over time only as resources permit.

This presentation is a new departure in Federal budgeting. The publication of a long-range outlook is intended to provide perspective by emphasizing the lack of resources relative to claims and to encourage a longer range strategy for Government actions.

It is virtually certain that the 1975 budget will not fit any projection that possibly could be made at this time. Rather, it will reflect the experience and changing needs of the intervening years.

FUTURE COSTS OF NEW INITIATIVES

Mr. MAHON. You show that the "new initiatives" recommended in this budget, in terms of budget expenditures (or outlays) would cost roughly $3 billion in fiscal year 1971, and roughly $18 billion in fiscal year 1975.

What are the items involved?

Would you have the same information on an appropriation or budget authority basis for the years 1971 and 1975?

Mr. MAYO. The principal items included in the "new initiatives" are—

Programs to improve the quality of our environment;

Crime reduction activities;

The family assistance program;

The food stamp program;

Revenue sharing with State and local governments;

Modernization of the Nations system of airports, airways, and public mass transit; and

An extended rural housing program to help families with low-to-moderate incomes obtain adequate housing.

We did not estimate fiscal year 1975 appropriation or budget authority data for these items.

Mr. MAHON. What sort of price increase factor was cranked into your calculations?

Mr. MAYO. A declining rate of inflation was projected for the next 2 years, with relative price stability assumed thereafter.

VIETNAM WAR COST ESTIMATES

Mr. MAHON. We have in prior years had an estimate of what the war in Vietnam is costing. The figures have run all the way from $20 to $30 billion. Of course, we all know that deficits in the middle 1960's and the later 1960's were undoubtedly largely brought about by heavy defense spending and inadequate revenues. We hope that situation is changing somewhat. What can you tell us officially about how much you are budgeting for the war? I realize if you say how much you are budgeting that tends to indicate the intensity of the war from the Government's standpoint. This question was touched on briefly this morning.

Mr. MAYO. Yes, Mr. Chairman. Do you want me to respond for the record on that?

Mr. MAHON. If you could respond very briefly. Can you give a figure?

Mr. MAYO. I cannot give a figure. I can say that the figure for the fiscal year 1970 which Secretary Laird released in November of $23-odd billion is the only estimate that I have seen that is current at all for 1970. The preference of the administration for 1971, Mr. Chairman, was to give no figure for the cost of Vietnam purposely to avoid undue speculation that would involve the President's flexibility in conducting the deceleration of the war. These is a second point, and the flexibility point is the more important. Again Secretary Laird, I think, made quite clear in his testimony, I believe before this committee at an earlier date, that there is indeed no accounting basis for giving some figures on Vietnam.

They are just educated guesses.

Mr. MAHON. Why don't you expand this explanation for the record. I realize the problem you are confronted with.

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

(The information follows:)

PRESENTATION OF VIETNAM COSTS IN THE 1971 BUDGET

The President's two-pronged program to achieve peace in Vietnam as rapidly as possible consistent with our basic objective of selfdetermination for the South Vietnamese includes negotiation and Vietnamization. While progress in Paris has been disappointing, the Vietnamization program is well underway. Authorized U.S. forces in Vietnam have been reduced by 115,500 below the level existing when this administration took office. We hope that further reductions can soon be made. As you know, the actual withdrawal schedule will depend upon progress in the Paris negotiations, on the intensity of enemy activity and the level of combat, and upon further progress in Vietnamization. If these conditions permit, further U.S. troop withdrawals can and will be announced. But, since U.S. actions are not independent of these factors, estimates have not been shown in the 1971 budget for the size, the timing, or the costs of future activities. Disclosure of a budget plan for Vietnam would be interpreted as a forecast of the President's withdrawal program. To preserve the President's flexibility to direct withdrawals as progress in Paris, enemy activity and Vietnamization permit, no Vietnam estimates have been published.

There is a further consideration. The estimates of the prior administration originally purported to measure the incremental costs of Vietnam above and beyond "normal" defense requirements which would be necessary quite apart from events in Southeast Asia. Over a period of time, however, the Vietnam estimates came to include many full costs. As such, the estimates were not a reasonable measure of the added cost of Vietnam, and they were very misleading as an indication of the budget resources which might be made available after withdrawal.

Estimates of this nature are bound to be misleading because they lack accounting support. The interests of the nation are better served by focusing attention upon the total defense budget, and the substantial reductions shown there, than in debating what is and what is not allocated on a judgmental basis to a part of the total Vietnam support.

As you know, the Secretary of Defense has addressed the question of Vietnam spending—and spending rates—as recently as November before this committee. You may wish to direct detailed questions about further information on this subject to Secretary Laird.

FULL FUNDING

Mr. MAHON. I have a number of questions here with regard to full funding. As you know, there is a growing hue and cry that we should provide full funding for many legislative authorizations. The point sought to be made is that when a specific dollar amount was "authorized" for a certain program, Congress in effect had thereby "promised" to fund it 100 percent by appropriation.

Of course, the claim crosses the borders of absurdity. There will never be enough money to "fully fund" all authorizations. And, of course, there is no way to even make the claim for authorizations that have no specific dollar authorizations. I would like to develop for the record the magnitude of spending full funding might entail.

Mr. MAYO. I would merely observe on some things, Mr. Chairman, this is the only way that we indeed are able to keep within the expenditure limits, that is, in effect to spend less than is actually appropriated.

Mr. MAHON. Spend less than is appropriated and spend less than is authorized.

Mr. MAYO. Yes.

Mr. MAHON. Indeed there are many programs which have no specific upper limits as to expenditure.

Mr. MAYO. That is true.

Mr. MAHON. I think we need some documentation.

Mr. ROONEY. Mr. Chairman, will there be inserted in the record at this point a statement with regard to these programs?

Mr. MAHON. Yes, we need a feel for the programs that are on the books now which provide for spending—that is, authorized spending for various programs Government-wide. Show what these figures are and particularly state where these authorizations are as well as you can.

RELATION BETWEEN AUTHORIZATION, APPROPRIATION, AND SPENDING

Mr. FLOOD. Mr. Chairman, at this point in answering that question, there is something even more fundamental than just the mere figures, if anything can be more fundamental than that. I have found out this past year as chairman of the Subcommittee on HEW that there are many very fine and sincere and honest groups in this Nation who are special pleaders for a certain cause. They actually, believe it or not, do not understand the procedural difference between authorizations and appropriations. They just do not know. At some point in your answer I wish you would go to some pains to point out how Congress can do one thing on Monday and do a different thing on Tuesday. They just do not understand.

Mr. MAYO. I will do that.

Mr. ROONEY. And the executive branch do a different thing on Wednesday.

(NOTE: An explanation of the budgetary relationships of authorizations, appropriations, and agency spending follows. A comparison of the amounts authorized and the appropriations requested in the 1971 budget will be supplied to the committee at a later date.)

THE RELATIONSHIP OF AUTHORIZATIONS, APPROPRIATIONS, AND AGENCY SPENDING IN THE BUDGET PROCESS

"Authorizations" are generally contained in basic substantive legislation that gives statutory sanction to Federal agencies for the conduct of programs or projects to achieve specified purposes. Such legislation sometimes sets monetary limits on the amounts of budget authority that can be enacted, but does not usually provide such authority.

"Appropriations" and other financing techniques provide the budget authority required to incur obligations and make disbursements for specified purposes and programs that were previously authorized by law.

As a part of the procedural arrangements in each House of Congress, the committees other than the Appropriations Committees are not permitted to include appropriations in the bills they recommend for enactment, and conversely the Appropriations Committees cannot recommend appropriations for purposes or programs not authorized by law, or in excess of amounts authorized by law. Similar restrictions apply to amendments of bills from the floor.

Authorizations take various forms. Sometimes they name a maximum amount of budget authority that can be enacted each year; sometimes they name a maximum amount that can be made available over a period of years; sometimes they contain a fixed terminal date for an activity without naming dollar amounts. Many of the more recent authorizations contain dollar limitations. Most of the older authorizations name no amounts and no expiration dates.

Where dollar limitations are established in authorizations, they serve as ceilings on the amounts of budget authority that may be made available, under the rules of Congress, through appropriations or other financing techniques. The Appropriations Committees and the Congress, in acting on requests for budget authority, are not bound to provide the same amount as may be specified in the substantive authorizations.

Authorizations for programs generally are enacted without explicit consideration of overall fiscal policy or of possible constraints on the allocation of resources. Action on appropriations for authorized programs, on the other hand, must take into account current overall fiscal policy and financing constraints. In addition, the allocation of available resources must give due regard to priorities of competing programs. These kinds of factors contribute to the situation where the financing provided for a given program usually is less than amounts authorized.

There is a second reason for differences between authorizations and budget authority. Some authorizations are enacted in a lump sum without regard to fiscal year, while the related budget authority may be spread over a period of years. For example, authorizations for public works projects in the field of water resources usually cover the total estimated cost of the project. Generally, appropriations for such projects are made on an incremental basis to pay contractor expected earnings during the year. The financing for a large project thus may be spread over a 5 to 10 year period. Furthermore, in some cases, authorized projects may never be initiated due to lack of resources or change in conditions after the authorization was enacted.

Within the executive branch, amounts of budget authority made available for authorized programs are apportioned by the Director of the Bureau of the Budget, and allotted by agency heads to program managers to permit them to incur obligations and spend funds. Amounts apportioned may not exceed the budget authority made available through appropriations or other financing techniques; and amounts allotted and spent may not exceed apportionments. In either case, they may be less.

Within the budget process, therefore, the authorization, financing, and spending for a given program generally will vary at a specified point in time. For a water resources public works project for example, the authorization almost invariably will be greater than the initial appropriation; depending upon fiscal and program considerations, the apportionment may be less than the amount appropriated; and constraints in work programing and spending within the responsible agency may result in an allotment and outlays that are less than the amount apportioned. It is apparent, therefore, that there can be different answers to a question concerning amounts authorized, available, and spent for a given program, depending on how and when the question is asked.

FINANCIAL ASSET SALES

Mr. Mahon. Mr. Mayo, in the 1970 budget, you had figured on sales of certain Federal loan papers.

Mr. Mayo. Yes.

Mr. Mahon. There has been some considerable slippage because of the money market situation.

Mr. Mayo. That is correct.

Mr. Mahon. What are you assuming in the 1971 budget along this line?

Mr. Mayo. We have moved many of the sales, Mr. Chairman, into 1971 because of adverse money market conditions in the present year. I will be glad to supply the precise figures that tie to the budget for the record.

Mr. Mahon. Do you think these figures will be reasonably valid?

Mr. Mayo. We are in high hopes that the money markets will be in much better shape in 1971 than they are this year.

(The information follows:)

[In millions of dollars]

	Revised, 1970	1971 estimate
Sales of loans:		
Agriculture—Farmers Home Administration	1,598	2,914
Housing and Urban Development	50	100
Veterans' Administration	61	526
Export-Import Bank	384	500
Subtotal	2,093	4,040
Less repurchase (puts):		
Farmers Home Administration	830	407
Export-Import Bank	356	
Subtotal	1,180	407
Net sales	913	3,633

Relatively Uncontrollable

Mr. Mahon. Mr. Mayo, "relatively uncontrollable" is a term and a fact of budgets and appropriations that has caused us some concern and continues to. It is not a new problem, but it is one that is growing.

You address this in your charts and in the budget. You say it has caused you to breach the spending ceiling.

You indicate that on an outlay basis, 69 percent of the $200.8 billion for 1971 is relatively uncontrollable. I believe that about one-third of that 69 percent—about $43 billion—is "from prior year contracts and obligations."

Obviously, when an obligation becomes due and payable, the expenditure or outlay is, at that point, "relatively uncontrollable." But maybe a good deal of the $43 billion relates to obligations that were made under appropriations that in the first instance were relatively controllable not the other way around. Would that be a fair assumption?

Mr. Mayo. Of the $138.4 billion shown as "relatively uncontrollable outlays under present law" in the 1971 budget—p. 44—$43.3 billion—31 percent of the total—represents outlays from prior year contracts and obligations. All of this $43.3 billion results from appropriations which were, in the first instance, relatively controllable. However, once the Government has signed a contract or obligated funds for any purpose, payments must be made as the terms of the commitments are met.

EFFECT OF UNCONTROLLABLES ON 1970 OUTLAYS

Mr. Mahon. I did not think any of us were quite prepared in January of 1969 or April 15, 1969, to foresee just how tight money would get, how interest rates would skyrocket, and how the costs of the uncontrollables in the budget would increase. You showed us this morning that whereas you had expected spending during fiscal 1970 to be about $192.9 billion, that in view of a number of things you are now projecting spending during the current fiscal year 1970 at $197.9 billion.

Mr. Mayo. Yes.

Mr. Mahon. There was probably no good way the administration and probably no way the Congress could have expected that sort of increase over the estimates in these uncontrollables. Interest on the debt, for instance, went up more than had been anticipated.

Mr. Mayo. We have detail we can read to you or supply for the record.

Mr. Mahon. Supply that for the record.

Mr. Mayo. Basically the $4.3 billion, just taking four items, social security, medicare, and other social insurance trust funds up $1.7 billion, interest $1.4 billion, the sale of financial assets that you are referring to, $0.9 billion, and the lease of lands on the Outer Continental Shelf $0.3 billion.

They add to the $4.3 billion overage on the uncontrollables designated in Public Law 91–47.

(The information follows:)

1970 OUTLAY CEILING

[Detail in millions]

	April 1969 estimate	January 1970 estimate	Change	Effect on ceiling
Designated items for which limitation is adjusted:				
Social insurance trust funds:				
OASI	$26,138	$27,376		
DI	2,902	2,994		
HI	4,984	5,372		
SMI	1,818	2,165		
Subtotal	35,842	37,907		
Less 1st session congressional action (see below)	600	1,750		
Total under April 1969 laws	35,242	36,157	$915	$915
Unemployment trust	2,866	3,425		
Less 1st session congressional action (see below)	27	27		
Total under April 1969 laws	2,839	3,398	559	559
Railroad retirement	1,587	1,680		
Less 1st session congressional action: social security	6	23		
Less 2d session congressional action: other (proposed)	13	44		
Total under April 1969 laws	1,568	1,613	45	45
Civil Service retirement	2,581	2,810		
Less 1st session congressional action		63		
Total under April 1969 laws	2,581	2,747	166	166
Foreign Service retirement	16	17	1	1
Employees' health	−10	15	25	25
Employees' life insurance	−160	−147	13	13
Retired employees		−26	−26	−26
Total social insurance trust funds	42,076	43,774	1,698	1,698
National service life insurance trust fund	667	657	−10	−10
Interest (net)	16,375	17,821	1,446	1,446
Farm price supports (CCC)	3,550	3,541	−9	−9
Sales of financial assets:				
Farmers Home Administration	−2,568	−1,598		
Export-Import Bank	−500	−384		
HUD	−100	−50		
VA	−218	−61		
	3,386	2,093		
Less congressional inaction shown below	416			
Total, excluding effect of congressional action	−2,970	−2,093	877	877
Leases of land on Outer Continental Shelf	−595	−292	303	303
Change in excess of $2,000,000,000	[1]	[1]	[1]	−2,305
Total, items for which limitation is adjusted	59,103	63,408	4,305	2,000

[1] Not applicable.

DIMINISHING 1970 BUDGET SURPLUS

Mr. MAHON. You projected in April of last year, for fiscal 1970, a surplus of $5.8 billion.

Now you come back and project not $5.8 billion but $1.5 billion. We understand the reasons for this. If there was a miscalculation or a misestimate last year, how much more confident can we be this year than we were last year that a similar situation would not occur in respect to fiscal 1971?

The point is that uncontrollables did unhorse us last year. I think if the uncontrollables had not gone up so much, we would not be in the difficult situation we are in now. Do you agree?

Mr. MAYO. I agree, Mr. Chairman.

POTENTIAL EFFECT OF UNCONTROLLABLES ON 1971 BUDGET

Mr. MAHON. Now, what can we expect in fiscal 1971? Do you think anything like this is likely to happen, and if not, why not?

Mr. MAYO. There is always a chance that it could happen, sir. If you and I had been sitting here a year ago, we would have, I think, probably agreed that it is very unlikely that interest rates would have gone up to what you and I can read in the newspaper today. That acounts for one-third of this increase of $4.3 billion. I think it unlikely, as a personal opinion, that we would have any such overage in interest in the 1971 estimate, for example.

As far as the sale of financial assets is concerned, as I indicated, I think this ties in again with the interest problem. These are both the products of the very inflation that we not only seek to get under control, but I sincerely believe we are getting under control, $300 million of the $4.3 billion increase was the result of lower receipts from leases of land on the Outer Continental Shelf. That was a reduction of $600 million receipts to $300 million. Your margin of losing much more there is pretty slim.

We are pretty much to rockbottom. The big question still relates to our ability to estimate successfully medicare and other social insurance trust funds. Medicare estimates have always, shall we say, depressed us when they come through higher than expected. I think we have learned enough more about it this year to at least make a better estimate. I cannot promise you that it will be anywhere near a perfect estimate, but I think we do have the benefit of another year's experience. Regardless of administration, the early estimates of medicare just did not have much basis on which to be made.

Mr. MAHON. They have never been very reliable?

Mr. MAYO. They have been very poor.

Mr. MAHON. Are they going to be reliable in 1971?

Mr. MAYO. We have more experience now. We are a year smarter than before. We hope we have gotten better figures out of the States.

They know a little more about what they are doing. Therefore I am confident that the estimate is better. I cannot guarantee that it will not run over. It might run under. Then you and I might go home happy.

COST-OF-LIVING INCREASES

Mr. MAHON. Mr. McCracken, how much did the cost of living increase from January 1 to December 31, 1969?

Mr. McCracken. I can give you that. The Consumer Price Index in December 1968 was 123.7, and in December 1969, it was 131.3 (1957–59=100). That is 7.6 points, or an increase of 6.1 percent.

Mr. Mahon. This, then, was a considerable increase. You think it will be about half that much in fiscal 1971.

Mr. McCracken. I hope it will be not over half that.

In any case, it is certainly going to be a smaller increase.

Mr. Jonas. Right at this point, will you list the items that currently go into the consumer index?

Mr. McCracken. I would be very glad to.

(Note: See subsequent discussion under "Consumer Price Index Increases," p. 99.)

PURCHASING POWER OF THE DOLLAR

Mr. Mahon. Mr. Secretary, we talk about the value of the dollar. One reason why we do not want to overspend is that when we overspend the dollar does not buy as much as it should.

Secretary Kennedy. It depreciates in value.

Mr. Mahon. If we look back to 1939, the pre-World War II period, and if we consider the dollar being worth 100 cents then, what is the dollar presently worth? I think it is aproximately 37 cents, but I want to have the exact figure supplied for the record.

Secretary Kennedy. Yes, sir.

(The information follows:)

Purchasing power of the dollar (1939=$1,000)

Year:	
1939	$1.000
1969	.379
Months:	
December 1969	.369
January 1970	.368

Source: Bureau of Labor Statistics, U.S. Department of Labor.

Mr. Mahon. Mr. McCracken, you say that the increase in the price index was about 6 percent in the last 12 months.

Mr. McCracken. That is right.

Mr. Mahon. Does that means that the dollar generally speaking lost 6 percent of its value?

Mr. McCracken. Yes, that would be an alternative way of putting it.

Mr. Mahon. If the dollar was worth 40 cents and it lost 6 percent——

Mr. Mayo. About two and a half cents more.

Mr. Mahon. About two and a half cents is what the dollar lost last year. Is that a fair statement?

Mr. McCracken. Of its remaining value relative to 1940. I think the easiest way is to say that the dollar last year will now buy roughly 94 cents worth of stuff in terms of last year's prices.

Mr. Mahon. I have a series of questions, Dr. McCracken, I would like to ask you.

REAL GROWTH IN GNP

Mr. Mahon. You estimate GNP "money" growth in calendar 1970 at 5.5 percent above 1969, compared to a growth in calendar 1969 of about 7.7 percent. What do you estimate real GNP growth to be, and how does it go by quarters of the year?

Mr. McCracken. Our estimate of real growth in GNP for calendar year 1970 is 1.2 percent. We have not specified a precise quarterly pattern but we expect little change in the first half and a resumption of growth in the second.

PRICE INCREASES

Mr. Mahon. What were the price increases in calendar 1969 over calendar 1968—both retail and wholesale on the average? and during the year?

Mr. McCracken. We will be happy to supply that for the record.

(The information follows:)

	(Percent)	
	Consumer Price Index	Wholesale Price Index
1968–69	5.4	4.0
December 1968 to December 1969	6.1	4.8

CEA ASSUMPTION FOR CALENDAR 1970

Mr. Mahon. What are the assumptions for calendar 1970?

Mr. McCracken. The major assumptions underlying the CEA's projection for 1970 are that the President's budget for fiscal year 1971 will be approved by the Congress and that the Federal Reserve will make momentary policy less restrictive than it was in 1969.

HOMEBUILDING AND INTEREST RATES

Mr. Mahon. On page 4 of your statement you refer to interest rates remaining high, and housing expenditures continuing down.

Can you expand on that somewhat? It is such an important factor.

Mr. McCracken. Homebuilding in 1969 and so far in 1970 has been adversely affected by high interest rates and disrupted capital markets. Lenders have turned away from home mortgages, where interest rate ceilings are fixed by law in many States, toward more profitable investments. Also, savers have shifted funds out of thrift institutions, where maximum rates are fixed by law, and have instead purchased securities, yields on which have exceeded rates of return obtainable from the institutions. Because of the outflow of savings, thrift institutions have found it increasingly difficult to make loans to homebuilders.

These conditions are likely to persist at least over the next several months, as a result of which homebuilding activity and expenditures are likely to continue downward.

RISE IN STATE AND LOCAL GOVERNMENT SPENDING

Mr. Mahon. Generally speaking, what is the extent of the rise in State and local government spending?

Mr. McCracken. We would be happy to supply that for the record, Mr. Chairman.

(The information follows:)

Percent increase in purchases, State and local government

1965–66	12.7
1966–67	13.0
1967–68	12.8
1968–69	11.9
1969–70 projected	9.0

FISCAL POLICY AND THE MONEY SUPPLY

Mr. MAHON. Doctor, tell us something about the rate of growth of the money supply in recent years, and relate it in a general way to tax and spending policies in the effort to chart the right economic course to avoid the fiscal shoals.

Mr. MCCRACKEN. Fiscal policy and monetary policy have not always been well coordinated as the experience of 1968 demonstrated. At the end of June 1968, Congress passed the Revenue and Expenditure Control Act of 1968 for the purpose of restraining an overheated economy. The money supply—currency and demand deposits—continued to grow at a very rapid rate and for the year as a whole expanded by 7.2 percent. This expansive monetary policy worked at cross purposes with the new fiscal measures and contributed to the prolongation of inflationary pressures.

Fiscal policy and monetary policy worked in tandem during 1969. Fiscal policy was directed at slowing down the expansion in Federal expenditures during 1969 and maintaining a moderate budget surplus. Monetary policy reduced the rate of growth in the money supply to 4.4 percent in the first half of 1969 and to almost zero in the second half.

Both policies were aimed at slowing down the expansion in demand. The gross national product, which rose 9.4 percent from the fourth quarter of 1967 to the fourth quarter of 1968, rose 6.8 percent in the following year.

THE CURRENT ECONOMIC POSTURE OF THE COUNTRY

Mr. MAHON. Doctor, how would you summarize—in two or three sentences—the current economic posture of the country and the policy course now recommended by the administration? Are we now entering, or are we now in, a period of great delicacy, a period when we must, in the opinion of the administration, presevere in a course of great fiscal and economic restraint, of not upsetting the apple cart so to speak?

Mr. MCCRACKEN. At the present time the economy is feeling the effects of the policies of fiscal and monetary restraint instituted more than a year ago. The growth in demand has slowed down. The Nation's production showed a slight decline from the third to the fourth quarter of last year and is expected to change little in the months ahead. These are necessary conditions for a slowdown in the price rise. The task is difficult because if restraint is pushed too hard the economy could slide into a recession and if restraint is relaxed too quickly, the slowdown in the price rise will not be achieved. Moreover in the second half we wish to get the economy moving again along a growth path that is noninflationary.

ECONOMIC IMPACT OF OBLIGATIONS AND EXPENDITURES

Mr. MAHON. On page 6 of your statement you refer to the fact that the new budget projects an increase in outlays of $2.9 billion for 1971, or about 1.5 percent over the reestimated amount for fiscal 1970. We on this committee deal somewhat with outlays but more directly and intimately with appropriations and obligations.

The new budget shows an estimated increase in obligations of $4.8 billion, 1971 over 1970, which is somewhat greater than the $2.9 billion outlay increase. Why, from an economic impact point of view, isn't the $4.8 billion more significant? Do not obligations and contracts set the economic wheels in motion? Will you comment on that?

Mr. MCCRACKEN. I think they are both very significant. One does have to take cognizance of authorizations as well as actual expenditures, because the authorizations are an indication of what is starting into the pipeline and will subsequently be affecting the economy. I use the expenditure figure there simply because it was the conventional concept that we use to talk about where the budget is going.

I would agree we ought to look at both.

(The following statement was submitted for the record:)

OBLIGATIONS VERSUS OUTLAYS

Both obligations incurred and outlays have significance for economic analysis. Fundamentally we are interested in outlays or something closely akin to them because we are interested in a current measure of economic activity. But we are also interested in obligations insofar as they precede outlays and provide an advance indication of future outlays. However, because of the long time that may elapse between the incurring of an obligation and an outlay in the case of procurement items and construction, a speedup or a slowdown in obligations does not necessarily imply a speedup or slowdown in outlays for the year ahead.

TIMBER BILL

Mr. MAHON. The controversial timber bill now pending in the House has, I believe, some provisions that would dedicate forest receipts to a special fund. Are you familiar with that?

Mr. MAYO. I am aware of the timber bill now pending in the House. Undoubtedly, you refer to the National Forest Timber Conservation and Management Act of 1969, H.R. 12025.

This bill does contain a provision which would earmark timber sales receipts for certain specified uses. As you know, as a general rule, legislation which earmarks receipts restricts the budget and fiscal flexibility of both the Congress and the President. However, in view of the urgent need for additional and dependable supplies of lumber for housing and the fact that the administration supports the basic intent of the legislation, the Department of Agriculture, on behalf of the administration, has recently filed a favorable report on H.R. 12025 with the House Agriculture Committee.

URBAN MASS TRANSIT AND WATER POLLUTION GRANTS

Mr. MAHON. The new budget has about $6 or $7 billion of new contract authority proposed for mass transit and water pollution programs. What provisions, if any, for annual Appropriations Committee control of those is the administration recommending, or would they, in the future, be classed as "relatively uncontrollable"?

Mr. MAYO. The legislation requested in these areas would authorize contract authority of $2.8 billion over a 5-year period for urban mass transportation and $4 billion over a 4-year period for water pollution. In both cases, the Appropriations Committee's control will be exercised through the appropriation to liquidate contract authority within the maximum amount specified. As with similar programs financed through contract authority, they will not be classified as relatively uncontrollable. The executive branch can and quite often does exercise control over these types of programs.

Mr. MAHON. I yield for questions on my left.

Mr. EVINS. I have a few questions, Mr. Chairman.

ADVANCE FUNDING

Mr. Secretary, this morning you spoke a warning against committing the Government to long-range programs with future long-range costs. Yet your budget proposes three housing programs for which increases in annual contract authorization are budgeted for 1971 and 1972—advance contract authorization beyond the budget year for the first time. This is the annual contract authority for the homeownership programs, section 235, of $140 million. This is for up to 30 years which could mean committing us to a total expenditure of $4,200 million. Section 236, the rental housing assistance program, also has advanced contract authority of $145 million. This provides funds for up to 40 years. The total cost of this program could be $5,800 million, I am advised.

The third is the rent-supplement program, which asks for $75 million, also for advanced funding.

Why is it necessary to have contract authority in 1972 for these programs for the first time when you are warning against future long-range costs?

Secretary KENNEDY. In any budget of this kind you have to have advance funding. The program is needed for housing, which is an area of actual congressional law or a mandate, and one of great need, and one that has been squeezed in this period of tight money and budgetary stringency. That, I think, is the reason for it.

Mr. EVINS. We have been providing annual increments of contract authority for projects in the current-year programs for several years, but this year for the first time you ask for advance contract authority a year in advance. This will then require funding in such annual amounts for the next 30 or 40 years.

Mr. MAYO. The advanced funding, if I may add, is quite a bit smaller than the figures you were alluding to. It relates just to 1 year's effect. There is no attempt to encompass the entire program. Indeed, we rejected the idea of advance funding on the largest of the housing programs for the reasons you suggest. These other housing programs have peculiar reasons that suggested the necessity of advance funding to get the programs in the works, so to speak, at the local contract level.

REDIRECTION OF NASA RESEARCH ACTIVITIES

Mr. EVINS. Concerning the appropriations for NASA, we have already achieved the goal of placing men on the moon and safe return. There is a considerable concern now that there is an overkill in the space program. What thought has been given now to using NASA talent, the competence and resources in such areas as pollution, oceanography, and perhaps other areas, rather than space?

Mr. MAYO. We share the point that you made. Not only has the NASA budget been cut a half billion dollars—it is the lowest in some 10 years for 1971—but we have tried to suggest exactly what you are talking about in terms of redirecting many of the remaining research activities of NASA to environmental support.

AID TO STATE AND LOCAL GOVERNMENTS

Mr. EVINS. This morning you mentioned small increases in direct aids to the States.

Would you elaborate and tell us in what areas you expect to have increases in aids to the States and local communities?

Mr. MAYO. Yes, they are substantial. I believe we have a table here on aid to the States by function. The chart that we had on the board shows it pretty well.

Mr. EVINS. Yes, but you did not elaborate as to what areas.

Mr. MAYO. Yes.

We have quite a few pages in the budget on Federal aid to State and local governments: the table on pages 230 to 235, table O–8 of the Special Analyses volume. I could read you some of the subheadings if you like.

Mr. EVINS. We know the highway funds and welfare. I am speaking specifically about the increases the administration is proposing.

Mr. MAYO. We have $275 million in revenue sharing which is zero for 1971.

Mr. EVINS. You can supply that for the record.

Mr. MAYO. We would be glad to do that.

(The information follows:)

Human resources program will account for the largest increase the administration is proposing in 1971. These programs will amount to $1.9 billion or 54 percent of the $3.5 billion increase. They include $1.2 billion for income security, $378.9 million for education and manpower, and $302 million for health.

Increases and decreases in Federal aid—1970–71

[In millions of dollars]

Function	
Agriculture and rural development	191.5
(Consumer and marketing services)	(142.8)
(Agriculture extension service)	(37.2)
Natural resources	242.4
(Water pollution control)	(201.2)
Commerce and transportation	138.6
(Appalachian development)	(28.4)
(Federal-aid highways)	(−83.5)
(Urban mass transportation)	(126.7)
(Airport planning and development)	(47.7)
Community development	454.6
(Model cities)	(214.7)
(Basic water and sewer facilities)	(27.0)
(Low-rent public housing)	(177.0)

Education and manpower	387.9
(Elementary and secondary education)	(317.3)
(Higher education)	(−46.1)
(Work incentive activities)	(60.2)
(Work and training activities)	(203.7)
Health	302.0
(Comprehensive health planning and services)	(25.1)
(Medical assistance)	(243.1)
Income security	1,192.5
(Income maintenance)	(521.1)
(Social services)	(33.6)
(Vocational rehabilitation)	(62.6)
(Food stamp)	(660.3)
(Child nutrition and special milk)	(−51.5)
General Government	317.4
(Law enforcement assistance)	(181.1)
(Washington metropolitan area transit program)	(102.2)
Other	277.8
(Revenue sharing)	(275.0)
Total	3,504.7

Mr. MAYO. Let me just mention a couple of other things that are here. The aid program does include not only the $275 million for revenue sharing, but the $500 million outlays under family assistance programs and $1,250 million in the food stamp program. That is an increase that is just about double the figure for this year. Then there are others: law enforcement assistance increases by a couple of hundred million, and there are increases in the mass transit area, just to name two.

PRESIDENTAL AUTHORITY TO WITHHOLD FUNDS

Mr. EVINS. We recognize that the President does not have the item veto power but yet, through the Bureau of the Budget, you withhold funds which Congress appropriates and, in some areas, you transfer funds from one program to another. Will you supply for the record what authority the Bureau of the Budget has to withhold funds appropriated by Congress? And, No. 2, to transfer funds from one item to another.

Mr. MAYO. As far as withholding funds is concerned, I think this is within not only the constitutional powers of the President, but it is also in response to the desire of the Congress that we pay attention to a very restrictive expenditure ceiling, which we could not comply with if we spent everything that the Congress in its wisdom decides to spend in terms of detail. It would be impossible.

Mr. FLOOD. Do you think the Chief Executive has constitutional authority for a line-item veto?

Mr. MAYO. No.

Mr. FLOOD. I had the impression it would take an amendment to the Constitution to accomplish that.

Mr. MAYO. Not a line-item veto, but in terms of judicious spending of funds.

Mr. FLOOD. Are you aware of any Supreme Court decision which declares that the Chief Executive does have the right to withhold funds at his discretion?

Mr. MAYO. Would you prefer that we break the congressional law, then, in terms of congressional ceilings?

Mr. FLOOD. That is not the way to answer a question.

Mr. MAYO. That is the only other answer.

Mr. FLOOD. Not by asking one. I am curious to know if you know of any Supreme Court decision which, by itself, gives the Executive the right to withhold funds?

Mr. MAYO. I will be glad to get something from the Attorney General for you.

Mr. FLOOD. You will keep him very busy.

Mr. EVINS. Cite that for the record. A lot of people are interested in the subject.

Mr. MAYO. Surely.

(The information follows:)

1. Authority to transfer funds

(a) General statutory authority to transfer funds between appropriations is contained in section 202 of the act of September 12, 1950, 64 Stat. 838, 31 U.S.C. 581c, as follows:

"§ 581c. Adjustment of appropriations in connection with reorganizations.

"(a) Transfer of functions between agencies in the same department or establishment.

"When under authority of law a function or an activity is transferred or assigned from one agency within any department or establishment to another agency in the same department or establishment, the balance of appropriations which are determined by the head of such department or establishment to be available and necessary to finance or discharge the function or activity so transferred or assigned may, with the approval of the President, be transferred to, and be available for use by, the agency to which said function or activity is transferred or assigned for any purpose for which said funds were originally available. Balances so transferred shall be credited to any applicable existing appropriation account or accounts, or to any new appropriation account or accounts, which are authorized to be established, and shall be merged with funds in the applicable existing or newly established appropriation account or accounts and thereafter accounted for as one fund.

"(b) Transfer of functions between departments or establishments.

"When under authority of law a function or activity is transferred or assigned from one department or establishment to another department or establishment, the balance of appropriations which are determined by the President to be available and necessary to finance or discharge the function or activity so transferred or assigned, shall be transferred to and be available for use by the department or establishment to which said function or activity is transferred or assigned for any purpose for which said funds were originally available. Balances so transferred shall be credited to any applicable existing appropriation account or accounts, or to any new appropriation account or accounts, which are authorized to be established, and shall be merged with funds in the applicable existing or newly established appropriation account or accounts and thereafter accounted for as one fund. (Sept. 12, 1950, ch. 946, title II, § 202, 64 Stat. 838.)"

(b) The legal authority to transfer funds within appropriations depends upon the specific language of the appropriation concerned—that is, whether there are limitations on one or more of the various purposes or programs for which an appropriation may be used—and upon the particular facts and circumstances of the case. Ordinarily, the Bureau of the Budget does not become involved in transfers within appropriations (sometimes referred to as "reprogramming").

2. Authority to withhold funds

(a) General authority to withhold funds is contained in section 3679 of the Revised Statutes, as amended by section 1211 of the act of September 6, 1950, 31 U.S.C. 665(c)(2).

(b) Specific authority to withhold funds may be found in particular acts such as section 203(b) of title II of the Revenue and Expenditure Control Act of 1968, Public Law 90–364 of June 28, 1968, 82 Stat. 272, which authorizes the President to reserve such amounts as may be necessary to give effect to a limitation on new obligational authority and loan authority prescribed by the act. See also title II of the act of December 18, 1967, Public Law 90–218, 81 Stat. 662.

(c) With respect to authority of the executive branch to withhold funds in the absence of a specific statutory provision, see the 1967 opinion of the Attorney General reported at 42 Ops. AG No. 32.

(d) We are not aware of any decision of the Supreme Court which of itself gives the Executive the right to withhold funds.

Mr. MAYO. I do know, in all fairness with regard to the mandatory provisions in the HEW spending bill, the Attorney General did feel that in that case the President did not have the power to withhold on impacted aid.

Mr. FLOOD. Are you aware of any other Attorney General who reached the same conclusion?

Mr. MAYO. I have not made a study of that.

Mr. FLOOD. That will keep you busy.

Mr. MAHON. You may place in the record at this point pertinent portions of the Antideficiency Act.

Mr. MAYO. Yes, sir.

(The information follows:)

With respect to such action the Antideficiency Act (section 1211(c) of the act of September 6, 1950, as amended, 31 U.S.C. 655(c)(2)), provides as follows:

"§ 665. Appropriations.

"(c) Apportionment of appropriations; reserves; distribution; review.

"(2) In apportioning any appropriation, reserves may be established to provide for contingencies, or to effect savings whenever savings are made possible by or through changes in requirements, greater efficiency of operations, or other developments subsequent to the date on which such appropriation was made available. Whenever it is determined by an officer designated in subsection (d) of this section to make apportionments and reapportionments that any amount so reserved will not be required to carry out the purposes of the appropriation concerned, he shall recommend the rescission of such amount in the manner provided in the Budget and Accounting Act, 1921, for estimates of appropriations."

FINANCING OF WATER POLLUTION CONTROL

Mr. EVINS. Mr. Mayo, as you are aware, the Congress provided $800 million last year for antipollution grants and the budget was $214 million.

The President is proposing $10 billion over 5 years for antipollution activities. Would you elaborate a little more how this is to be financed, and also how much is to be financed by the States?

Mr. MAYO. Yes, I will be glad to do that.

Mr. EVINS. Are we to understand you are recommending a $2 billion appropriation each year for 5 years to make it $10 billion?

Mr. MAYO. No, that is not the basis of the recommendation. Let me start by saying that the President is committing himself to the obligation and, of course, the eventual spending of the $800 million which was passed by the Congress last year. That is point 1. There is no suggestion that any of that be rescinded or folded into the $4 billion, which is the figure that he is recommending for additional contract authority over a 5-year period.

The $10 billion program consists basically of $4 billion of Federal lump-sum grants, basically along the same sort of formula specified by the Federal Water Pollution Control Act that would apply to the $800 million passed this year, plus a provision which will, I believe, surface tomorrow in a little more detail in the President's environmental message—a provision which will allow for the formation of an environmental financing authority which would, indeed, be in the position of helping State and local governments finance their share—nothing to do with the $4 billion lump-sum grants, but everything to do with the $6 billion of local shares. So, a local government could no longer say, "We would like to help you, Mr. President, in solving pollution in our local area, but we cannot get the money in the bond markets."

This would enable local units with inadequate credit availability to sell bonds to a Federal authority which would then in turn sell bonds to the public somewhat as FNMA does.

Mr. Evins. I am not clear how much they want to recommend for the appropriation for next fiscal year.

Mr. Mayo. There is a recommendation for $4 billion which would be allocated at the rate of $1 billion a year for the next 4 years.

OBLIGATION OF 1970 APPROPRIATIONS FOR WATER POLLUTION CONTROL

Mr. Rhodes. If the gentleman would yield to me, Mr. Mayo, the $800 million which was appropriated this year cannot be obligated in this next fiscal year, is that correct?

Mr. Mayo. No, Mr. Rhodes, quite the opposite. It will, indeed, be obligated. Most of that money, as things will turn out, we believe, will be to straighten out the work, so to speak, with the few States that have gone into this wholeheartedly on their own, realizing that a billion and a quarter has been authorized, but never appropriated.

Many of these States have indeed done prefinancing of the Federal share in anticipation of further funds coming through and much of the $800 million will go for that purpose.

Mr. Rhodes. You are aware of the formula which divides this expenditure between the States.

Mr. Mayo. Yes, I am.

Mr. Rhodes. It was our understanding in the Public Works Subcommittee, and we so stated on the floor, that because of the fact the formula would allow more money for certain States than those States could use and much less to other States than those other States could use that it would not be possible to obligate this much money in this fiscal year.

Did we get the wrong information?

Mr. Mayo. No. All I am saying is that the $800 million will be available for obligation.

Mr. Rhodes. That was not my question. I know it is available.

Mr. Mayo. I am sorry, I just want to stress the availability. The extent to which it will be obligated will depend on their being able to qualify for the projects.

Mr. Rhodes. You do not know how much will actually be obligated in this next fiscal year?

Mr. Mayo. No, I do not have a figure in mind. I know the outlay figure will be quite small.

Mr. Rhodes. Thank you.

HOLDING THE PRICE LINE

Mr. Evins. Mr. Secretary, we know that big steel is the major one to raise prices. They have announced a large increase in their price for rolled and flat steel recently. What plans does the administration have to hold the price line with respect to inflation, particularly with big steel, which is the leader? If we want to stop inflation, we should start somewhere where it really has an effect.

Secretary KENNEDY. Our main emphasis, of course, is on an overall program of fiscal and monetary restraint rather than prices that are set by individual companies or segments of the economy. In this climate, however, it is quite clear that when we are having a cooling of the overall economy, individual businesses will have difficulty validating a price increase if it is out of line with market demand. They should all take this into account in the formulation of their price policies, just as labor should with respect to their wage demands. But that does not mean that we would be taking a position one way or the other with respect to individual cases. We did, of course, in the case of the construction industry cutback in our own field of new Government contracts.

Mr. EVINS. Is there any suggestion of the rollback in steel prices as a leader? Is there any administration leadership to be taken in this area?

Secretary KENNEDY. There has been no proposal that I know of to cause a rollback in steel prices.

EFFECT OF PROPOSED LEGISLATION ON BUDGET SURPLUS

Mr. EVINS. Mr. Chairman, this morning you alluded to the projected surplus in the budget before the Congress of $1.3 billion, as being very precarious. This may be somewhat repetitious, but I would like to read this into the record: One, the budget asked Congress to vote $200 million to increase social security taxes. Two, the budget said the Congress should raise the cost of first-class mail from 6 to 7 cents, although first-class mail is already paying its own way. Three, it would require $600 million excise taxes on telephones and new cars. Congress should vote $653 in higher user taxes on airlines and passenger trucks. This will probably pass.

Agree to kill the special milk program where milk is sold in schools for children at discount. Congress should drop the $66 million from the conservation programs. We should sell $651 million from the Federal stockpile of critical materials in a year in which this is difficult because of the soft economy. Congress should authorize the sale of the Government-owned Alaska Railroad for $100 million because it is making money.

Incidentally, I am glad you did not go so far as to recommend the sale of TVA and also the atomic energy power plant.

Do you expect Congress to take all these recommendations to achieve the budget surplus you project?

Secretary KENNEDY. These are recommendations to the Congress and we would hope that they would enact as many of the them as they could see fit.

Again, as we indicated earlier, a budget is always a planning document by the administration.

CONSOLIDATION OF SMALL AGENCIES

Mr. EVINS. What thought has been given to eliminating some of the small commissions and councils where their efforts could be easily absorbed or consolidated into another? I specifically refer to the National Aeronautics and Space Council and the Office of Science and Technology. Our committee funds both of these and for several years we have recommended that one director or one secretary could handle them both and they could be consolidated or merged and one year funds were not provided and we thought this year certainly they would be consolidated but I see they carry a separate council. Why couldn't one council consolidate both efforts?

Mr. MAYO. I would say this: We have gone through the budget and there are recommendations with regard to consolidations and eliminations of smaller councils.

In the cases you cite, the functions are quite different: the Bill Anders Council on Space and Lee DuBridge's function in the Office of Science and Technology. We do not feel the abolition or the folding in of, say, the Anders function into the Office of Science and Technology would really serve the Government's purposes in any savings of funds. After consolidation, they would be doing basically the same thing they are now doing. Therefore no significant net reduction in staff would result.

Mr. MAHON. They are both related to the advisory purpose on science. One advises the President and another advises the Vice President. Why couldn't one adviser advise both?

Mr. MAYO. I think advising the Vice President is advising the President at the same time. They work together. The Vice President is Chairman of the Space Council, and the statutory function of the Space Council is to advise the President.

Mr. MAHON. Any further questions on my left?

VETO OF HEW APPROPRIATIONS BILL

Mr. FLOOD. Mr. Mayo, if, as you say, you support the executive prerogative to withhold the spending of funds—and you do—why did you advise the President to veto the HEW bill?

Mr. MAYO. I thought I made it clear in answer to your earlier question that, in the case of the mandatory parts of the HEW bill, we were advised that the President indeed did not have that authority.

Mr. FLOOD. Then you refer all matters to the Attorney General?

Mr. MAYO. I think it is proper to look to one's attorney in such matters.

Mr. FLOOD. You did advise the President to veto the bill?

WAGE AND PRICE CONTROLS

Mr. FLOOD. Mr. Secretary, under the circumstances with reference to inflation, I take it for granted that the last weapon in your arsenal is wage and price controls, which we have exercised before. You do not feel, as dire as you declare the circumstances to be, vis-a-vis inflation, that you have reached the last weapon in your arsenal?

Secretary KENNEDY. I should say definitely not. I think the general restraint program is now working. It seems to me at this point that setting wage and price controls would not be the right thing to do.

Mr. FLOOD. Nothing further.

Mr. MAHON. Any further questions on my left?

Any questions on my right?

TAX REFORM ACT

Mr. CEDERBERG. I have just one question. In the recent tax reform bill that passed Congress last year, what was the revenue impact in fiscal 1970 and what will be the impact in 1971?

Secretary KENNEDY. At page 67 of the budget document there is a table which shows changes in revenue between the years 1970 and 1971. The total effect on fiscal 1970 revenue as a result of all of the changes in the Tax Reform Act of 1969 would be an increase of $3.8 billion. Two billion of that is the result of the extension of the surtax at the rate of 5 percent through June 30, 1970. The extension of the excise tax rates to December 1970, brings in $600 million. The repeal of the investment tax credit adds another $1.3 billion. The net effect of the reform provisions is a loss of $0.1 billion. Individual tax reforms will cost $400 million but corporation taxes will increase by $300 million. It all adds up to a plus of $3.8 billion plus for 1970. But for fiscal year 1971 the increase due to the Tax Reform Act provisions is $2.4 billion.

Mr. CEDERBERG. Tax reform resulted in an increase in revenue for these 2 fiscal years.

Secretary KENNEDY. That is right, and it is nearly all due to the extension at 5 percent of the surcharge and the repeal of the investment tax credit.

Mr. CEDERBERG. And even with this increase in revenue you still will have this very precarious balance, if you want to call it a balance, in both of these fiscal years?

Secretary KENNEDY. That is true, sir. Largely the result, of course, of the rise in uncontrollable expenditures.

Mr. MCFALL. Will the gentleman yield at that point?

Mr. CEDERBERG. Yes.

Mr. MCFALL. I have heard the President say something about the Congress reducing his revenues by about $3 billion, but that doesn't square with what you just said now. Could you explain what the President means when he says we have reduced his revenues by $3 billion?

Secretary KENNEDY. He is going back to our original reccomendation of last April when the tax provisions were sent to the Congress and at that time we would have had $3 billion more than the figures came out with.

Mr. MCFALL. In other words, it is $3 billion under what he would have recommended?

Secretary KENNEDY. What he did recommend.

Mr. MCFALL. Not $3 billion from what revenues would have been had there been no change?

Secretary KENNEDY. That is correct.

Mr. CEDERBERG. In other words, if the tax reform package had been adopted, the revenue would have been greater in 1970 by $3 billion?

Secretary KENNEDY. That is right.

TRUST FUND INVESTMENTS

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

Mr. RHODES. Mr. Secretary, how can you invest funds of the trust accounts—what investments are legal for such funds?

Secretary KENNEDY. It varies with the terms of the trust instrument and in many cases it is special issues to the trust funds directed from the Treasury. In other cases we can allocate marketable issues into the trust fund.

Mr. RHODES. Marketable issues——

Secretary KENNEDY. Of the Treasury.

Mr. RHODES. Each instrument would have the backing and the full faith and credit of the U.S. Government, would it not?

Secretary KENNEDY. Precisely.

Mr. RHODES. Would you give us an outline of the return to the various trust funds for the various types of interest——

Mr. MAHON. What are you paying the trust funds by way of interest?

Secretary KENNEDY. We would be glad to furnish it. It will vary with respect to each. The average I would guess would be 4¼ percent because they have these investments outstanding. The new marketable issues allocated in the last financing would be 8 percent issues. You have to balance out the total to get the amount.

Mr. MAYO. We could also indicate that the interest received by trust funds in the fiscal year 1970 is $3.8 billion. It is $4.3 billion estimated for next year.

Mr. MAHON. How much has the Government borrowed from the trust funds? You can supply that for the record.

(The information follows:)

The several statutes which established the major trust funds specified that they could be invested in direct obligations of the United States or obligations guaranteed as to principal and interest by the United States. In addition, the statutes of most Government agencies authorized to issue obligations which are not obligations of or guaranteed by the United States specify that those obligations shall be lawful investments for trust funds.

The rate of interest paid on special obligations issued to the major trust funds during February is, in most cases, 7⅞ percent. In the case of the national service life insurance fund it is 7⅝ percent, because the formula governing the rate paid to that fund includes a reduction of one-fourth percent to pay for a guaranteed floor. In the case of the unemployment insurance trust fund the rate is 5⅜ percent because the formula governing the rate paid to that fund is based on an average of coupon rates on outstanding issues rather than on market yields on outstanding issues.

There follows a table showing the total holdings of the trust funds.

INVESTMENTS OF BUDGETARY AND NONBUDGETARY ACCOUNTS HANDLED THROUGH THE FACILITIES OF THE DEPARTMENT OF THE TREASURY, DEC. 31, 1969

Security (by interest rate and/or maturity date)	Total investments	Total nonbudgetary [1]	Total budgetary accounts	Civil Service Commission				Department of Health, Education, and Welfare			
				Civil service retirement and disability fund	Employees health benefits fund	Employees life insurance fund	Retired employees health benefits fund	Federal disability insurance trust fund	Federal hospital insurance trust fund	Federal old-age and survivors insurance trust fund	Federal supplementary medical insurance trust fund
BONDS											
4s, 10/1/69 [2]	$1,000	$1,000									
2½s, 12/15/64–69 [2]	2,500	2,500									
4s, 2/15/70	278,106,000	40,500	$278,065,500		$4,093,000	$1,798,000		$10,000,000		$15,000,000	
2½s, 3/15/65–70	74,088,000	1,328,000	72,760,000								
4s, 8/15/70	291,776,500		291,776,500	$54,600,000				14,000,000			
2½s, 3/15/66–71	51,996,500	1,482,000	50,514,500			3,864,500					
4s, 8/15/71	416,351,000	838,000	415,513,000		3,732,000	15,000,000				100,000,000	
3⅞s, 11/15/71	209,867,500	3,356,000	206,511,500	6,100,000	5,804,000	2,806,500					
4s, 2/15/72	124,841,000	700,000	124,141,000	5,350,000	3,792,500	17,391,500		2,000,000			
2½s, 6/15/67–72	65,841,500	3,701,500	62,140,000								
4s 8/15/72	411,732,500		411,732,500	28,700,000	4,410,500	16,000,000		2,000,000			
2-½s, 9/15/67–72	28,250,600	2,246,450	26,004,150							250	
2-½s, 12/15/67–72	102,934,000	4,956,000	97,978,000								
4s, 8/15/73	379,897,500	90,000	379,807,500	23,800,000	3,441,500	5,703,000		16,500,000		38,000,000	
4-⅛s, 11/15/73	161,388,500	5,905,500	155,483,000	33,600,000	2,246,000	18,636,000					
4-⅛s, 2/15/74	439,586,500		439,586,500	57,900,000	9,923,500	26,244,500		10,000,000		61,934,000	
4-¼s, 5/15/74	350,923,500	3,750,000	347,173,500	129,060,000	1,481,500	32,861,000				6,352,000	
3-⅞s, 11/15/74	640,713,000	2,388,500	638,324,500	53,650,000	3,785,500	25,370,000		5,000,000		24,500,000	
4s, 2/15/80	695,427,500	1,006,500	694,421,000	110,394,000		46,596,500		30,250,000		153,100,000	
3-½s, 11/15/80	666,626,000	1,120,000	665,506,000	15,700,000	738,000	18,056,500				449,450,000	
3-¼s, 6/15/78–83	190,500,500	5,221,500	185,279,000	16,800,000	190,000	13,087,000				60,200,000	
3-¼s, 5/15/85	167,164,000	1,077,500	166,086,500	85,900,000		8,486,500				25,700,000	
4¼s, 5/15/75–85	344,796,500	1,364,000	343,432,500	53,105,000		40,612,000		20,795,000		78,023,000	
3½s, 2/15/90	1,055,161,000	3,000,000	1,052,161,000	98,600,000	2,130,500	31,276,000		10,500,000		556,250,000	
4¼s, 8/15/87–92	871,594,000	4,184,000	867,410,000	347,920,000	3,000,000	53,791,000		80,800,000		33,000,000	
4s, 2/15/88–93	46,377,500	1,000,000	45,377,500			16,877,500					
4⅛s, 5/15/89–94	466,113,500	5,963,000	460,150,000	10,750,000		33,783,500		68,400,000		91,300,000	
3s, 2/15/95	157,175,000	7,372,500	149,802,500	55,205,000		135,500				70,170,000	
3½s, 11/15/98	865,775,500	4,100,000	861,675,500	83,269,000	3,950,000	21,358,500		5,000,000		552,037,000	

See footnotes at end of table.

INVESTMENTS OF BUDGETARY AND NONBUDGETARY ACCOUNTS HANDLED THROUGH THE FACILITIES OF THE DEPARTMENT OF THE TREASURY, DEC. 31, 1969—Continued

				Civil Service Commission				Department of Health, Education, and Welfare			
Security (by interest rate and/or maturity date)	Total investments	Total nonbudgetary [1]	Total budgetary accounts	Civil service retirement and disability fund	Employees health benefits fund	Employees life insurance fund	Retired employees health benefits fund	Federal disability insurance trust fund	Federal hospital insurance trust fund	Federal old-age and survivors insurance trust fund	Federal supplementary medical insurance trust fund
NOTES											
5⅝s, 5/15/70	$91,444,000	$197,000	$91,247,000	$17,000,000	$19,623,000						
6⅜s, 5/15/70	76,102,000	329,000	75,773,000		21,733,000						
6⅜s, 8/15/70	40,812,000	2,912,000	37,900,000								
5s, 11/15/70	431,167,000	360,000	430,807,000	146,400,000		$513,000					
5⅜s, 2/15/71	149,687,000		149,687,000	25,000,000		150,000					
7¾s, 2/15/71	79,948,000	169,000	79,779,000								
5¼s, 5/15/71	297,313,000	199,000	297,114,000	19,500,000							
8s, 5/15/71	172,863,000	4,481,000	168,382,000								
5-¾s, 11/15/71	122,626,000		122,626,000	25,000,000							
4-¾s, 2/15/72	300,883,000	3,119,000	297,764,000	110,600,000		19,164,000					
4-¾s, 5/15/72	539,158,000		539,158,000	99,000,000		13,116,000					
7-¾s, 5/15/73	3,151,000		3,151,000								
5-⅝s, 8/15/74	421,377,000		421,377,000	61,300,000		57,746,000					
5-¾s, 11/15/74	359,186,000		359,186,000	162,500,000		31,661,000					
5-¾s, 2/15/75	622,274,000		622,274,000	55,900,000	1,298,000	37,656,000		$10,000,000		$7,000,000	
6s, 5/15/75	713,654,000	1,056,000	712,598,000	328,750,000	40,000,000	22,105,000		3,750,000		17,450,000	
6-¼s, 2/15/76	350,799,000		350,799,000	10,000,000	1,602,000	5,497,000				5,000,000	
6-½s, 5/15/76	393,161,000	74,000	393,087,000	10,000,000		7,500,000				22,180,000	
7-½s, 8/15/76	392,999,000		392,999,000	76,800,000	1,000,000	20,330,000	$100,000	26,000,000		90,500,000	
BILLS											
1/2/70	19,000,000	9,000,000	10,000,000								
1/8/70	13,862,000	2,787,000	11,075,000								
1/15/70	12,406,000		12,406,000								
1/22/70	11,200,000	200,000	11,000,000								
1/29/70	10,875,000		10,875,000				875,000				
1/31/70	2,143,000	1,313,000	830,000		250,000						
2/5/70	28,114,000	3,050,000	25,064,000								
2/13/70	10,441,000	201,000	10,240,000								
2/19/70	12,477,000	862,000	11,615,000								
2/26/70	13,106,000		13,106,000								
2/28/70	25,198,000	7,670,000	17,528,000		250,000		875,000				
3/5/70	10,000,000		10,000,000								

3/12/70	15, 086, 000	1, 916, 000	13, 170, 000								
3/19/70	10, 771, 000	771, 000	10, 000, 000								
3/23/70 T/A	618, 000	618, 000									
3/26/70	11, 107, 000		11, 107, 000								
3/31/70	22, 735, 000		22, 735, 000		250, 000	1, 600, 000	875, 000				
4/2/70	10, 050, 000	50, 000	10, 000, 000								
4/9/70	10, 206, 000	206, 000	10, 000, 000								
4/23/70	6, 531, 000	319, 000	6, 212, 000								
4/30/70	28, 335, 000	11, 689, 000	16, 646, 000		250, 000		875, 000				
5/14/70	275, 000	275, 000									
5/21/70	196, 000		196, 000								
5/28/70	2, 325, 000		2, 325, 000				875, 000				
5/31/70	31, 724, 000	3, 122, 000	28, 602, 000		250, 000						
6/4/70	10, 100, 000		10, 100, 000								
6/11/70	10, 450, 000		10, 450, 000								
6/18/70	450, 000	300, 000	150, 000								
6/22/70 T/A	552, 000	402, 000	150, 000								
6/30/70	43, 886, 000	4, 220, 000	39, 666, 000		250, 000		875, 000				
7/31/70	60, 828, 000	17, 653, 000	43, 175, 000		250, 000		2, 143, 000				
8/31/70	31, 370, 000	5, 050, 000	26, 320, 000								
9/30/70	33, 850, 000	4, 310, 000	29, 540, 000								
10/31/70	6, 862, 000		6, 862, 000								
11/30/70	17, 218, 000	1, 222, 000	15, 996, 000								
12/31/70	9, 000, 000		9, 000, 000								
U.S. Savings bonds	1, 409, 225	1, 404, 150	5, 075								
BONDS-INVESTMENT SERIES											
2-3/4, B-1975-80, 4/1/80	2, 084, 963, 000	14, 325, 000	2, 070, 638, 000			179, 000				1, 064, 902, 000	
Total public issues	17, 743, 331, 825	172, 026, 100	17, 571, 305, 725	2, 418, 153, 000	139, 724, 500	666, 952, 500	7, 493, 000	314, 999, 000		3, 522, 048, 250	
Special issues. [3] [4]	70, 676, 988, 000		70, 676, 988, 000	17, 818, 488, 000		45, 934, 000		3, 427, 641, 000	$2, 407, 698, 000	23, 717, 995, 000	$182, 076, 000
Total U.S. treasury issues	88, 420, 319, 825	172, 026, 100	88, 248, 293, 725	20, 236, 641, 000	139, 724, 500	712, 886, 500	7, 493, 000	3, 742, 636, 000	2, 407, 698, 000	27, 240, 043, 250	182, 076, 000
Agency securities [5]	2, 376, 050, 000		2, 376, 050, 000	510, 000, 000				115, 000, 000	70, 000, 000	640, 000, 000	
Non-Federal securities[5]	149, 966, 000	45, 926, 000	104, 040, 000	20, 000, 000				20, 000, 000		20, 000, 000	
Grand total	90, 946, 335, 825	217, 952, 100	90, 728, 383, 725	20, 766, 641, 000	139, 724, 500	712, 886, 500	7, 493, 000	3, 877, 636, 000	2, 477, 698, 000	27, 900, 043, 250	182, 076, 000

See footnotes at end of table.

INVESTMENTS OF BUDGETARY AND NONBUDGETARY ACCOUNTS HANDLED THROUGH THE FACILITIES OF THE DEPARTMENT OF THE TREASURY, DEC. 31, 1969—Continued

Security (by interest note and/or maturity date)	Department of HUD, Federal Housing Administration insurance funds	Department of Labor, unemployment trust fund	Department of Transportation, highway trust fund	Department of State, Foreign Service retirement and disability fund	Federal Deposit Insurance Corporation	Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corporation	The judiciary, judicial survivors annuity fund	Railroad Retirement Board, railroad retirement account	Tax Court of the United States, Tax Court judges survivors annuity fund	Veterans' Administration, Veterans' Administration insurance funds	Other budgetary accounts [6]
BONDS, MATURING											
4s, 10/1/69 [2]											
2½s, 12/15/64–69 [2]											
4s, 2/15/70	$6,000,000	$119,250,000			$30,950,000	$79,000,000					$11,974,500
2½s, 3/15/65–70	46,260,000	15,000,000			3,000,000	8,500,000					
4s, 8/15/70	4,300,000	3,000,000			133,250,000	47,100,000		$35,000,000			526,500
2½s, 3/15/66–71	36,300,000					10,350,000					
4s, 8/15/71	2,000,000	10,000,000			249,200,000	25,400,000	$240,000	8,500,000			1,441,000
3⅞s, 11/15/71	7,150,000	12,000,000			72,753,000	53,100,000		46,500,000			298,000
4s, 2/15/72		31,500,000			2,000,000	40,500,000		21,000,000			607,000
2½s, 6/15/67–72	59,640,000				2,500,000						
4s, 8/15/72		46,500,000			237,000,000	43,300,000	150,000	33,500,000			172,000
2½s, 9/15/67–72	7,800,000				8,200,000	10,000,000					3,900
2½s, 12/15/67–72	97,978,000										
4s, 8/15/73		48,000,000			167,746,000	72,550,000	225,000				3,842,000
4⅛s, 11/15/73		9,000,000			32,500,000	57,604,000	70,000		$113,500		1,713,500
4⅛s, 2/15/74		127,000,000			100,323,500	43,800,000					2,461,000
4¼s, 5/15/74		2,640,000			54,500,000	119,600,000	494,000				185,000
3⅞s, 11/15/74		16,000,000			278,650,000	74,500,000	169,000	156,700,000			
4s, 2/15/80		106,000,000			56,800,000	65,000,000	500,500	125,550,000			230,000
3½s, 11/15/80		53,000,000			111,250,000	11,000,000	306,500	6,000,000			5,000
3¼s, 6/15/78–83		53,050,000			40,500,000	1,000,000	273,500				78,500
3¼s, 5/15/85		14,000,000			25,000,000			6,900,000			100,000
4¼s, 5/15/79–85		32,710,000			68,700,000	1,000,000	537,500	47,261,000			689,000
3½s, 2/15/90		112,221,000			171,801,500	30,000,000	188,500	38,925,000			268,500
4–¼s, 8/15/87–92		104,000,000			205,500,000	24,500,000	722,000	14,000,000			177,000
4s, 2/15/88–93		17,500,000				5,000,000		6,000,000			
4–⅛s, 5/15/89–94		174,300,000			46,850,000	21,500,000	167,000	13,100,000			
3s, 2/15/95					21,000,000		51,000	3,200,000			41,000
3–½s, 11/15/98		43,200,000			102,500,000	18,650,000	113,500	31,550,000			47,500

NOTES								
5-5/8s, 5/15/70	53,700,000							924,000
6-3/8s, 5/15/70	40,000,000		1,000,000	12,500,000				540,000
6-3/8s, 8/15/70				37,800,000				100,000
5s, 11/15/70	58,220,000	5,750,000	85,900,000	96,600,000		32,000,000		5,424,000
5-3/8s, 2/15/71	59,000,000		28,500,000	30,000,000				7,037,000
7-3/4s, 2/15/71	16,000,000			63,000,000				779,000
5-1/4s, 5/15/71	40,800,000	68,200,000	50,000,000	116,000,000				2,614,000
8s, 5/15/71	56,663,000		109,343,000					2,376,000
5 3/8s, 11/15/72	64,980,000			32,000,000	146,000			500,000
4 3/4s, 2/15/72	8,000,000	7,000,000	69,000,000	66,000,000		18,000,000		
4 3/4s, 5/15/72	26,000,000	192,000,000	110,900,000	78,000,000		20,000,000		142,000
7 3/4s, 5/15/73			1,500,000					1,651,000
5 5/8s, 8/15/74	79,300,000		188,592,000	33,600,000	495,000		25,000	319,000
5 3/4s, 11/15/74	11,000,000		89,675,000	63,950,000			24,000	376,000
5 3/4s, 2/15/75	51,600,000	31,500,000	315,746,000	92,350,000		14,000,000		5,224,000
6 1/2s, 5/15/75		3,000,000	213,700,000	76,400,000	293,000	7,000,000		150,000
6 1/4s, 2/15/76		19,000,000	165,700,000	93,000,000		51,000,000		
6 1/2s, 5/15/76	87,168,000	1,000,000	194,875,000	70,000,000				364,000
7 1/2s, 8/15/76		31,700,000	4,000,000	85,500,000	40,000	57,000,000		29,000
BILLS								
1/2/70				10,000,000				
1/8/70				10,000,000				1,075,000
1/15/70				10,000,000				2,406,000
1/22/70				10,000,000				1,000,000
1/29/70				10,000,000				
1/31/70								580,000
2/5/70				10,000,000				15,064,000
2/13/70				10,000,000				240,000
2/19/70				10,000,000				1,615,000
2/26/70				10,000,000				3,106,000
2/28/70	5,000,000			10,000,000				1,403,000
3/5/70				10,000,000				
3/12/70				10,000,000				3,170,000
3/19/70				10,000,000				
3/23/70 T/A								
3/26/70				10,000,000				1,107,000
3/31/70	7,000,000			10,000,000			10,000	3,000,000
4/2/70				10,000,000				
4/9/70				10,000,000				
4/23/70								6,212,000
4/30/70				10,000,000				5,521,000
5/14/70								
5/21/70								196,000
5/28/70								1,450,000

See footnotes at end of table.

INVESTMENTS OF BUDGETARY AND NONBUDGETARY ACCOUNTS HANDLED THROUGH THE FACILITIES OF THE DEPARTMENT OF THE TREASURY, DEC. 31, 1969—Continued

Security (by interest note and/or maturity date)	Department of HUD, Federal Housing Administration insurance funds	Department of Labor, unemployment trust fund	Department of Transportation, highway trust fund	Department of State, Foreign Service retirement and disability fund	Federal Deposit Insurance Corporation	Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corporation	The judiciary, judicial survivors annuity fund	Railroad Retirement Board, railroad retirement account	Tax Court of the United States, Tax Court judges survivors annuity fund	Veterans' Administration, Veterans' Administration insurance funds	Other budgetary accounts [6]
BILLS—Continued											
5/31/70						$10, 000, 000					$18, 352, 000
6/4/70						10, 000, 000					100, 000
6/11/70						10, 000, 000					450, 000
6/18/70											150, 000
6/22/70 T/A											150, 000
6/30/70						10, 000, 000					28, 541, 000
7/31/70						10, 000, 000					30, 782, 000
8/31/70						10, 000, 000					16, 320, 000
9/30/70						10, 000, 000					19, 540, 000
10/31/70											6, 862, 000
11/30/70											15, 996, 000
12/31/70											9, 000, 000
U.S. Savings bonds											5, 075
BONDS—INVESTMENT SERIES											
2¾—1975-80, 4/1/80		$745, 000, 000			$245, 000, 000	15, 000, 000					557, 000
Total public issues	$931, 859, 000	2, 254, 021, 000			4, 096, 005, 000	2, 174, 654, 000	$5, 182, 000	$792, 686, 000	$172, 500		247, 359, 975
Special issues [3 4]		10, 674, 665, 000	$1, 952, 554, 000	$49, 839, 000	137, 813, 000	60, 392, 000		[7] 3, 235, 442, 000		$6, 966, 451, 000	
Total U.S. Treasury issues	931, 859, 000	12, 928, 686, 000	1, 952, 554, 000	49, 839, 000	4, 233, 818, 000	2, 235, 046, 000	5, 182, 000	4, 028, 128, 000	172, 500	6, 966, 451, 000	247, 359, 975
Agency securities [5]		215, 000, 000				159, 550, 000		210, 000, 000		455, 000, 000	1, 500, 000
Non-Federal securities [5]		20, 000, 000				4, 000, 000		20, 000, 000			40, 000
Grand total	931, 859, 000	13, 163, 686, 000	1, 952, 554, 000	49, 839, 000	4, 233, 818, 000	[8] 2, 398, 596, 000	5, 182, 000	4, 258, 128, 000	172, 500	7, 421, 451, 000	248, 899, 975

[1] See BA-R 1134 for breakdown of funds.
[2] Matured.
[3] Exclusive of special issues held for A/C Federal Home loan banks.
[4] For detailed interest rates see Daily Treasury Statement for end of month.
[5] For details of agency and non-Federal securities, see BA-R 1138.
[6] See BA-R 1133 for breakdown of funds.

[7] Railroad retirement account $3,233,459,000, railroad retirement holding account $996,000, and railraod retirement supplemental account $987,000.
[8] Exclusive of $4,000,000 face amount 4 percent bonds Feb. 15, 1980 which were transferred as of Oct. 1, 1969 to Chicago Title & Trust Co. to be held for Federal Savings and Loan Insurance Corporation.

Mr. ROONEY. Will the record indicate at this point how much has been saved at 8 percent?

Mr. RHODES. This is the way I asked my question. I would hope that in each case there would be not only the dollar amounts for the last fiscal year paid to the trust funds, but the average percentage each trust fund realized. Is that what the gentleman from New York had in mind?

Mr. ROONEY. Not exactly.

Mr. RHODES. Let me yield to you and you put in the record what you have in mind.

Mr. ROONEY. I would request there be inserted in the record a statement with regard to how much was paid in interest and at 8 percent.

Mr. RHODES. Can that be furnished?

Secretary KENNEDY. It can. There is a total of $71 billion outstanding and we will break that down in detail showing what the yield is.

(The information follows:)

Interest paid to the major trust funds in fiscal year 1969

[In millions of dollars]

Federal old-age and survivors' insurance	$1, 013. 1
Federal disability insurance	140. 7
Federal hospital insurance	95. 9
Federal supplementary medical insurance	23. 5
Unemployment	523. 8
National service life insurance	227. 7
Railroad retirement account	191. 5
Civil service retirement and disability insurance	836. 5

Average yields on holdings of securities of the major trust funds as of December 31, 1969

	Percent
Federal old-age and survivors insurance	4. 66
Federal disability insurance	5. 41
Federal hospital insurance	6. 22
Federal supplementary medical insurance	6. 59
Unemployment	4. 64
National service life insurance	3. 93
Railroad retirement account	4. 90
Civil service retirement and disability insurance	4. 75

Four trust funds held securities maturing on February 15, 1970, and March 15, 1970, which were eligible for exchange in the quarterly refunding the Treasury has just completed. The Federal old-age and survivors' insurance trust fund held $15 million, the Federal disability insurance trust fund $10 million, the unemployment trust fund $134,250,000, and the employees life insurance fund $1,798,000. These maturing securities were exchanged for the 8 percent Treasury notes of February 15, 1977, offered in that exchange refunding. These are the only securities bearing 8 percent coupons held by the trust funds, although several other Government investment accounts hold a total of $172,866,000 of the 8 percent Treasury notes of May 15, 1971.

MEASURING THE U.S. DEBT

Mr. RHODES. The reason I entered into this line of questions was to prepare the way for this question: Since the trust account can only receive an instrument as an investment which has the full faith and credit of the U.S. Government, is there really any good reason to continue to include under the debt ceiling those portions of the U.S. debt which are in the hands of the trust account?

Secretary KENNEDY. We made a recommendation last year that only debt held by the public be included under the debt ceiling. This would be consistent with the unified budget concept. After a hearing it was decided by the Congress they wanted the total debt included and so that is the way it ended.

Mr. RHODES. Actually from the standpoint of the economy, the figure which is important is that part of the debt which is in the hands of the public, is it not?

Secretary KENNEDY. That is precisely true. That is the measure of the effect on the market.

MONEY MARKET REACTION TO THE BUDGET

Mr. RHODES. This may sound like a self-serving question, but it really isn't. I think it is important. The money market was waiting for this budget to see, I think, whether or not the budget was going to be credible. What has the reaction been in the money market to this budget thus far?

Secretary KENNEDY. The market has been appraising the budget and appraising any possible changes on Federal Reserve policy, and I have seen no indication that they are not taking this as a credible budget and looking at it as a continuation of our anti-inflation program. As a matter of fact, the bankers and member of the financial community I have talked to feel that this policy is now working.

UNOBLIGATED BALANCES IN WATER POLLUTION CONTROL

Mr. RHODES. It isn't very often that the three of you get a gift from a member of this committee but I do want to again, Mr. Mayo, reiterate that you have about a $250 or $300 million bulge in that pollution account. The Public Works Committee was satisfied there isn't any way they can obligate $800 million this year unless the distribution formula is changed, and they would have to do it very soon. Otherwise, the money couldn't be allocated just because of a lack of time.

Mr. MAYO. We have an estimate which I have looked up since we talked and it is that we are assuming a $350 million unobligated balance at the end of June.

INVESTMENT OF TRUST FUND SURPLUSES

Mr. WHITTEN. The thought strikes me as we go along here, most of these trust accounts are set up on an actuarial basis which means you have to accumulate surpluses during certain periods because with the passage of time, with increased retirement, its demands will be much greater. Future retirement cost of the military will be so huge it leads one to wonder whether we can ever pay the cost.

Secretary KENNEDY. The trust fund surplus income must be invested in some type of earning asset. If we didn't borrow from the trust accounts, we would have to borrow more from the private sector.

Mr. WHITTEN. If we keep this up and keep the trust account drained, whenever that period of high demand comes about under these various retirement programs we will be dependent on an annual appropriation based on annual production to pay them, won't we?

Secretary KENNEDY. We could finance pension payments out of current appropriations. That is the way military pensions are paid.

Mr. WHITTEN. What is another way to do it?

Secretary KENNEDY. Each one of the trust accounts is supposedly actuarially sound and they have U.S. Government securities which they can redeem to meet their obligations.

Now, when they redeem the securities, we have to go into the market and borrow the money from the public, just as we have to for any Government expenditure.

Mr. WHITTEN. We are sound if we give full value to the Government's note.

Secretary KENNEDY. That is right.

Mr. RHODES. I believe we will all agree that the trust fund investments are just as good as the ability of the taxpayer of the future to pay them when they come due, which I think is true of any obligation.

DEBT HELD BY PUBLIC

Mr. JONAS. It is true of the other $250 billion outstanding in the hands of the public. Where are you going to get the money to redeem those bonds?

Mr. RHODES. The taxpayer of the future or the money market of the future has to make good on these obligations.

Mr. MAYO. In a sense these funds have not been drained from the trust funds. The trust funds have invested them in Government securities just as you and I would buy E bonds or the commercial banks would buy Government securities. The full faith and credit point is valid applying to those bonds just as much as to those held by the public.

Mr. JONAS. What are your latest figures—and you must have them for the second quarter, the first one-half of the fiscal year—on corporate income taxes and individual income taxes? How do they compare with your estimates?

Mr. MAYO. They are all reflected, Mr. Jonas, in the figures that were not finally put to bed until approximately January 10 or 15.

Mr. JONAS. The figures in the budget will reflect the final result at the end of the second quarter?

Mr. MAYO. Yes, insofar as we could analyze.

Secretary KENNEDY. Actually on the tax side we are a little better off than the early estimates—about $600 million. The loss is in the expenditure side, not in the tax side.

CORPORATE TAX REVENUE

Mr. JONAS. Did someone say you expected a short fall of $4 billion in corporate tax returns as compared with last year?

Secretary KENNEDY. We expect a $5 billion decline in corporate profits.

Mr. JONAS. If you have a reduction of $4 or $5 billion in profits how is that reflected in tax receipts from corporations?

Secretary KENNEDY. We estimate corporate profits of $89 billion in calendar 1970 and that would bring the estimate of corporate taxes in fiscal year 1971 to $35 billion, which is $2 billion down for the fiscal 1970 budget.

Mr. JONAS. And $1.9 billion down from 1969?

Secretary KENNEDY. It is up a little in 1970 over 1969.

Mr. JONAS. I am reading a different table. I am on page 551. What is wrong with that table?

Secretary KENNEDY. I am reading from page 65.

Mr. JONAS. Corporate income taxes are a little bit higher.

Mr. MAYO. One is net of refunds.

The figures are: 1969, $38.3 billion on the growth, $38.9 billion as you suggested for 1970, and for 1971, $37 billion. The change in refunds are growing so the net figures are $36.7 billion, $37 billion and $35 billion.

INTEREST CEILING

Mr. JONAS. Do we still have the legal ceiling on interest rates on long-term bonds?

Secretary KENNEDY. Yes.

Mr. JONAS. What is that ceiling?

Secretary KENNEDY. Four and a quarter percent.

Mr. JONAS. Does that affect your ability to manage the debt now? If you refinanced it, you would have to refinance at a higher figure.

Secretary KENNEDY. As of the moment we have been putting out securities as long as 7 years, which we have power to do at current market rates. Anything beyong that would require a four-and-a-quarter-percent rate, which is completely out of line with the present market. We have no plans for longer maturities at the moment, but over a period of time the interest rate ceiling does seriously handicap the management of the debt.

Our interest charge on the debt, in my judgment, is now higher by far than it would have been if that four-and-a-quarter-percent ceiling had not been there because the debt has become shorter and shorter and we have had to refinance larger and larger amounts of the debt at these high rates.

Mr. JONAS. That is the point I was making. Your predecessors in office, as I recall it over a number of years, have recommended that that ceiling be raised and Congress, in its wisdom, has not seen fit to do so. Had the ceiling been raised, is it not fair to assume we wouldn't be paying out $18 billion a year now in interest; it would be substantially lower than that if we had moved the debt into long-term securities.

Secretary KENNEDY. The average length of the debt has been going down, down, down, in large part because of inability to finance longer maturities as a result of that arbitrary ceiling.

CONSUMER PRICE INDEX INCREASES

Mr. JONAS. I asked Dr. McCracken to include a table in the record about consumer price indexes. What I really want that table to show is what items have increased. Compare the January table with December and show which items reflect the increase. Will you do that, please?

Mr. MCCRACKEN. Yes.

(The information follows:)

PERCENT INCREASES IN CONSUMER PRICES

	Dec. 1969–Jan. 1970	Jan. 1969–Jan. 1970
All items	0.4	6.2
Food	0.6	7.1
Housing	0.5	6.8
Apparel and upkeep	—1.1	4.8
Transportation	0.7	5.5
Health and recreation	0.4	5.1

COMPARISON OF SPENDING FOR DEFENSE AND HUMAN RESOURCES PROGRAMS

Mr. JONAS. Now, we have a table available in other material but I think it would be helpful in this record to have a table comparing defense spending with social program spending as a percentage of national income during the last 20 years. Say the decade of the 50's and the decade of the 60's.

Mr. MAYO. That could be done.

Mr. JONAS. You have that already available. I think it would be well to have it in this record.

(The information follows:)

SPENDING ON NATIONAL DEFENSE AND ON HUMAN RESOURCES PROGRAMS AS A PERCENT OF GROSS NATIONAL PRODUCT, 1951–70

	National defense	Human resources
Fiscal year:		
1951	7.3	3.5
1952	13.1	3.5
1953	14.1	3.3
1954	12.9	3.6
1955	10.6	3.8
1956	9.8	3.8
1957	9.9	4.1
1958	10.1	4.9
1959	9.9	5.2
1960	9.3	5.1
1961	9.4	5.7
1962	9.4	5.7
1963	9.1	5.7
1964	8.8	5.6
1965	7.6	5.4
1966	7.9	5.8
1967	9.1	6.6
1968	9.7	6.9
1969	9.0	7.1
1970	8.3	7.6

ADMINISTRATION POSITION ON PRICE AND WAGE INCREASES

Mr. JONAS. I wish the Secretary would in this record elaborate a little bit more on this: Why is the administration so reluctant to talk to management and labor about price and wage increases? What is the basis on which the administration takes the position that nothing can be accomplished by "jawboning" as some refer to it?

Secretary KENNEDY. I will defer to my colleague here, who made a very profound statement yesterday on "Meet the Press," on this very subject. I concur with it.

Mr. McCracken. I am trying to remember what that profound statement was.

May I comment on your question? I think "jawboning" is a term that might be confusing the situation as much as it clarifies it. No President, obviously, can deal himself out of concern with what is going on in the economy and the administration, from time to time, has been concerned with specific situations that seem to indicate at least the possibility that there were problems in the economy that needed attention. One of the very early ones when we arrived here about a year ago was the extraordinarily sharp run-up in prices of lumber and plywood. There have been others where we have taken specific action such as in the area of construction. We are looking into a copper situation. I indicated on "Meet the Press" yesterday that we happened to be looking at the specific problem of retail beef prices and the prices the farmer is receiving. The spread between these two prices has recently been wider than has been the case historically. I am looking into that now.

Mr. Jonas. You have not advocated or recommended overall guidelines.

Mr. McCracken. That is correct, and I wanted to make a comment about that. We have not tried to reinstitute what used to be called the guidelines. I would want to say this, though, that the President did not abandon the guidelines a year ago.

The guidelines were dead when we arrived on the scene last year and really if you wanted to put a date on the death certificate, as it were, it would have been really way back at the time of the airline mechanics' strike which simply kicked over the guidelines, and wage adjustments and price increases became persistently out of line with any kind of basic logic of the guidelines. Indeed, the economic reports after January 1967 ceased to carry with them any specific arithmetic as to what an appropriate settlement would be.

Now, having said that, I would want to make one more comment that I think we are at the stage now, as the Secretary indicated, where our policies are beginning to start to bite. There are visible effects beginning to show up. We do have the problem now of trying to get the economy eased into the path of more stable price-cost behavior and obviously this means that wage and price changes have to be less than what they have been.

Mr. Jonas. I agree they are showing up but I don't like what is showing up. I don't find the cost of living going down appreciably and I find people having more and more difficulties borrowing money to finance their ordinary business operations. I think those are the people who are getting hurt; not the people who want to build new plants, although that's good in a growing economy, too, but this tight money situation is crucifying the little businessman who has to borrow money whenever he buys goods to stock up his store and then he pays it back as he sells his goods.

Mr. McCracken. It is perfectly true this evidence of cooling off has not yet shown up in the price level. On the other hand, the price level almost never is one of the places where this starts to show up early in the game. It is one of the final things that will start to settle down.

Now, it is a pity that we ever let this inflation get away from us and let it run so long and, having run so long, it isn't an easy thing to get back on top of. But I think we are now beginning to regain control.

Mr. JONAS. It might be helping out the war, but I must admit the medicine is getting to be a little bitter.

BANK LENDING

Mr. RHODES. I realize the money market historically has gotten its price one way or another. I am wondering though if there aren't some people in the business of lending money—possibly some pretty big ones too—who are taking advantage of the situation of short money and actually charging more for interest and for points than they really have to? I know there is an argument that this is the way you weed out all loans but the best ones—the ones that can afford to pay the high rate—but I wonder if this isn't taking a pretty hard line, and actually substituting something for the banker's judgment that maybe should be substituted. In other words, couldn't people in the business of lending money take care of the good customer, the small man, the one Mr. Jonas has just spoken about, if they wanted to do so?

Secretary KENNEDY. I think the bank lending record has been pretty good through this very difficult period of time. We have gotten through without a large amount of bankruptcies, without real trouble spots. We have had difficulty in housing; we have had difficulty in the municipal area where they have needed money and the rates they were able or permitted to pay for money were sometimes outside the market range, but business generally—even small business—has been able to get considerable credit at the high rate. Of course, they have had to pay a high rate for it.

Now, with respect to the large lenders, they are committed for very large amounts over long periods of time, and the large users of funds and others were coming for those commitments. In order to supply the funds the banks had to go to outside sources, such as European markets, for Euro dollars at a very high rate and import those dollars into the United States in order to live up to their commitments. In those cases they were not making large profits, but they were taking large losses because they were paying 12 and 13 percent for the funds they were lending at 8.5 or 9 percent. That is showing up in the earnings statements of large lenders now as a depressing effect.

These problems always occur to some degree in a period of anti-inflation control and restrictive monetary policy. If you make the money available for small business or for these other segments without restraint, then you are undoing what we are trying to do in controlling inflation generally. It is pretty hard to channel the money just to the particular place that it might be needed or desired, or most useful.

Mr. JONAS. Haven't you got a regulation Q that deals with that?

Secretary KENNEDY. You have a regulation Q on the part of the Federal Reserve that has limited commercial banks in their ability to get money on CD's from the money market, and for that reason they moved into the Euro dollar market.

EFFECT OF TIGHT MONEY ON HOUSING

Mr. JONAS. I am aware of the increases in aid the budget proposes for HUD for the subsidized housing market. We have a score of programs providing subsidies for rent and homeownership and all this business for the subsidized housing market.

What hope can I offer the man who doesn't want any help from the Government but just wants an opportunity to go down to the building and loan and borrow money to build a house or buy one at a reasonable rate of interest?

Secretary KENNEDY. At the moment that part of the market is under some stringency. The savings and loans have had quite a problem.

Mr. JONAS. You said this morning in your statement—you quoted home loan bank figures of—FNMA figures, and a substantial increase in money they made available to the housing market but I have the impression that the money that the Home Loan Bank Board made available to the savings and loan industry—it was a substantial increase, 1969 over 1968, but it just about matched the withdrawals and left them in about a net position or something worse.

Secretary KENNEDY. They have been in a very stringent position.

EASING MONEY RATES

Mr. JONAS. Is there any hope in the immediate future for any easing in the money rates so the man who is working and wants to pay his own way will have an opportunity to get some money to build a house?

Secretary KENNEDY. I think that will come as a part of the shift in policy on the part of the monetary authorities when the money market is under a little less pressure.

Mr. JONAS. The housing industry, as I am sure you know, is anxious for the Federal Reserve to create a secondary market for home loan mortgages. Is there any prospect that will occur?

Secretary KENNEDY. I would say it is not likely. It presents a real problem for the Federal Reserve because if they go into one segment—housing, for example—then there will be other areas where they will be asked to go in. Instead they have been relying on the overall control system.

I think the more direct way will be to work on the housing problem to see if there is some other way that we could find financing for the housing industry.

In connection with this, the President has recommended a commission to study the flow of savings and to study the problems of financing in inflationary periods like we have been going through as well as for the future.

FIVE-YEAR FORECAST

Mr. ROBISON. Mr. Chairman, I would like to congratulate our three star witnesses for having broken ground this year in an attempt to project the budgetary situation for us some 5 years hence. This, if we can learn to do it with any precision, ought to be a tremendous help to us in the decisionmaking process that goes on here year after year, and particularly with respect to the new programs that will in the long run cost a good deal of money.

On page 60 of the larger volume entitled "The Budget," there is a table or a chart, rather, that shows your projection for 1971 on the left-hand side at $202 billion in resources with the small $1.3 billion surplus on top of that column.

Then, in 1975, there are resources of $266 billion shown, out of which ongoing programs will take approximately $226 billion, plus "Initiatives to Date," $18 billion, leaving "available" $22 billion.

On the page ahead of that I note that the explanation says: "The $18 billion is made up of 'initiatives reflected in this budget.' " Could you, Mr. Mayo, for the record, give us a breakdown of that $18 billion that would eat into what appears now to be the projected "dividend" situation?

Mr. Mayo. In the presentation of the perspective on the future, we purposely avoided getting into any great details in the specifics because an error in one will tend to offset an error in another.

The $18 billion is the logical extension from the 1971 budget of food stamps, family assistance, and revenue sharing. (The latter alone will be somewhere in the neighborhood of $4 billion by 1975.) It is also the logical extension of outlays coming out of both water pollution control and mass transit programs. These—along with some others, of course—will add up to the $18 billion in 1975.

PEACE AND GROWTH DIVIDEND

Mr. Robison. Would it be fair to say that the $18 billion allocated to "Initiatives to Date" and now the unallocated, insofar as administrative initiatives are concerned, $22 billion, add up to the total in your estimate of $40 billion, and this would be what other people call the "peace dividend" and the "growth dividend" as of 1975?

Mr. Mayo. If you add the $12 billion which has already been allocated to tax reduction by the Tax Reform Act of 1969 you obtain a peace and growth dividend of $52 billion. This approximates what has been referred to as the peace and growth dividend.

ACTUARIAL BASIS OF TRUST FUNDS

Mr. Wyatt. As I understand it, the trust funds are on a carefully worked out actuarial basis so sometimes in the future after this balloon of income is passed we are going to have the trust funds knocking on the door and asking for the various portions of the $71 billion that they supposedly have. Is that correct?

Mr. Mayo. It may be long after you and I have passed off this earth that the Nation eats into the $71 billion. By the time the trust funds start knocking on the door, there will have been varying areas of growth in Federal funds receipts. This growth should produce the necessary money to redeem the trust fund holdings.

Mr. Wyatt. Isn't this apt to be another fairly good demand upon the Federal receipts during the years ahead in varying degrees, in addition to all those other big demands?

Mr. Mayo. We have tried to include this in the 1975 projections we were just speaking about. This is quite possible. Any projection must reflect what the Congress may do to social security taxes, social security benefits, and the balance between them, just to cite an example.

THE UNIFIED BUDGET

Mr. WYATT. I have just one final observation and that is with reference to the matter the chairman discussed this morning on the unified budget concept. I realize this was a nonpartisan effort and no doubt still is, but I think personally and I think a lot of my colleagues agree there has been a great overemphasis upon the advantages of letting our economists and the people who are concerned with the flow of money in and out each year of the Government—and there has been a great underemphasis upon the disadvantage to the man on the street in this country and the Members of Congress, and to the administration itself, as to the publicity which comes out of having a $1.5 billion surplus when in fact we have a $7 billion deficit.

This was reflected in the demands on us for extra money in each one of these respective political fields, in our position and the position of the man in the street, when we go to increase taxes or in our position when there is a proposition to decrease taxes. and this is a very real thing.

Thank you, Mr. Chairman.

Mr. WYMAN. Mr. Secretary, the main thrust of our appropriation problems seems to be that we just don't have enough money coming in for what we want and need to have going out by appropriation whether it is this year, prior years, or in the future.

NATIONAL LOTTERY

Along the lines of the urgent need for additional revenues, if a national lottery or drawing were to be approved as a matter of national policy, there isn't any question is there, but what it would produce substantial additional revenues for this country?

Secretary KENNEDY. I haven't studied what a national lottery would actually produce. It depends on how it is worked out.

Mr. WYMAN. It is a fact, is it not, that many, if not most of the other governments of the world, depend for a substantial part of their revenues upon a government managed lottery?

Secretary KENNEDY. It is true some countries do have national lotteries. I don't think it is a substantial portion of the total.

Mr. WYMAN. I believe there are several dozen.

Secretary KENNEDY. There are quite a few but it is not a large proportion of the revenue——

Mr. WYMAN. Have you given any consideration to this possibility within the Department?

Secretary KENNEDY. There have been studies in the past. We have not considered this issue. We were taking our time on the tax reform and we are taking time now studying various other methods of taxation. I would not at this point be willing to accept a national lottery. I would have some qualms about it.

Mr. WYMAN. People might pay the tax, if you call it a tax, with a smile for a change?

Mr. MAYO. We must remember that we have $50-odd billion in savings bonds financing our Government and much of that could, under a national lottery, flow into a lottery instead of into saving bonds. That has been one of the results in some of the other countries.

RATE OF COST-OF-LIVING INCREASE

Mr. WYMAN. If price increases and wage demands start going around again and continue to force the cost of living index upwards, won't that bring us closer to eventually having to face up to the problem of wage and price controls?

Secretary KENNEDY. It seems to me with the actions that have been taken that we have passed that time. The cooling off is taking place and it is not a likely thing that the new demands for wages and prices will continue once they have difficulty selling the merchandise. Once the profits are down, the corporations won't be expanding their activities as much and that is showing up now in the figures.

Mr. WYMAN. You are saying you think the cost-of-living index is going to go down?

Secretary KENNEDY. It will rise less fast. We weren't saying the cost will go down from the present. I thought you meant a reduction in the rate of inflation.

Mr. WYMAN. You mean the increase will be less accelerated?

Secretary KENNEDY. This year and less next year again.

Mr. MCCRACKEN. Just one comment on this question of the successive rounds of wage and price increases.

There is no question but what this is a difficult year ahead and we do have more people involved in major wage negotiations than last year by a substantial margin. On the other hand, it is important to remember that even this year these negotiations involve only about 6 percent of our labor force. Thus the prospect that the whole labor force will simply negotiate sharply higher wages forcing prices up, is placed in better perspective when we see the proportion of the labor force involved in these negotiations.

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

Mr. LANGEN. Mr. Chairman?

Mr. MAHON. Mr. Langen.

SHORTAGE OF MONEY

Mr. LANGEN. I want to pursue one point a little further. My colleague, Mr. Jonas, raised an excellent point a few minutes ago when he referred to the hope for the individual, whether he wans to build a house or expand his business or has difficulty in meeting the every day expenditures for which credit is required these days.

One of the things that has aggravated this in many areas—my own being a typical example—has been the sale of Government loan paper which in turn has resulted in, as was referred to, withdrawals from savings and loans, withdrawals from banks, thereby limiting the credit money available in the normal channels. This aggravates itself because money is being limited there and their customers show up in a Government agency wanting money. We have so many instances now conveyed to us by letter where folks have applied for a loan and the loan has been approved, which means it is a good loan and it is acceptable. The answer is common, however, "We don't have any money." Consequently, the fellow is thereby curtailed from expansion. So now, as we look to the future, when can we expect there will be some change in this demand on credit money which in turn would seem to me to reflect directly on the continuing pressure for high interest rates?

Secretary KENNEDY. Are you looking at me or Paul?

Mr. LANGEN. Either one of the three that wants to supply an answer.

Secretary KENNEDY. My own view is that in the next few months there will be an easing in credit pressures and money will be a little more available as the public and the private sectors show this decline and as the psychology of inflation is brought to a halt. Until that takes place it will not happen because you will have a continuation of the same problems.

Mr. LANGEN. Is it expected that the Government will continue to sell as much of the loan paper as they have?

Secretary KENNEDY. That is done as part of the program of supporting housing and other fields. So it is implicit in the budget.

Mr. McCRACKEN. May I say this—I think what we are talking about here is something that not only has very short-run implications, but longer run as well. FNMA and the Home Loan Bank System have provided massive aid for the mortgage market. In doing so they have had to acquire the funds themselves, of course, and then undoubtedly a part of those funds they get are dollars that in some other way might have come into the mortgage market but they got preempted. I think once we get this economy cooled off and stabilized, and we are making progress now, one thing will come into the picture which we have not had in the last year on an ongoing basis. We ought to have a larger increase in the money supply for a growing economy than occurred last year. Incident to trying to get this thing cooled off, we didn't get the normal increase last year and that is quite a bit of money to drop out of the supply side of this market.

NATIONAL GROWTH POLICY

Mr. LANGEN. One more question, Mr. Chairman, on another subject. The President in his state of the Union message, I believe, indicated a national growth policy, and in so doing I believe he referred to the fact that consideration was going to be given to the growth of rural America together with urban America, and we were going to consider the villages as well as the cities, and so on.

If that national growth policy is going to be uniform, how do you justify that with a budget that eliminates ACP payments, and reduces the sewage and housing loans, and does away with the milk program, and generally an indication that it would deter growth rather than encourage it?

Mr. MAYO. I would say the illustrations that you have used are programs which, in our book, should be reduced or eliminated so that Federal spending in areas that would stimulate national growth could be pursued. Again, we can not do everything, and I have already alluded in my exchange with Mr. Whitten to why we felt that both the ACP and the milk programs were not the most efficient ways of putting resources into the economy.

Mr. LANGEN. This might well be the case, but I still think that you have to face up to the real problem that is there.

Mr. MAYO. We are.

Mr. LANGEN. If you are looking at the matter of per capita income, it is already lacking. It is two-thirds of what it is in the rest of the country.

Secondly, if we are looking at the element of poverty, 50 percent of it is in rural America while only 30 percent of the population is there. If you add up those factors and then take away some of the stimulant to that, it can, in my humble opinion, only get worse, certainly not better.

Mr. MAYO. I think that you will find from a glance at the budget the expansion that we have allowed for in loans for rural housing is greater percentagewise than for urban housing. There is a big expansion of rural low-income housing in this budget.

Mr. LANGEN. If there is, I failed to see it.

Mr. WHITTEN. Without water and sewage, if the gentleman will yield.

Mr. LANGEN. Yes.

Mr. MAYO. There are provisions for getting that, too, Mr. Whitten.

EFFECT OF DEFENSE SPENDING ON INFLATION

Mr. MAHON. Dr. McCracken, you are an economist. I would like to make a little statement and get your comment. We have tens of thousands of people building military hardware such as fighting ships, aircraft, producing ammunition, and so forth. The defense budget is in the area of $70 billion-plus. Of course, defense and the security of the country has to have the highest priority—but if we had not been spending so much on defense and on the war, if it were not necessary to do it and people working on defense contracts were working on contracts to produce consumer goods, I assume we would be facing a different economic situation. Would you rationalize that? Has this big spending in war and for defense brought about this situation? If so, why, and what is the answer to it?

Mr. MCCRACKEN. Yes, I think it has. It has been a major source of the problem here in recent years. The rise in defense spending in fiscal years 1966, 1967, and 1968 happened to coincide, as I recall it, with sharp increases in domestic spending.

Mr. MAHON. Right.

Mr. MCCRACKEN. So both have to be flagged as important matters. In any case, this was all done without, as you indicated this morning, without facing up to the implications of this for the tax side. Consequently, we have got a basic imbalance in our economy.

If we could have a little readjustment of resources with more people producing consumer goods and a little more in the areas of construction, for example, it would help a great deal to restore a better balance in our economy.

Mr. MAHON. I understand that people who have defense contracts to construct military hardware are singing the blues and worrying about the stability of their companies in some cases. Does this mean that inflation is being curbed to some extent?

Mr. MCCRACKEN. Yes. I think this reflects two things. Someone said this morning, I believe, that the reallocation of national priorities is a good term. Of course, it also means resources are going to be reallocated away from some areas and to some other areas. The companies that find themselves with new orders dwindling find this is a very painful process. Beyond that, the decline in defense spending that is projected here, and which carries with it implications for jobs in that area, is a part of the process of trying to restore better overall balance in the economy, but it means that we have to have an increase in job opportunities in other parts of the economy.

1970 SUPPLEMENTAL APPROPRIATION REQUESTS

Mr. MAHON. I wish that you would provide us with a statement as to some of the details of the supplementals. The supplementals, including the pay raise and other requirements, will approximate—how much money?

Mr. MAYO. It is approximately $4.4 billion. We are in the middle right now of getting the material for you in the next 10 days.

Mr. MAHON. Outline the contents of the request roughly for the record.

(The information follows:)

Of the approximately $4.4 billion in supplemental requests, roughly $3.1 billion is for increased pay costs and $1.3 billion is for additional program requirements. These requests are expected to be transmitted to the Congress in the very near future.

Mr. MAHON. When do you expect to send up a supplemental?

Mr. MAYO. I would say by the first of March.

Mr. MAHON. The amounts requested in the supplemental are accounted for more or less in the 1970 totals shown in the budget for fiscal 1971?

Mr. MAYO. Yes. They are in the chart we showed earlier—$5 billion over the amount labeled "enacted."

EXPENDITURE CEILING ADJUSTMENTS FOR FISCAL YEAR 1970

Mr. MAHON. Do you think it will be necessary to change the spending ceiling?

Mr. MAYO. Yes, sir.

Mr. MAHON. Fixed by law?

Mr. MAYO. Yes, sir. I don't see how we can possibly live within the $2 billion limit, for instance, on uncontrollables. We have gone $2.3 billion over that limit and I do say that a ceiling on uncontrollables is sort of a contradiction in terms. That is one part of it.

Mr. MAHON. Will you make a formal request in connection with that?

Mr. MAYO. Yes, sir. That will be done. There is more to it than that. The margin under the remaining ceiling is only a tenth of a billion dollars. I don't think you would want to share with us the problems of trying to cut further into programs to provide a reasonable margin for operating the Government.

ADMINISTRATION POSITION ON EXPENDITURE CEILING

Mr. MAHON. Do you favor an expenditure ceiling for fiscal year 1971? Does the administration favor such a ceiling?

Mr. MAYO. We believe there is great value in setting up a target for the budget aggregate, as we tried to do with the $192.9 billion outlay target.

Again, what happened to the $192.9 billion is a product of uncontrollables basically, although some congressional action like the social security benefits added further to that, as we realized. We believe that a target, however, should be sincerely adhered to, as much as that is possible.

We have some difficulty in agreeing that a tight ceiling of a specific digit can actually perform the function the Congress would like to have it perform and at the same time be responsive to what the Congress wants to do on individual appropriations.

Mr. MAHON. I wish you would elaborate on this question at this point in the record.

(The information follows:)

BUDGET CEILINGS

There are four basic problems with a statutory ceiling on budget outlays such as has been applicable in the fiscal year 1970:

First, to limit uncontrollable spending is to attempt an impossible contradictory action. The statutes require that certain payments be made, leaving little or no discretion as to the amounts or the timing. Veterans' compensation and pensions constitute a good example. The requirement for Federal matching (at fixed percentages) of State-local public assistance payments is another. Nothing is gained by trying to control these. When they are included within a larger ceiling, unforseen increases in uncontrollable accounts squeeze the remainder of the budget in a manner that may require difficult, risky, or impossible adjustments. For 1970, the law identifies only four of the many uncontrollable factors in the budget, and even for these four it limits the ceiling adjustment unrealistically.

Second, to force spending downward when offsetting receipts drop concurrently is to require an almost unmanageable type of program management. The ceiling in 1970 is applicable to the net of the disbursements less the "proprietary" receipts from the public; the law permits an adjustment in the ceiling for only two types of receipts. Since these receipts are subject to market conditions over which we have a little or no control, and therefore cannot be predicted with great accuracy, a decline in the amount anticipated earlier could force program adjustments that would be difficult or impossible to administer, especially in the last weeks of the fiscal year. The actual receipts that are offset in determining budget outlays do not become known to us until a reckoning that can occur only after the close of business—yet disbursements are supposed to be controlled in the light of those receipts.

Third, to limit disbursements is to place the control at a somewhat illogical point in the process. The drawing of a check to pay for a liability already incurred is a routine-type operation which can only be deferred, not forgotten; and, if deferred, could jeopardize the Government's financial integrity and may work a hardship on the potential payees. In fact, the deferral of payments is likely to be a cost to the taxpayers, rather than a savings, in the long run. To achieve economy, it is necessary to avoid incurring the liabilities for which payments are required. This is best accomplished by controlling the incurring of obligations for future performance. The budget system and the appropriations process are built upon the solid foundation of controlling obligations, appropriation by appropriation. Aggregate budget controls would work better if applied to obligations than to disbursements.

Fourth, to set an aggregate limit which is appreciably more restrictive than the sum of the actions Congress takes on individual items is to confuse the public and thwart the will of Congress in its program decisionmaking. When Congress grants an appropriation for education, health, or some other purpose of great public concern, it might naturally be expected that the money will be available in the amount specified by the act. But an overall ceiling that is less than the sum recommended by the President may force the President to cut programs below the levels contemplated by Congress in enacting an appropriation he has recommended. The 1970 provisions for adjustments in the ceiling help remedy this type of problem so far as congressional changes in the budget are concerned, but they do not provide a remedy for the squeeze that occurs when the basic ceiling is inconsistent with the recommended budget. The system as now operating permits Members of Congress to be for spending—on individual appropriations—and for saving—on the aggregate ceiling—at the same time, shifting to the President the distasteful task of cutting programs below the level which both he and the Congress, in careful deliberation, deemed necessary.

There is a fifth potential source of difficulty, which, while not a basic problem in the past, could be a problem in the future. That is that the ceiling removes needed Executive flexibility in meeting situations strongly affecting the national interest. For example, in the case of emergencies involving the safety of human life and the protection of property, the Anti-Deficiency Act of 1950 authorized the Director of the Bureau of the Budget to permit an agency to speed up the use of its available funds, with prompt notice to the Congress. Yet the outlay ceilings could make it impossible to do so, even in the case of a major natural disaster. Also, the Employment Act of 1946 provided a policy basis for action to combat a recession, and the financial system, apart from outlay ceilings, permits an administration to accelerate the spending of moneys already appropriated when economic troubles threaten. But outlay ceilings seriously limit the possibility of practical action to combat a possible recession, if at some future time the Nation comes to such a situation.

In summary, we do not believe that a statutory ceiling can be devised which will bind both the President and the Congress effectively and at the same time provide needed flexibility in meeting the obligations that beneficiaries of Government programs have a right to expect. The President has sent to Congress a budget in which the details add to the total which he recommends. If the Congress wishes to change the total, it would seem only logical that the Congress do so by its actions on the details.

Mr. Mahon. Would you agree that the expenditure ceiling of the previous year and of the current fiscal year has been somewhat helpful in applying additional pressures for dampening down spending? Has it been helpful in some respects?

Mr. Mayo. I cannot deny it has been of some help. I have raised my finger at agencies more than once and said, "Look, Bub, we have an expenditure ceiling here." To give an estimate as to how much it has actually saved us, would be difficult, Mr. Chairman.

Mr. Mahon. I don't think that you can supply a figure, but I would think it had some impact in the executive branch and some impact in the legislative branch.

Mr. Mayo. In the legislative branch, of course, it is a rubber ceiling in that when Congress enacts an appropriation in excess of our request it increases the ceiling.

Mr. Mahon. That is right. This would seem to me to be inevitable. Any law that is passed can be changed. Nevertheless, it has been somewhat effective and salutary. I wish you would have your people come up with their best ideas as to the type of expenditure ceiling that you think you might want.

Mr. Mayo. We would like to work with you on that. Not only to cure the problem that we have for 1970, which is an immediate one, but also to philosophize a bit on what would be an appropriate stance for 1971. I would like to do that with you.

Mr. Mahon. Thank you very much.

SURTAX REVENUES

Mr. Evans. Mr. Chairman, one question. It relates to some figures in the Secretary's statement.

On one of the tables in your statement you show the unified budget receipts under category B entitled "Effect of the Enacted Legislation." The first item under this is a decrease in income tax surcharge, showing a loss of $8.5 billion, whereas on page 67 of the budget, under a table entitled "Revenue Effect of Tax Reform Act, 1969," the first item is extension of income tax surcharge at 5 percent rate January 1 to June 30, and you show plus $2 billion.

Mr. MAYO. In the fiscal year 1970, I refer to page 66 in the budget document, we raised $7.9 billion of receipts from the 10-percent surtax through December; $2 billion from the 5-percent rate from January 1 to June 30. That totals $9.9 billion.

In fiscal 1971, even though the tax expires this June 30, we still get $1.4 billion of revenue that is spilled over in receipts. If you deduct $1.4 billion from $9.9 billion you get the $8.5 billion that the Secretary referred to.

Mr. EVANS. Thank you.

Mr. MAHON. The gentleman from New Jersey..

COMPARABILITY PAY FOR FEDERAL EMPLOYEES

Mr. PATTEN. Today we have schools closed in Newark and Jersey City and we have 132 school districts in New Jersey at odds with the teachers over salaries. I think those of us in public life must realize that the Federal Government employees union is here to stay. I just wonder if it is sound policy for us to deny them the comparability pay increase and hold it over until next January.

Mr. MAYO. I have great sympathy with your position. I am losing people, too, for the same reason. I am sure that my two colleagues are. We felt very strongly that we didn't want to deny the principle of comparability. We did however, want to make a record of the Federal Government setting an example of wage standards for the calendar year 1970 and that could be done really only in this way.

Mr. PATTEN. If I made that speech at the union meeting they would throw me out the window.

Mr. MAYO. I am sure they would throw me out with you.

Mr. MAHON. The gentleman from Texas.

INTEREST SUBSIDIES

Mr. CASEY. There has been an increase in the tendency to place more programs under interest subsidy. We have been putting student loans and construction funds for universities and hospitals, and so forth, and there is a tendency to put these into interest subsidy rather than direct loans or grants. In housing there was a proposal for local municipal bonds in this last tax bill to have an interest subsidy rather than a tax exemption.

Of course, I know the theory was to get the private sector into this field. Don't you think that, since you are going on subsidized interest, that this has a tendency to keep interest rates up? How far is this going, this idea of putting more things under the interest subsidy rather than just direct Government loan at a low rate of interest?

Mr. MAYO. I think to some extent we are kidding ourselves. We are engaging in credit-card government. You can get a lot more bang for the buck if you just pay the little bit of the subsidy or stretch it out over 40 years. This is a problem that I think all of us are acutely aware of. It is not new. It has been proliferating perhaps more in the housing area because of its capital nature than in any of the others. I know both Dr. McCracken and I have discussed this many times. We find in effect it destroys part of the creditability of a budget, a real financial plan of allocation of economic resources, if you can appropriate a billion dollars worth of construction in a given year and only use in that year a very seemingly small amount of resources. But you are still doing the construction I feel that it is very easy to overdo this and that the final effect is less. I would prefer to work in the other direction. It seems to be Xerxes against the tide at times.

Mr. Casey. In other words, you think we have gone as far as we should go in this field; you are not proposing we go any further?

Mr. Mayo. Let me put it this way as my personal observation: There are certain areas where subsidies are helpful but I don't want us to kid ourselves.

Mr. Casey. It is kidding ourselves?

Mr. Mayo. One of the recommendations of the Budget Commission was to include a specific line in the budget that would encompass every subsidy we have in the Government. This has never come to fruition because time has not permitted the working out of the figures which identify the subsidies. We will get to that one of these days. We have not gotten there yet.

Mr. Casey. When you subsidize a 30- or 40-year loan, it is usually a 40-year loan——

Mr. Mayo. A contract obligation.

Mr. Casey. Then a contract obligation to subsidize 7 percent or 8 percent interest?

Mr. Mayo. Yes, sir.

Mr. Casey. The difference between the 3 or 7 or whatever it is for 40 years. Whereas, if we made a direct loan with your management of our debt, interest rates would go down and in the long run it would cost us less for direct loan?

Mr. Mayo. I think we would have to look at that program by program. Again, and this is a question which the Congress is faced with head on, if there is indeed a feeling that we should not devote more financial resources at the Federal level to such programs, then the Congress forces itself into spreading it out. That is a product, I think, of the dilemma of trying to have our cake and eat it too: Trying to get additional resources without somehow showing it anywhere.

Mr. McCracken. This kind of program undoubtedly has its place in the fiscal operation of the Government. But one way it may have a tendency to crowd interest rates upward is that it is an easy way by which a good deal more financing gets thrown into the money capital markets. It just tends to produce greater congestion. This has inevitably a tendency to crowd interest rates upward.

Mr. Casey. Of course, there is no inclination to bring them down if you are going to subsidize part of it either. There is no ceiling.

Mr. McCracken. That is right.

Mr. Casey. Thank you, Mr. Chairman.

Mr. Mahon. Mr. Flood.

FIVE-YEAR PROJECTIONS

Mr. FLOOD. Mr. Robison raised an issue with you about the projection of the budget into a 5-year period.

Mr. MAYO. Yes, sir.

Mr. FLOOD. I ran into this crystal-ball business as a member of the Defense Appropriations Subcommittee with Mr. McNamara, the 5-year business. I get the definite impression that you are predicating your 5-year projection upon a static gross national product.

Mr. MAYO. No, sir.

Mr. FLOOD. You are not?

Mr. MAYO. No, indeed. A rapidly growing gross national product.

Mr. FLOOD. You didn't say that.

Mr. MAYO. In real terms.

REVENUE SHARING

Mr. FLOOD. I thought so but you didn't say so. On this business of redistribution of revenues among the States, I am thinking of the great State of California and even greater State of Pennsylvania and also great State of New York. These great States with budgets of 7, 8, 9, 10 billion dollars a year; isn't it going to take an awful lot of money to distribute it to them? Suppose your State budget is $10 billion; aren't you going to have to give them an awful big dose of cash?

Mr. MAYO. I don't suggest that revenue sharing can solve the problem of the budget of the State of New York or the Commonwealth of Pennsylvania. I think it can work in the direction of easing up the margin that hurts the most.

Mr. FLOOD. Don't you think that the small, poor State will merely stop collecting its own money and use yours? Why not?

Mr. MAYO. We are going to have fairly strict rules on that.

Mr. FLOOD. I have not seen them.

Mr. MAYO. Yes. There is an incentive for States to maintain, if not to increase, their tax effort.

Mr. FLOOD. That makes sense. I would like to see that, coming from Pennsylvania, how stringent they are. I am curious about something else. I think Mr. Jonas raised this in some way. You indicated to Mr. Jonas that while the situation was stagnant you had great hopes there would be an upswing.

Would it be merely an act of God or could you arrange to have this tuned in the next several months?

Mr. MAYO. I am not sure we are fine tuners of that kind.

Mr. FLOOD. I have my doubts.

Thank you, Mr. Chairman.

Mr. MAHON. If there are no further questions, the time has come to adjourn this hearing.

Mr. Secretary, Mr. Mayo, Dr. McCracken, you have been very patient and very helpful to us. This session, I believe will prove helpful to us on the committee and in the Congress as we review the budget. We are all on the same team in this respect. We are working for the best interests of the country. The Appropriations Committee is particularly very anxious to do what it can to preserve the economic stability of the country.

Thank you very much for a very interesting and stimulating day. The information provided in this hearing should be a tremendous benefit to the Congress and the country. You have been most cooperative.

Secretary KENNEDY. Thank you, Mr. Chairman.

Mr. MAYO. Thank you.

Dr. MCCRACKEN. Thank you.

LIST OF WITNESSES

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