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THE FEDERAL BUDGET FOR 1973

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HEARINGS

BEFORE THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

NINETY-SECOND CONGRESS

SECOND SESSION

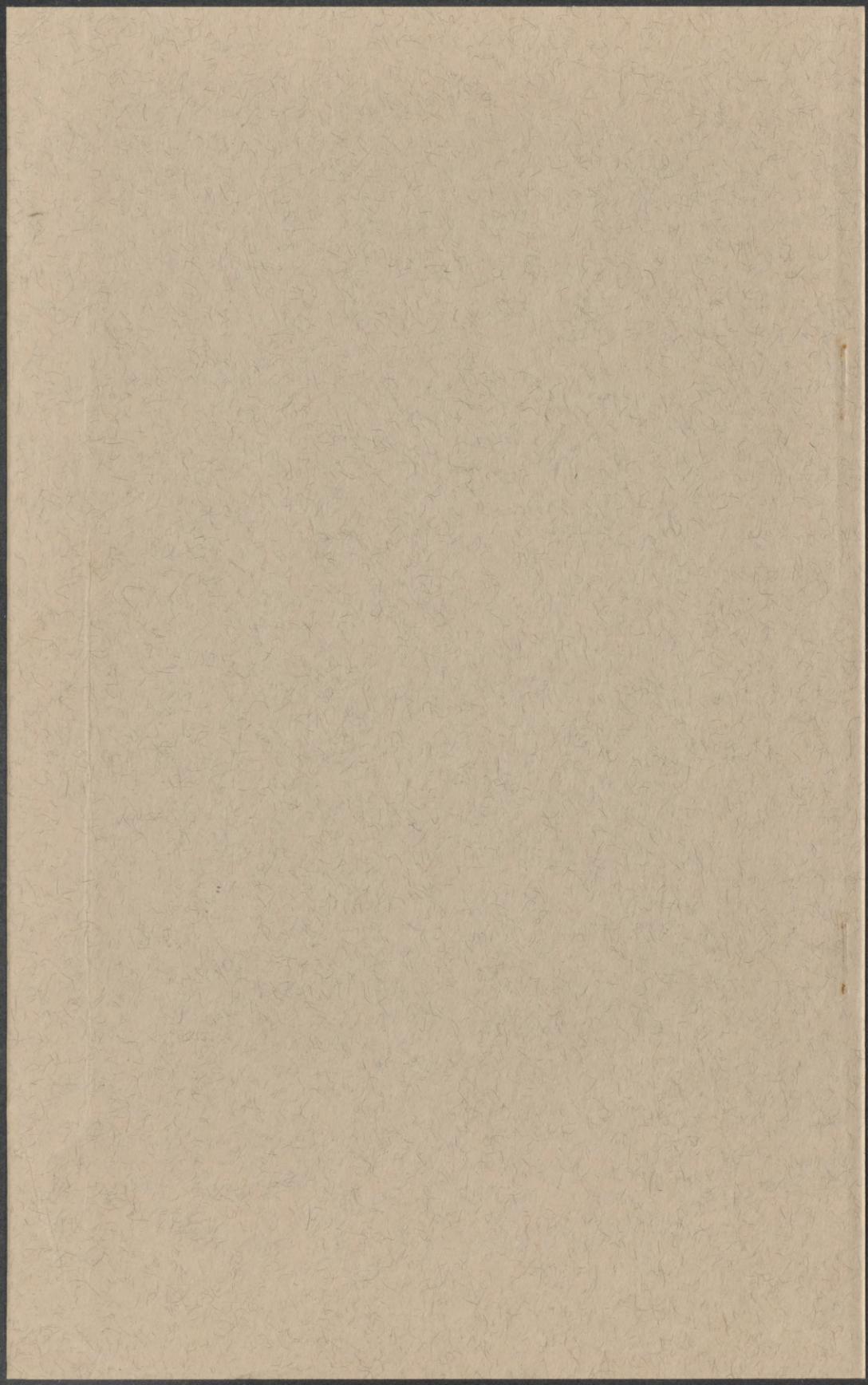
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THE FEDERAL BUDGET FOR FISCAL YEAR 1973

THURSDAY, JANUARY 27, 1972.

WITNESSES

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COUNCIL OF ECONOMIC ADVISERS

HON. HERBERT STEIN, CHAIRMAN

OPENING REMARKS OF THE CHAIRMAN

Mr. MAHON. Will the committee come to order?

We are met here today for a very special hearing with some very important people who could be occupying their time elsewhere but who recognize, as we do in the committee, that the things we are to discuss are of the greatest importance to the Nation. Hardly anything could be more important than what we are going to discuss in this hearing.

This is not going to be a partisan hearing. We are not going to be pointing the finger at Democrats or Republicans. The responsibility for the plight that the country finds itself in must be shared by Democrats and Republicans, by Congress and the Executive, all administrators, and in a sense, by all Americans. Our objective is to explore where we are and where we are trending.

I want to begin by commending the President of the United States, Mr. Nixon, for getting the budget to us on time, despite the fact that Congress was not able to give him early warning as to just what our actions would be on the fiscal 1972 budget which was submitted to us last year.

I want to commend officials of the Treasury and particularly, Mr. Shultz, the Director of the Office of Management and Budget, for the good work that has been done in cooperating with the Congress. We, indeed, are in the same boat, and must try to find ways and means of meeting the final situation.

The law requires, and the situation demands, that Congress take a good hard look at the overall programs and policies and expenditures of the entire Government. We have been trying to do that from year to year. We haven't done an adequate job but we have been doing a better job than in former years.

The law requires it, the President has urged us to do it, we know that it must be done, and this is the beginning of an exploration of the overall picture confronting the Government.

SERIOUS FISCAL SITUATION FACING COUNTRY

Mr. Secretary and Mr. Director, I don't have to tell you that I have been trying to dramatize the seriousness of the situation which confronts this country. I have resorted to various types of strategems in an effort to awaken us all to the near disastrous situation which confronts the country fiscally.

The Budget message, of course, presents a rosy picture. This tends to be true of all administrations. While I have been trying to dramatize the enormity of the problem, it seems at times that there are those who seek to glamorize the seriousness in the fiscal area which confronts the country.

I think this is a good time for us to face up really to the situation which confronts us.

We have tried to buy ourselves out of inflation and buy ourselves out of deficits and we haven't been able to do it. Nobody has the absolute answer. Certainly I don't.

It seems to me that the matter of confidence is one of the things that is of the greatest importance. Miscalculations running into the billions last year in the budget tends to make one feel that probably the miscalculations may be as great as last year. So that, of course, is alarming.

TREND TOWARD LARGER DEFICITS

I was noticing some figures as to budget deficits in the last four administrations. The average Federal funds deficit under the Eisenhower administration was \$2.7 billion.

Under the Kennedy administration, it was \$7.4 billion.

Under the Johnson administration, it was \$11.6 billion.

And under the present administration it is about \$31 billion.

The spending splurge has been escalating rapidly. The deficit in Federal funds this year is estimated to be \$44.7 billion. This is alarming and disturbing. It is shaking the confidence of the country in itself. No wonder we don't have a rapid pickup in the economy when there is a growing lack of confidence.

A balanced budget, or something approaching a balanced budget, would, of course, give heart and courage and hope to everybody and would tend to stimulate confidence. Of course, we can't get a balanced budget this year or next, but we need to be going in the right direction,

whereas we are going in the wrong direction and we have got to reverse this trend. There is no doubt about it.

THREE KINDS OF OFFICIAL BUDGETS

Mr. Schultz, it would be a good idea if we might have as part of this educational process a statement about the three kinds of official budgets—and there are many other kinds. In the Budget message on page 45 there is a table which shows something of the Federal funds, the deficits. I don't believe there is a narrative sentence in the whole budget with its hundreds of pages that makes reference in a narrative way to the Federal funds budget. That in many ways is the most significant of all.

A lot of attention is given to the so-called full employment budget. It presents a rosy picture. It makes one feel, "Well, things must be better than we had thought." But, of course, they are not.

Then the official unified budget, the type of budget that we work from. Will you, in words of one syllable, explain to the committee and for the record just what these three budgets really are?

GENERAL STATEMENT OF THE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

Before you proceed, Mr. Director, we will place your prepared remarks in the record at this point.

(The statement follows:)

Mr. Chairman and members of the committee: I am pleased to appear before you today to discuss the President's budget for fiscal year 1973. I would like to discuss first the overall fiscal dimensions of the budget, then its composition, and finally, several aspects of the budget that are of special concern to this committee.

BUDGET TOTALS AND BUDGET POLICY

As President Nixon pointed out in his budget message, "The Budget of the United States for fiscal year 1973 has as a central purpose, a new prosperity for all Americans without the stimulus of war and without the drain of inflation. . . . The budget for fiscal 1972 reflects this Government's confidence in the American economy's ability and capacity to respond to sensible stimulation. The budget for 1973, held to full-employment balance, diminishes stimulation as the new prosperity takes hold and, by so doing, acts as a barrier against the renewal of inflationary pressure."

To make certain that the 1973 budget does not breach the full-employment principle, the President proposed earlier this week that legislation establishing a rigid ceiling on 1973 spending be enacted before any bills covering 1973 appropriations are passed. The outlays of \$246.3 billion proposed by the President in his fiscal year 1973 budget are sufficient to provide the necessary stimulus to the economy. We must remember that this stimulus will reach the economy at a time when we believe we will be making substantial progress toward full employment. Indeed, most of the economic indicators are already registering very encouraging progress. For that reason, it is essential that we assure ourselves now, by putting a statutory ceiling on spending, that the stimulation we provide through the budget will not be excessive.

We all know how easy it is for expenditure programs, controllable and uncontrollable, to rise above estimates, and we all know how difficult it is to make reductions in planned programs. It may not be necessary to utilize the authority the President is requesting in the spending ceiling limitation, but if it is, it is essential that someone have the authority to make necessary pro rata reductions upon short notice, and we would hope for short times only.

The spending ceiling the President requests is simple, straightforward, and all inclusive. He understands that the onus of responsibility for program reductions will rest upon him. He is willing to accept that burden because of his conviction that the overall strength of our economy in future years requires that we not create inflationary stimulus in 1973.

We have supplied a draft of a proposed spending ceiling bill to this committee, and we stand ready to be of any assistance that we can to the committee in its consideration of this major part of the President's program.

Now, if I may, I would like to discuss the fiscal policy trends discussed in the budget.

FISCAL POLICY TRENDS

The basic objective of the President's budget policy is to provide a strong, immediate thrust to the economy and create more jobs. We thus have a large deficit, \$38.8 billion, in fiscal 1972. The 1973 deficit is also large, \$25.5 billion, but it is one-third less than in 1972. Chart 1 shows the overall budget totals since 1971.

While our first order of business is to insure an expanding economy by providing a budget to do that, we always must be conscious of the need to maintain a discipline on outlays. We should not let the budget get out of control as we move toward full employment. The full-employment spending guideline imposes such a discipline. Chart 2 shows full-employment receipts, as measured against full-employment outlays. As you can see, they are roughly in balance in 1973.

We believe that unemployment will decrease in the months ahead, partly because the budget provides strong stimulus, and partly because the very heavy draw down in the number of defense-related jobs is largely a thing of the past. In fiscal year 1971, defense-related employment was 2.2 million below the 1968 peak of 8 million (chart 3). We anticipate a further slight reduction this spring. Basically, however, defense-related employment is leveling off. Thus this problem, which caused us so much difficulty over the past 3 years, is now behind us.

At the same time we have been working to increase employment, we have also worked to wind down inflation. Chart 4 shows that real progress has been made. There has been a definite downward trend in the rate of increase in prices as measured by the Consumer Price Index (CPI), and a corresponding decline in the GNP deflator.

Two very important fiscal developments show up clearly in the 1973 budget. The first is strong evidence of the President's determination to keep spending under control and to avoid a recurrence of the runaway inflation that resulted in large part from the full-employment deficits of the late 1960's. The second is the remarkable but unremarked cut in individual income taxes, leaving with individuals—to use as they choose—resources they earned.

Chart 5 portrays what has been happening to outlays in the past few years. From 1965 to 1968, outlays increased at an average of about 17 percent a year. From 1969 to 1972, the growth of outlays has been held to almost half that rate—an average of 9 percent. Between 1972 and 1973, outlays are expected to increase by only 4 percent. This reflects our determination to keep spending under control and prevent a regeneration of the runaway inflation of the late 1960's.

In 1973, the American people will pay \$22 billion less in individual income taxes than they would have been required to pay under the tax rates, bases, and structure prevailing at the time the President took office (chart 6). This reduction is a way of returning power to people in the most fundamental sense. It is philosophically on a par with the President's proposal for revenue sharing. It is not revenue sharing with State governments or local governments, but revenue sharing with the basic unit of government, the individual and the family.

LONG-RANGE OUTLOOK

This tax reduction is a very dramatic development and it is well to think ahead about what this means. As we project full-employment revenues and the outlays based on programs that are in place or have been proposed by the President, we see a picture that is somewhat different from the one that has usually appeared. Typically, as one looked 3 or 4 or 5 years into the future, he used to see large openings for new spending or tax reductions within the revenues that would be generated by the present tax system. That is not the case now. As we project out to 1976, there is only a tiny budget margin. The projected budget margin in 1977 is less than \$25 billion—attributable almost entirely to a scheduled increase in social security taxes in 1976. In the past, there has always been a question as to whether that rate increase would go into effect then or, if it did, whether social security benefits would be liberalized to absorb the surplus.

For all practical purposes, the Government is very much on the spot. We must face more squarely the longer range implications of decisions. We can no longer accept proposals because "they do not cost much in the first year." Whenever a new program is proposed, that program must be important enough to warrant

taking something else out of the budget or important enough to warrant a tax increase. The administration has measured its proposals against this exacting standard. I urge—as the President did—that the Congress engage in a similar self-discipline.

THE COMPOSITION OF THE BUDGET

NATIONAL DEFENSE

A prime objective in the 1973 budget, as in the President's past budgets, is to provide a strong national defense as an essential underpinning to the strategy for peace. Budget authority for the military functions of the Department of Defense, which is shown in chart 7, goes up by almost \$6½ billion from \$75.4 billion in 1972 to \$81.7 billion in 1973. Total obligational authority for strategic programs is estimated at \$8.8 billion in 1973, \$1.2 billion above 1972 (chart 8). Budget authority for defense-related research and development (chart 9) goes up from \$7.7 billion in 1972 to \$8.5 billion in 1973. Shipbuilding authority (chart 10) has been increasing steadily and is expected to reach \$3.6 billion in 1973.

Some severe management problems have been created within the Defense Department by our success in raising the level of military pay. In order to achieve the objective of an all-volunteer armed force, the Defense Department must compete in the labor market and pay market rates. This has had a dramatic effect on Defense personnel costs. In 1973, about 57 percent of the Defense Department outlays will be devoted to civilian and military personnel costs compared with only 43 percent in 1964 (chart 11). Looking at this problem from another angle, chart 12 shows what a billion dollars buys in terms of manpower: namely, 219,000 people at 1964 pay rates but only 105,000 people—or less than half the 1964 number—at 1973 rates. Thus, from the standpoint of managing our defense and security forces, the problem of productivity—of increasing output per man-hour—has to be a primary one.

RESEARCH AND DEVELOPMENT

Chart 13 shows the trends in the area of research and development. Total obligations for R. & D. will rise to \$17.8 billion in 1973, \$1.4 billion above 1972, reflecting the high priority being given to research and development. A number of new initiatives in this area are described in the budget document and will be the subject of a special message later on.

Until recently, the decline in NASA spending—nearly all of which is counted as research and development—has tended to dominate any overall picture of R. & D. spending. In 1973, there will be a further slight decline in NASA spending, with increased emphasis on useful applications. Defense R. & D., as I mentioned earlier, is now rising significantly and Federal support for civilian R. & D. continues to rise steadily. Civilian R. & D. spending, excluding space, has risen by about 65 percent since 1969. In addition, we have become more conscious of trying to have Defense R. & D. that is justifiable on the basis of national security conducted in a way that also serves civilian purposes.

HUMAN RESOURCES

In fiscal year 1968, the proportion of the dollar going to Defense was 45 percent and the proportion going to human resources was 32 percent. Those proportions are exactly reversed in fiscal year 1973 (chart 14), reflecting the dramatic shift in budget priorities since that time.

There has been a massive increase for human resources programs over the past decade (chart 15). You will remember that in 1971, for the first time in 20 years, we spent more on human resource programs—education and manpower, health, income security, and veterans benefits—than on national defense. In 1973, for the first time, outlays by the Department of Health, Education, and Welfare will exceed outlays by the Department of Defense.

Let us look at some of the components of the human resource picture:

Federal outlays for the elderly (chart 16) have been rising and continue to rise.

Outlays for food assistance (chart 17) reflect the tremendous effort that has been made to fulfill the President's commitment to the food stamps program. Total expenditures for food assistance are estimated at \$4.1 billion in 1973, compared with \$1.2 billion in 1969.

Outlays for child nutrition (chart 18) have also risen very rapidly. The chart shows a persistent gap between total expenditures and those for the needy. The President has been trying to focus this program on the needy, and reduce the

subsidies for the middle income and the rich, but, as the chart illustrates, with less than complete success.

Outlays for education and manpower training have been rising very rapidly to a total of \$11.3 billion 1973 (chart 19).

Veterans benefits and services and the components shown in chart 20 continue to rise.

QUALITY OF LIFE

As you know, the President is greatly concerned about crime. Direct Federal outlays and aid to State and local governments for the reduction of crime have been rising and will continue to rise (chart 21). While it is hard to measure output in many areas of the Federal Government, we can have some measure of output in the control of crime. Chart 22 shows what has been happening in the fight against organized crime in regard to indictments and convictions.

The President has also been very concerned about the rise in the use of drugs. As you can see in chart 23, the Federal effort in this area was minimal when he came into office. It has increased strikingly on both the enforcement side and the rehabilitation and education side. Again, trying to get some rough measure of output, chart 24 depicts arrests for drug violations and the seizures of illegal narcotics, which have shown a significant increase.

The administration has placed high priority on environmental programs. Outlays for pollution control have increased sixfold—from \$0.3 billion in 1969 to \$1.8 billion in 1973 and outlays for recreation have almost doubled—from \$0.4 billion in 1969 to \$0.7 billion in 1973 (chart 25). There has also been a dramatic turnaround in the trend of Federal outlays for water resources (chart 26).

BUDGET AUTHORITY

An area of particular concern to this committee is, of course, budget authority. A total of \$271 billion is estimated in the budget for fiscal year 1973, \$21 billion more than in 1972. Of the total, it is proposed that the Congress act this year on \$185 billion (current budget authority). The remainder consists of \$110 billion that will become available under existing laws without current action by the Congress (permanent budget authority) and \$24 billion in offsetting receipts. As shown in the table below, permanent budget authority consists mainly of trust fund programs and interest on the public debt.

BUDGET AUTHORITY

[Fiscal years, in billions]

Description	1971 actual	1972 estimate	1973 estimate
Available through current action by the Congress:			
Previously enacted.....	\$169.4	\$159.0	-----
Proposed in this budget.....		4.5	\$170.8
To be requested separately:			
For supplemental requirements under present law ¹		1.2	3.0
Upon enactment of proposed legislation.....		4.0	10.0
Allowances:			
Pay increases (excluding Department of Defense).....		.3	.8
Contingencies.....		.5	.7
Subtotal, available through current action by the Congress.....	169.4	169.4	185.3
Available without current action by the Congress (permanent authorizations):			
Trust funds (existing law).....	61.9	75.4	83.0
Interest on the public debt.....	21.0	21.4	22.7
Other.....	2.4	4.0	3.8
Deductions for offsetting receipts.....	-18.3	-20.4	-23.9
Total budget authority.....	236.4	249.8	270.9

¹ Includes pay increases for the Department of Defense.

The amounts of current budget authority contained in the budget are: \$169.4 billion in 1971 and in 1972, and \$185.3 billion in 1973. The apparent absence of an increase from 1971 to 1972 is misleading, since the 1971 total includes some special nonrecurring items: \$10 billion in borrowing authority for the new Postal Service, about \$3 billion for urban mass transportation programs, and \$3.2 billion in additional borrowing authority for the Tennessee Valley Authority. When adjusted for these nonrecurring items, the increase in current budget authority is less in 1973 than in 1972.

FEDERAL FUNDS TRANSACTIONS

In response to the continued interest of the Congress in Federal funds, we have again included information in the budget on the transactions of Federal funds. These transactions correspond closely to the old administrative budget concept.

In 1973, Federal funds outlays are estimated at \$186.8 billion, only 2.4 percent above the 1972 level. Federal funds receipts are estimated at \$150.6 billion in 1973, leaving a deficit of \$36.2 billion. The table below shows the major components of the Federal funds outlays.

FEDERAL FUNDS RECEIPTS AND OUTLAYS

[Fiscal years, in billions]

	1971 actual	1972 estimate	1973 estimate
Outlays (by agency):			
Department of Defense military functions and military assistance.....	\$75.5	\$75.8	\$76.5
Department of the Treasury:			
Interest on the debt.....	21.0	21.4	22.7
Revenue sharing.....		2.2	5.0
Other.....	.1	.6	.1
Department of Health, Education, and Welfare.....	21.3	26.1	26.4
Veterans Administration.....	9.5	10.7	11.6
Department of Agriculture.....	8.6	11.6	11.0
Allowance for civilian agency pay raise.....		.3	.8
All other.....	27.7	33.8	32.7
Total.....	163.7	182.5	186.8
Receipts.....	133.8	137.8	150.6
Deficit.....	29.9	44.7	36.2

A substantial part of Federal fund deficits—and, therefore, a substantial part of the growth in debt subject to limit—is associated with transactions between Federal funds and trust funds. These transactions consist primarily of Federal funds payments to social insurance trust funds, such as the Federal Government's matching contribution for supplementary medical insurance, and interest paid on debt securities held by trust funds. From 1961 through 1971, there was a cumulative Federal funds deficit of \$127 billion, more than \$55 billion of which was attributable to transactions with trust funds.

From 1971 through 1973, trust funds will have accumulative surplus of over \$23 billion as shown in the table below. During that same period, the Federal funds will pay a total of \$37 billion to the trust funds. Thus, in their dealings with the public, trust funds are expected to show a \$14 billion deficit for 1971 through 1973.

BUDGET SURPLUS OR DEFICIT (—) BY FUND GROUP

[Fiscal years, in billions]

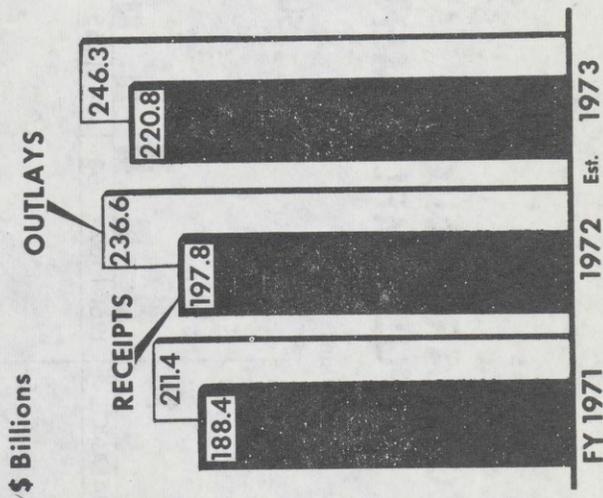
Description	1971 actual	1972 estimate	1973 estimate
Federal funds:			
Transactions with the public.....	-\$18.5	-\$31.8	-\$23.3
Transactions with trust funds.....	-11.4	-12.9	-12.8
Total.....	-29.9	-44.7	-36.2
Trust funds:			
Transactions with the public.....	-4.6	-7.0	-2.2
Transactions with Federal funds.....	11.4	12.9	12.8
Total.....	6.8	5.9	10.7
Budget total:			
Federal funds.....	-29.9	-44.7	-36.2
Trust funds.....	6.8	5.9	10.7
Total budget surplus or deficit (—).....	-23.0	-38.8	-25.5

CONCLUSION

Let me close by coming back to where we started. The budget outlays for 1972 and 1973 represent a strong commitment to expand the economy, to create more jobs, and to deal effectively with the unemployment problem. At the same time, we must have an eye on the long view and realize that we must maintain control over the rise in Federal outlays. The increase in uncommitted resources between now and 1976 will be very small in comparison with the magnitude of the tasks that lie ahead. For this reason, the severe standard that I referred to earlier is inescapable: Whenever a new program is proposed, that program must be important enough to warrant taking something else out of the budget, or important enough to warrant a tax increase. I am confident that we can depend upon this committee's support in holding to this standard.

CHART 1

BUDGET TOTALS SINCE 1971



OUTLAYS AS PERCENT OF GNP

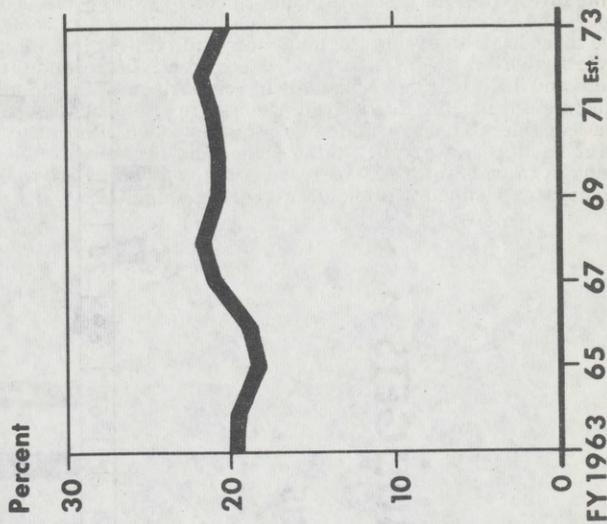


CHART 2

COMPARISON OF FULL EMPLOYMENT BUDGETS

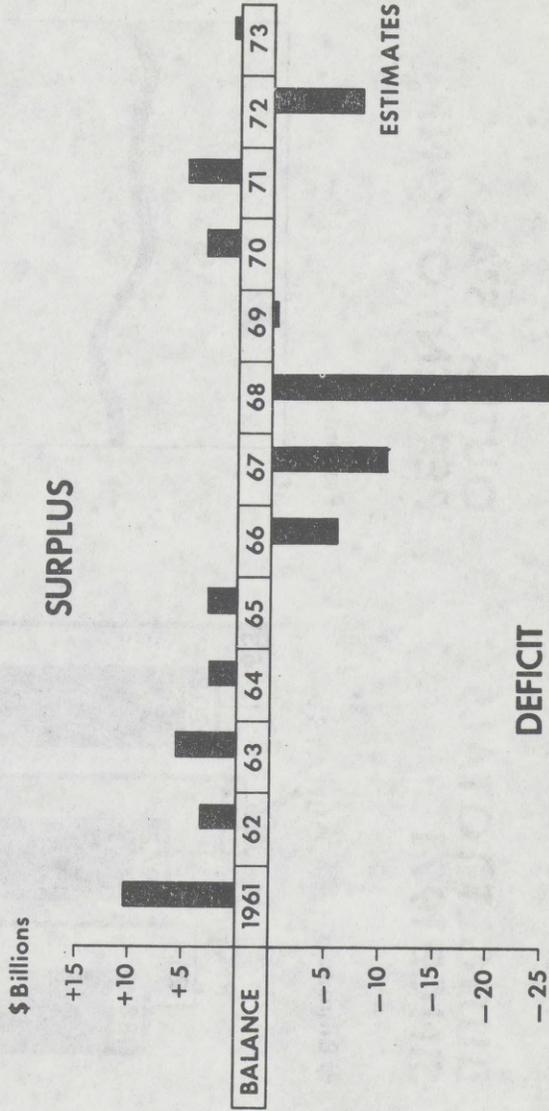
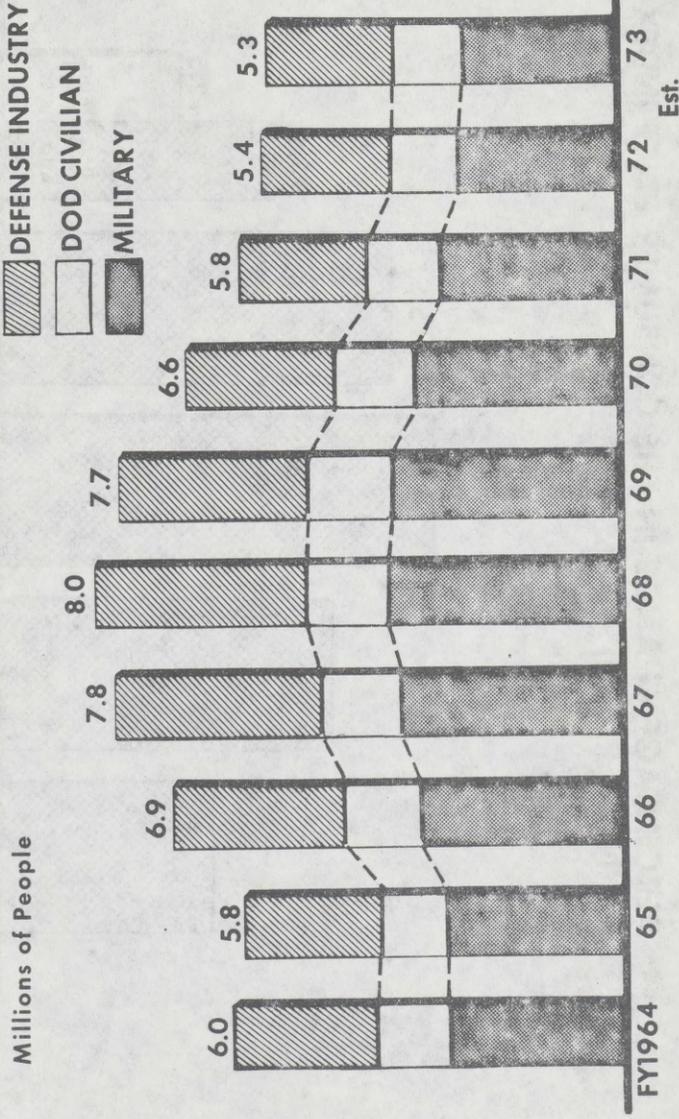
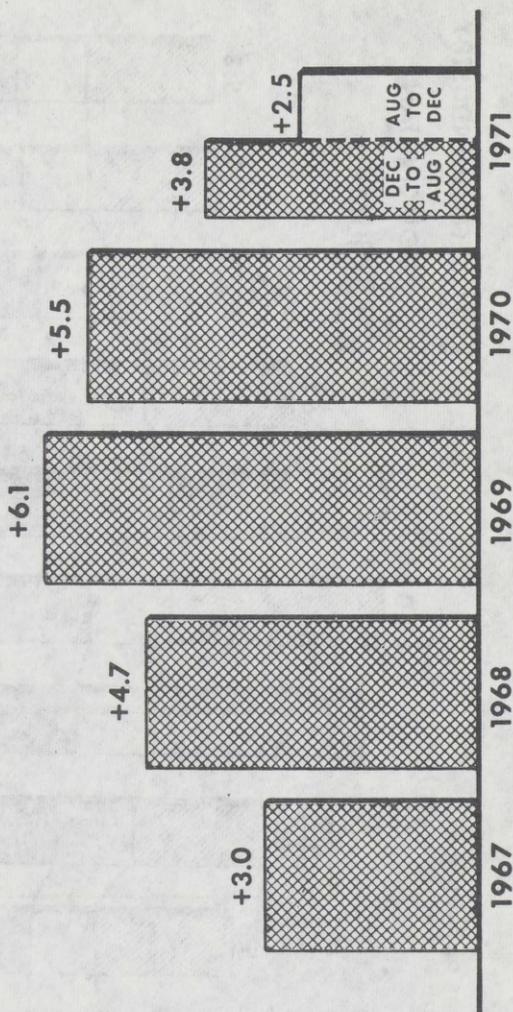


CHART 3 DEFENSE RELATED EMPLOYMENT



• DEFENSE RELATED EMPLOYMENT HAS BEEN REDUCED ONE-THIRD FROM THE 1968 LEVEL AND IS NOW LOWER THAN PRE-VIETNAM LEVELS

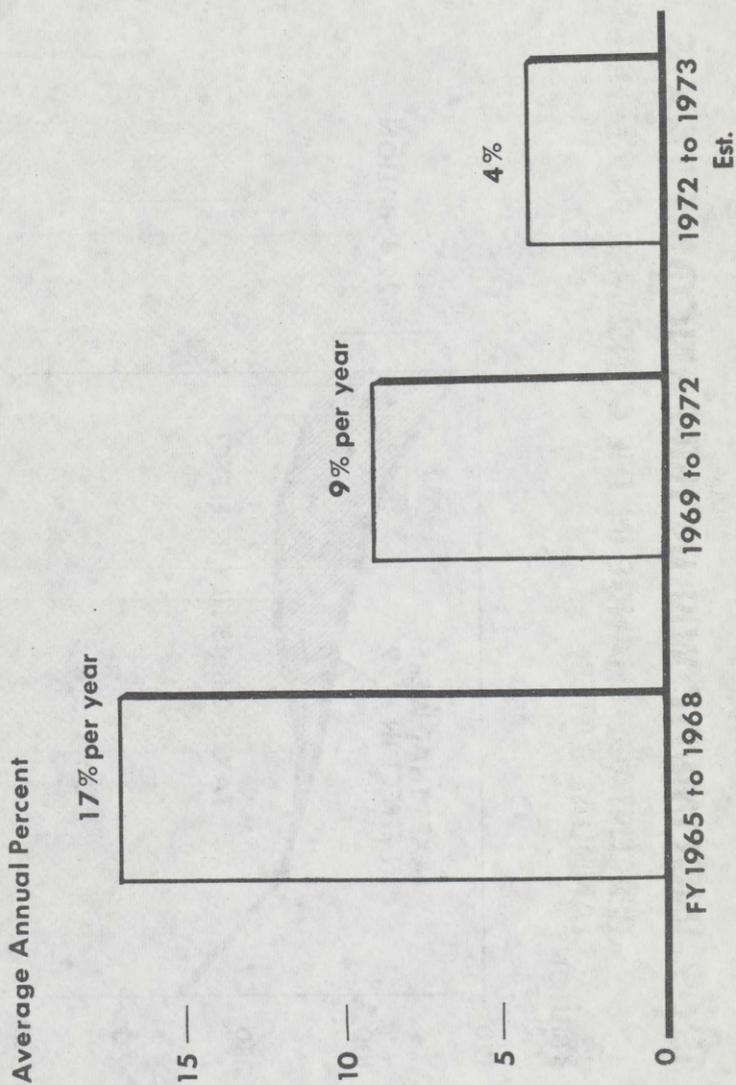
CHART 4
A SLOWDOWN IN INFLATION
PERCENTAGE CHANGE IN THE CONSUMER PRICE INDEX
(ANNUAL RATES)



NOTE: Figures for 1967 through 1970 are calculated from December to December

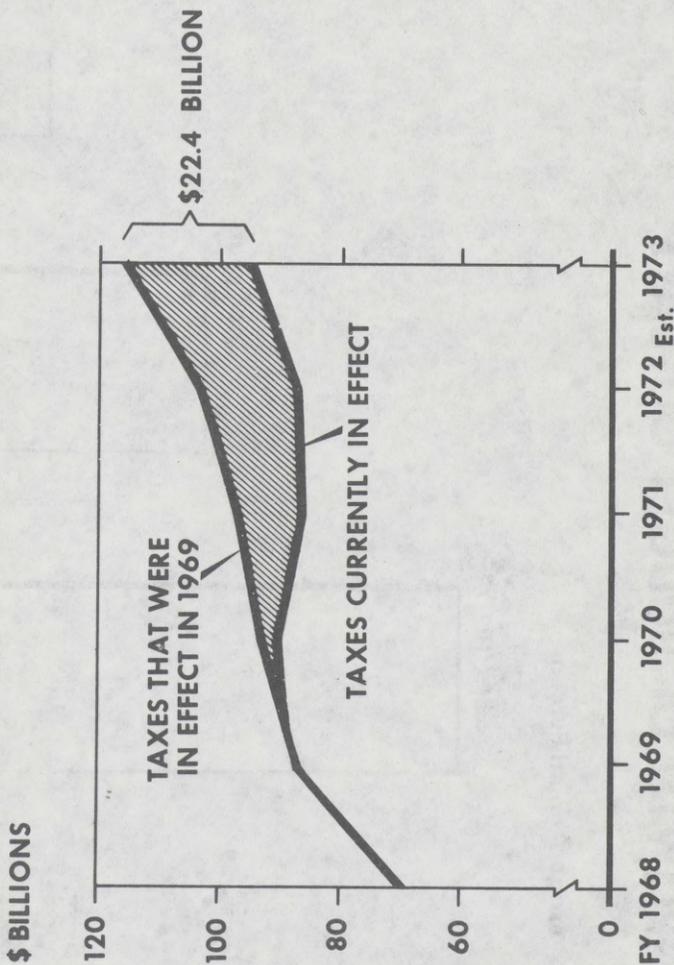
CHART 5

GROWTH OF BUDGET OUTLAYS



1969 INCOME TAXES vs 1973 INCOME TAXES

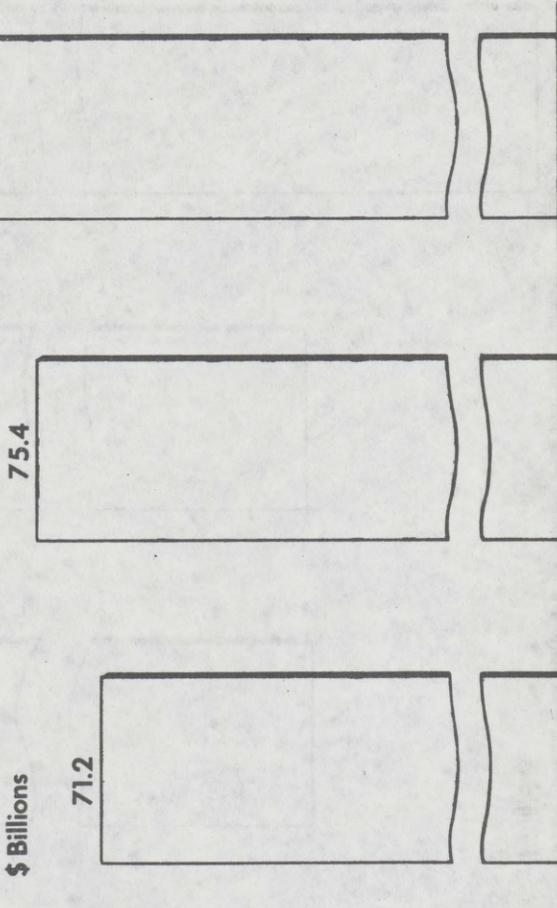
CHART 6



• INDIVIDUAL INCOME TAXES HAVE BEEN CUT BY \$22 BILLION

CHART 7

BUDGET AUTHORITY FOR DEPARTMENT OF DEFENSE



FY 1971

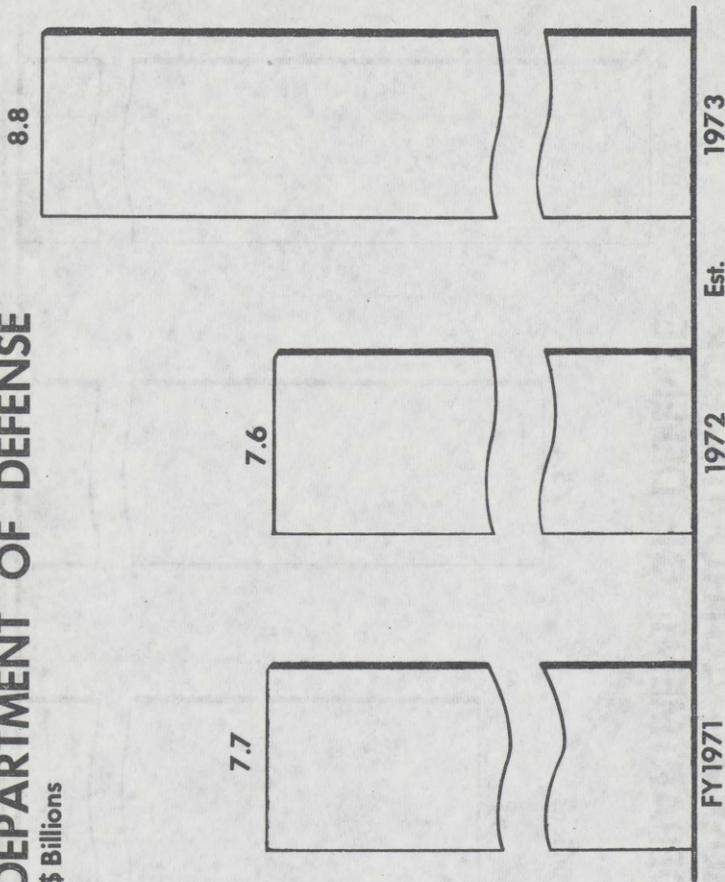
1972

Est.

1973

• INCREASED BUDGET AUTHORITY IS PLANNED TO STRENGTHEN OUR MILITARY FORCES

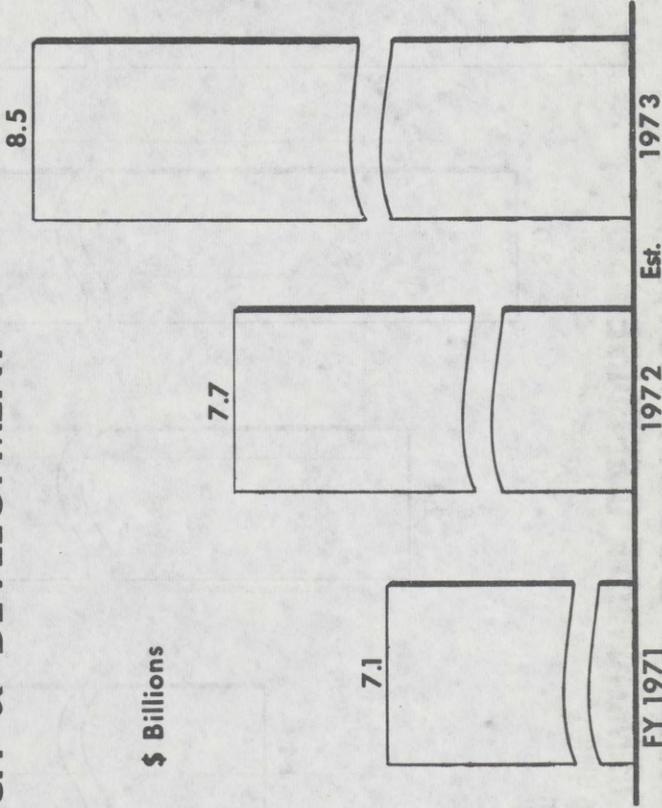
CHART 8
**STRATEGIC PROGRAMS
DEPARTMENT OF DEFENSE**
\$ Billions



• TOA FOR STRATEGIC PROGRAMS WILL BE INCREASED BY 16%
1972-73

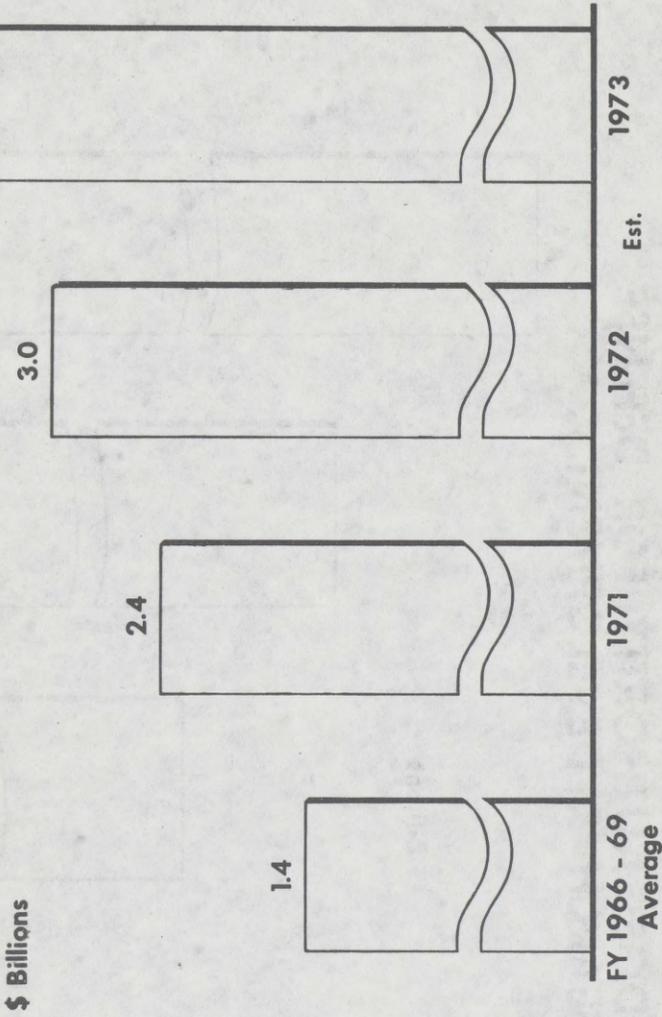
CHART 9

BUDGET AUTHORITY FOR DEFENSE RESEARCH & DEVELOPMENT



• INCREASED BUDGET AUTHORITY FOR MILITARY RESEARCH & DEVELOPMENT IS ESSENTIAL TO ASSURE OUR CONTINUED TECHNOLOGICAL SUPERIORITY

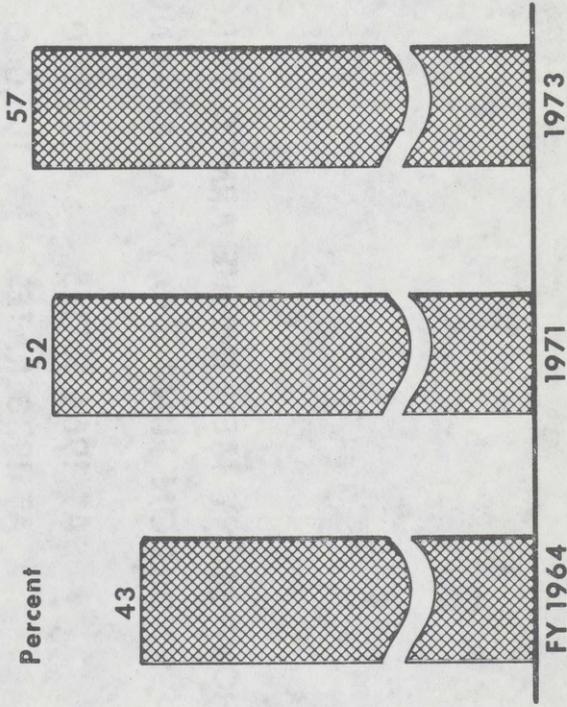
CHART 10
**SHIPBUILDING BUDGET AUTHORITY
 DEPARTMENT OF DEFENSE**



• Shipbuilding budget authority will be more than double the 1966 - 69 average

CHART 11

CIVILIAN & MILITARY PERSONNEL COSTS AS A PERCENT OF DEFENSE BUDGET



PAY REQUIRES A RAPIDLY INCREASING
SHARE OF THE DEFENSE BUDGET

CHART 12

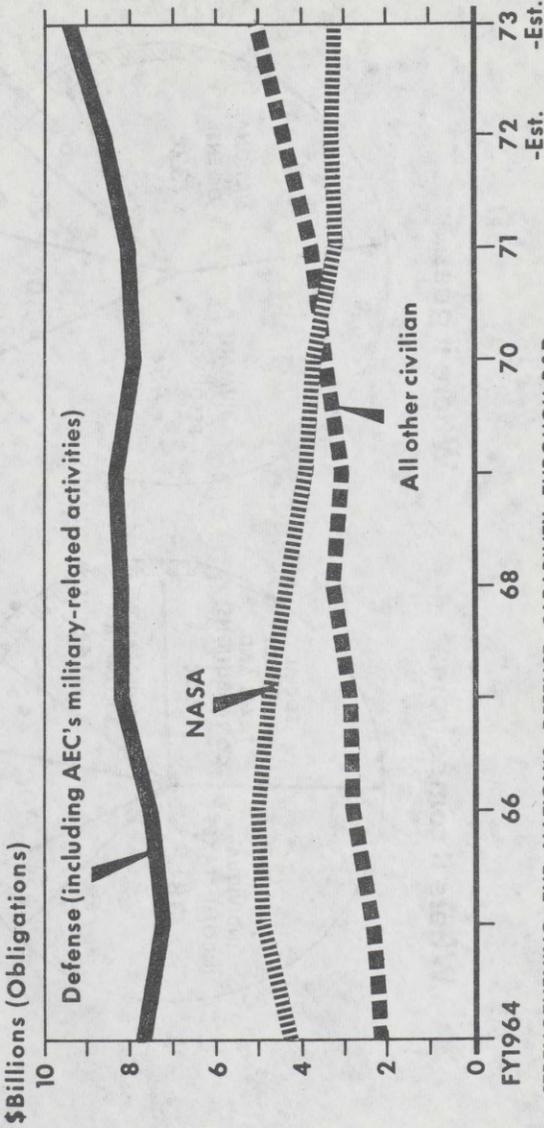
**HOW MANY MEN IN THE ARMED FORCES WILL
\$1 BILLION FUND (PAY & ALLOWANCES) ?**

AT 1964 RATES	219,000
AT 1973 RATES	105,000

INCREASE IN COST 109% 1964 - 1973

CHART 13

STRENGTHENING THE FEDERAL R & D EFFORT

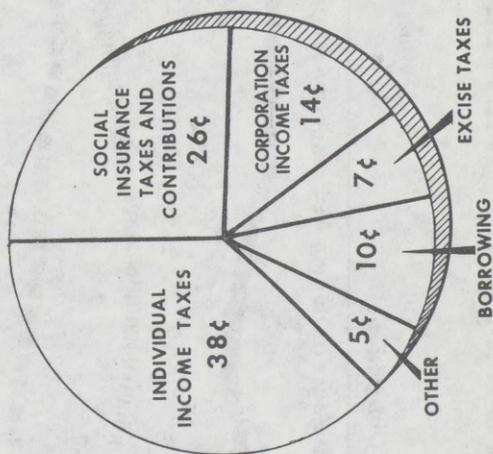


- STRENGTHENING THE NATION'S DEFENSE CAPABILITY THROUGH R&D.
- BALANCING SPACE PROGRAM INVESTMENTS TO EMPHASIZE APPLICATIONS OF TECHNOLOGY TO SUCH AREAS AS WEATHER PREDICTION, COMMUNICATIONS AND NAVIGATION AND THE SPACE SHUTTLE.
- INCREASING OTHER CIVILIAN PROGRAMS TO TURN SCIENCE AND TECHNOLOGY TO THE SERVICE OF MAN AND TO STRENGTHENING BASIC RESEARCH.

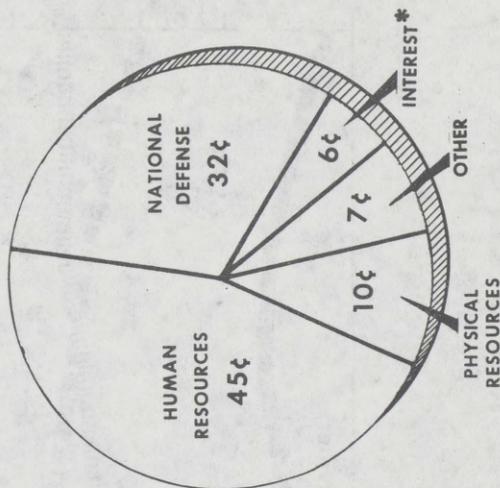
THE BUDGET DOLLAR

FY 1973 ESTIMATE

Where it comes from...



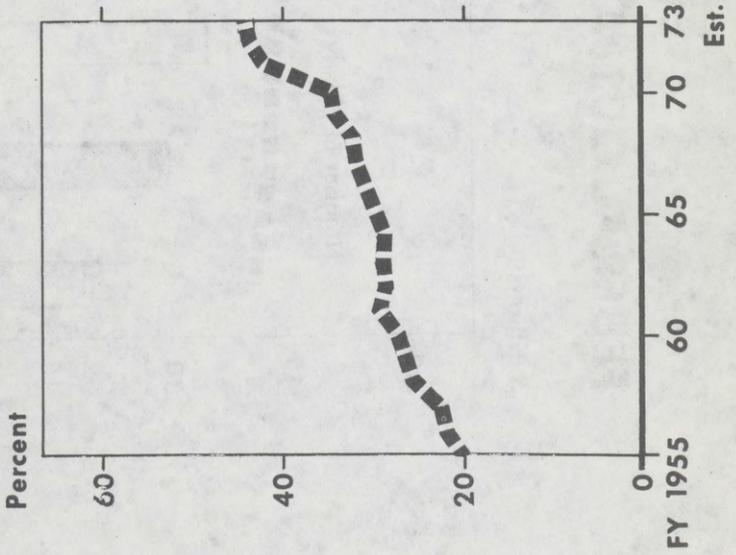
Where it goes...



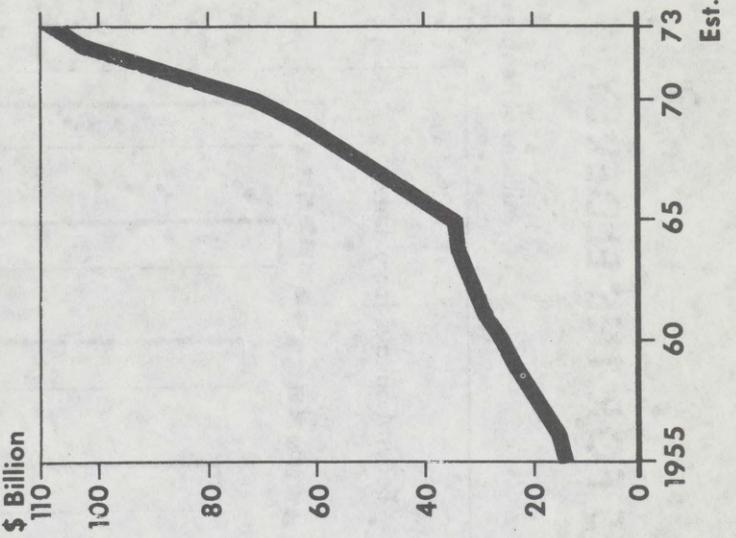
*EXCLUDES INTEREST PAID TO TRUST FUNDS

CHART 15

PERCENT OF BUDGET OUTLAYS FOR HUMAN RESOURCES



OUTLAYS FOR HUMAN RESOURCES



FEDERAL OUTLAYS FOR THE ELDERLY

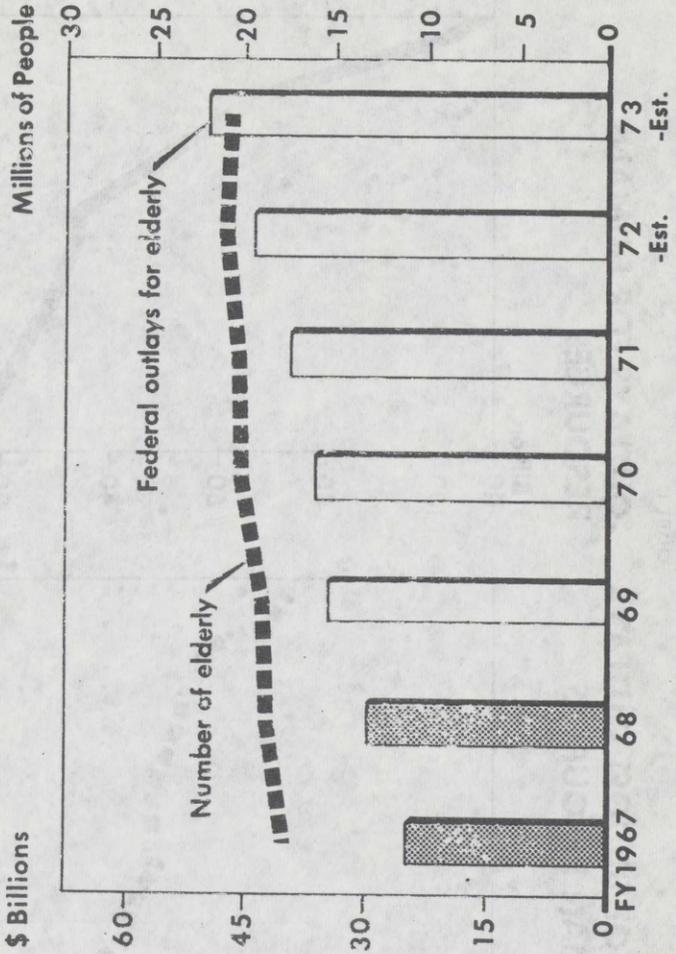
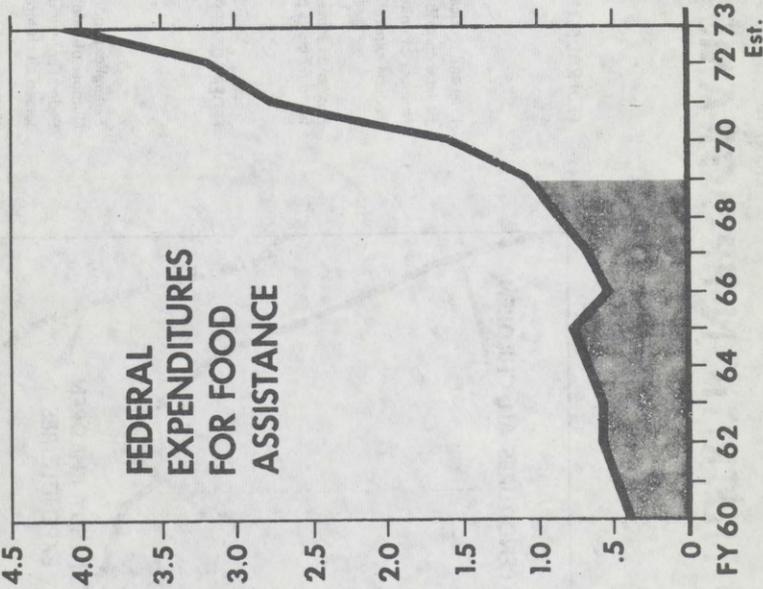


CHART 17

FOOD ASSISTANCE

\$ Billions



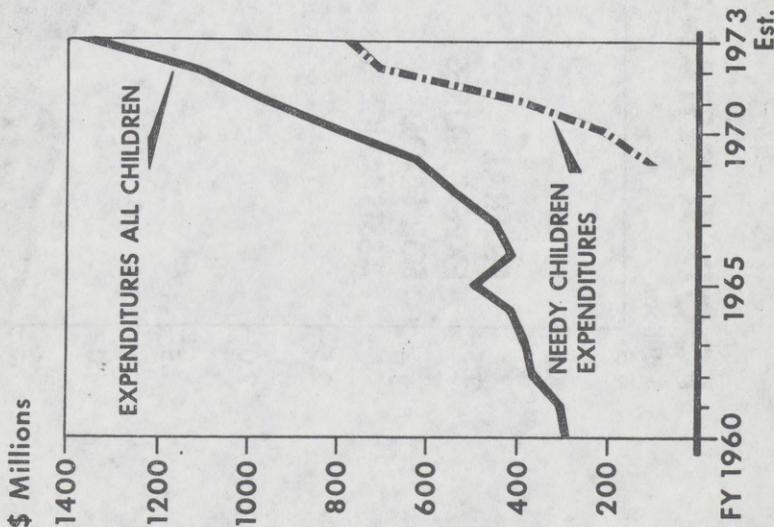
FEDERAL EXPENDITURES FOR FOOD ASSISTANCE

GROWTH FROM 1969 to 1973:

- 175% increase in children receiving free or reduced priced school lunches.
- 50% rise in areas participating in food stamp program.
- Food stamp recipients quadrupled.
- Average food stamp bonus per person more than doubled.

CHART 17

CHILD NUTRITION PROGRAMS



FEDERAL SCHOOL LUNCH SUPPORT FOR THE NEEDY

	FY 1969	FY 1973
Free and reduced price lunches served	504 million	1376 million
Federal contribution per lunch	20 cents	56 cents
Number of children reached	3.1 million	8.4 million
Federal expenditures	\$107 million	\$770 million

Free and reduced price lunches served to needy children: 53 to 67 cents per lunch contributed by Federal Government.

FEDERAL SUPPORT FOR ALL OTHER MEALS

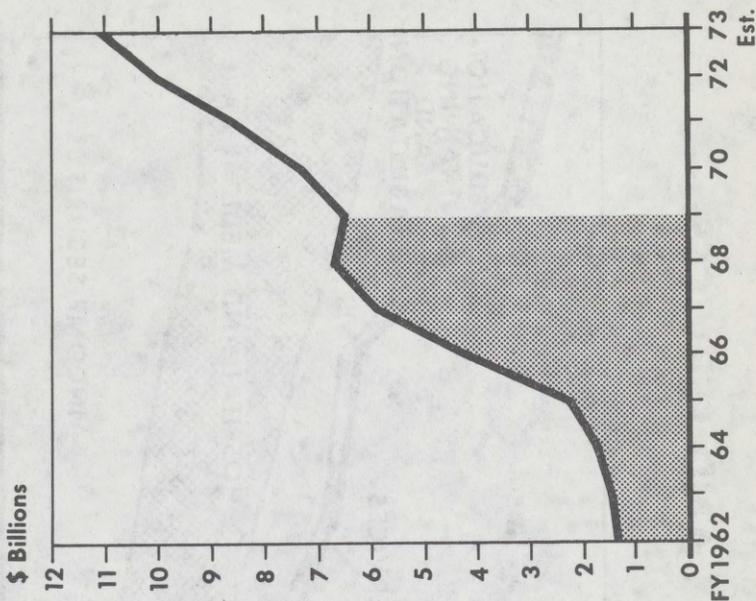
	FY 1969	FY 1973
Federal expenditures*	\$ 504 million	606 million
Number of paid lunches served	2854 million	3024 million
Federal contribution for lunches served all children	11.8 cents	13.1 cents

Meals served to all children: 13 cents per lunch contributed by Federal Government.

* Includes outlays for school breakfast and non-school programs.

CHART 19

OUTLAYS FOR EDUCATION AND MANPOWER TRAINING RISING



MAJOR EDUCATION AND MANPOWER TRAINING REFORMS

EDUCATION

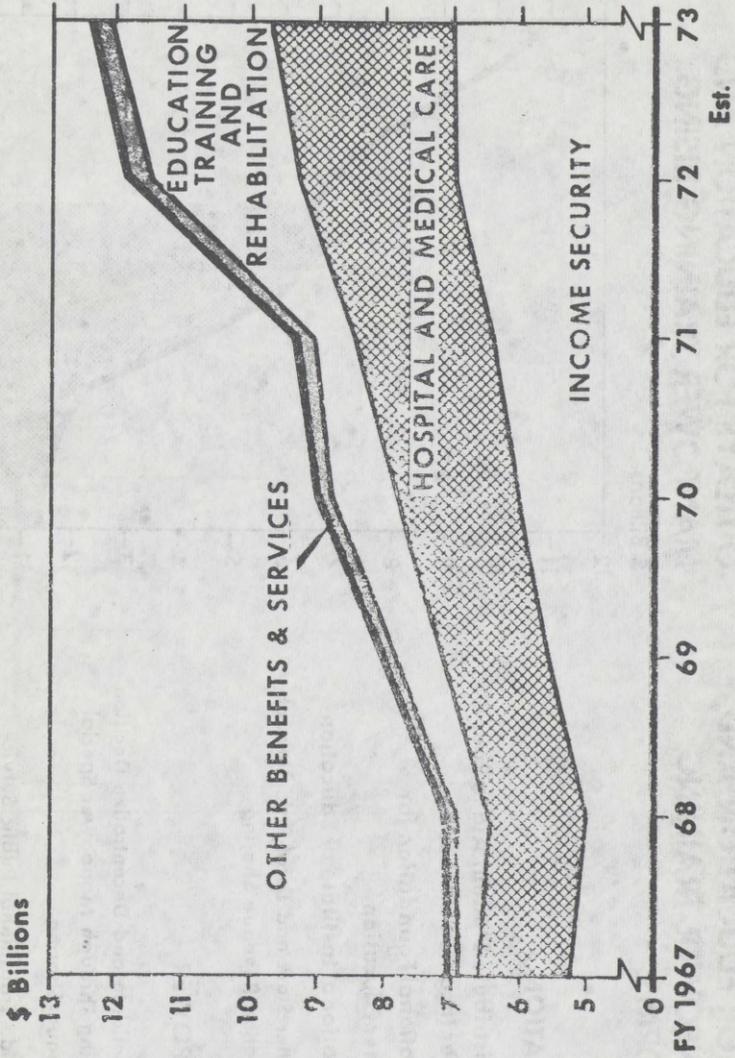
- Redistribute Student Aid to Poor & Lower Income Families
- A National Foundation for Higher Education
- A National Institute of Education
- Greater State and Local Role Through Education Revenue Sharing

MANPOWER

- Consolidate and Decentralize Decision Making Through Manpower Special Revenue Sharing
- Provide Transitional Public Service Employment
- Assist Welfare Recipients To Find Regular Jobs

VETERANS BENEFITS AND SERVICES

CHART 20



NOTE: DATA ABOVE EXCLUDES VETERANS HOUSING AND DEDUCTIONS FOR OFFSETTING RECEIPTS

CHART 21

FEDERAL OUTLAYS FOR THE REDUCTION OF CRIME

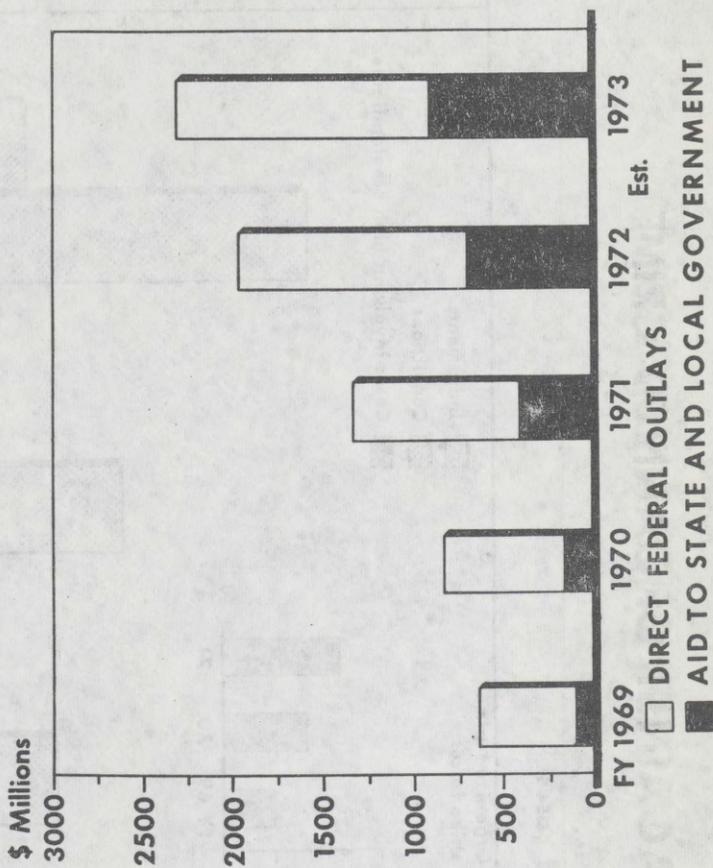


CHART 22

FIGHT AGAINST ORGANIZED CRIME

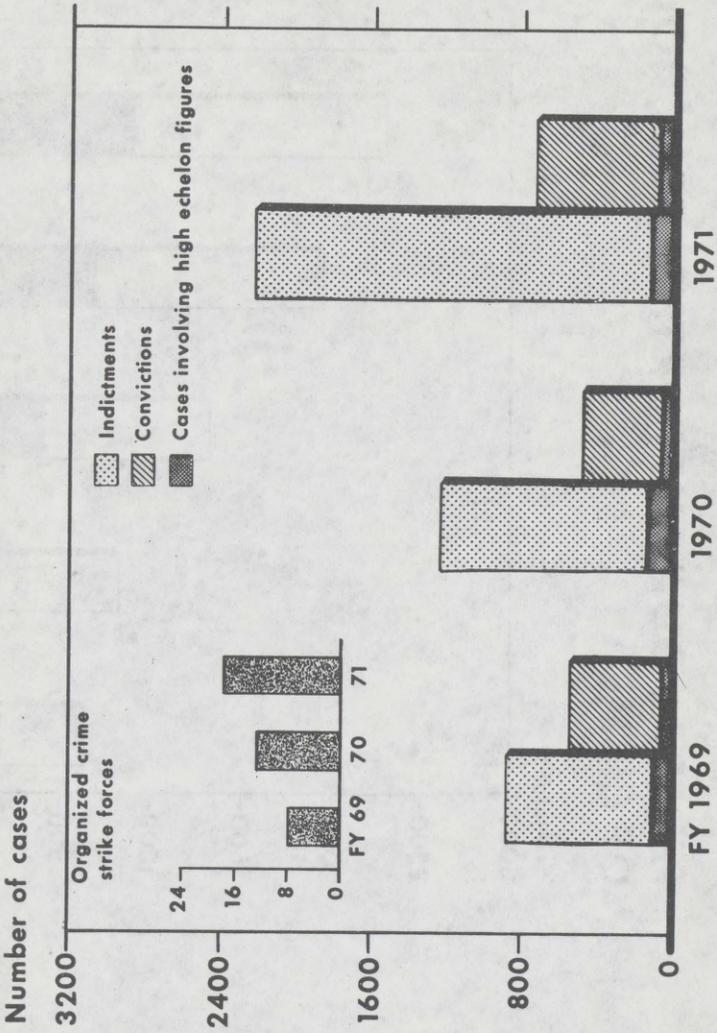


CHART 23

COMBATING THE DRUG PROBLEM

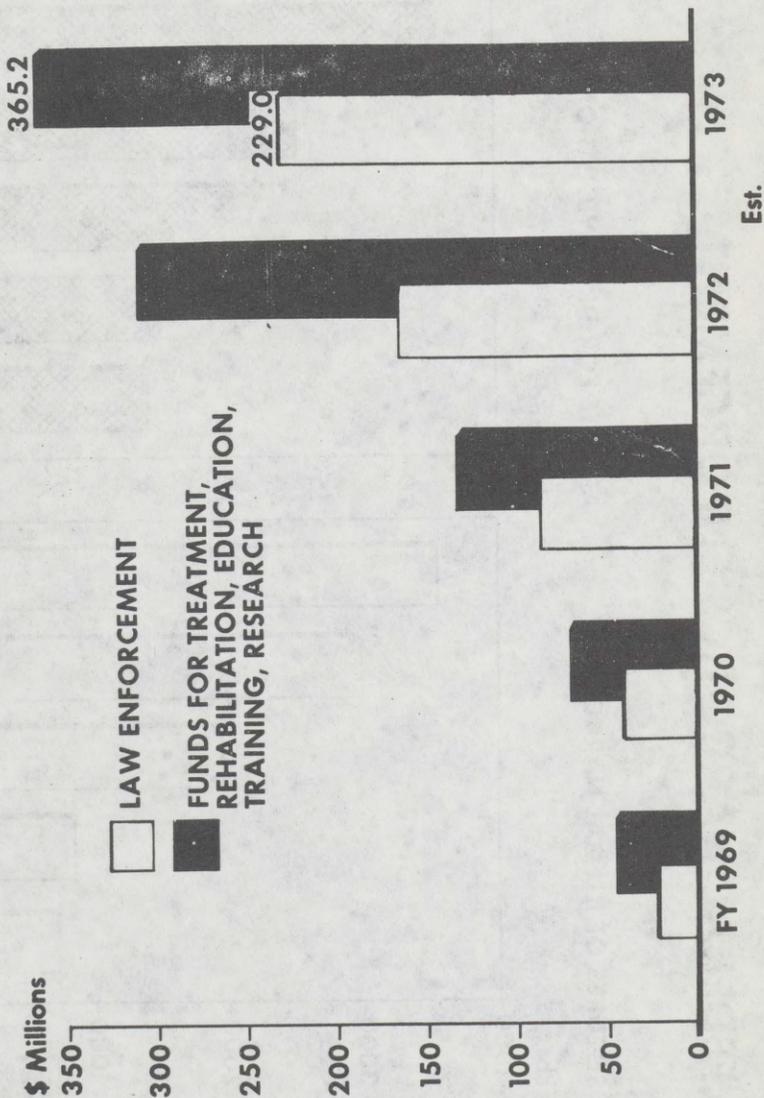
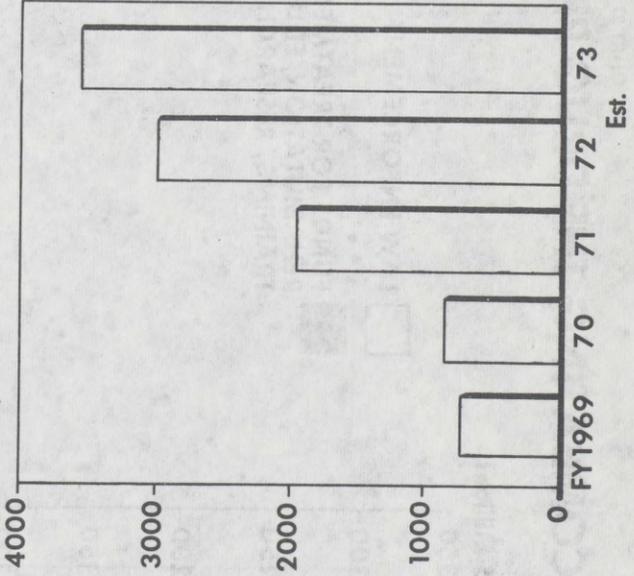


CHART 24

FEDERAL NARCOTICS ENFORCEMENT

SEIZURES OF ILLEGAL NARCOTICS

Lbs,



ARRESTS FOR DRUG VIOLATIONS

Thousands

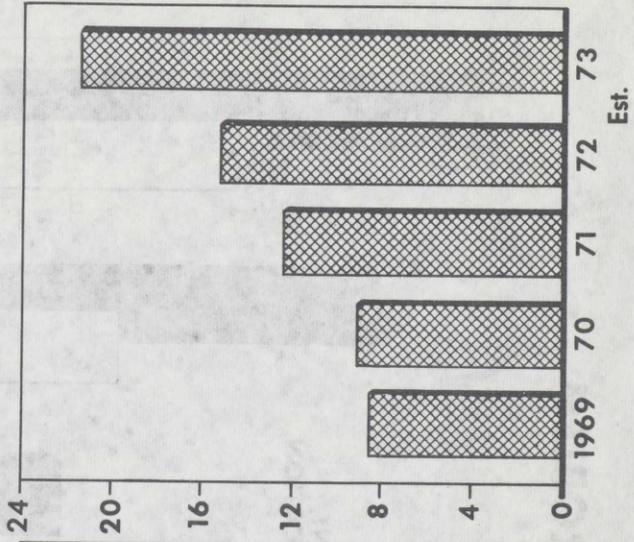


CHART 25

MAJOR ENVIRONMENTAL QUALITY PROGRAMS

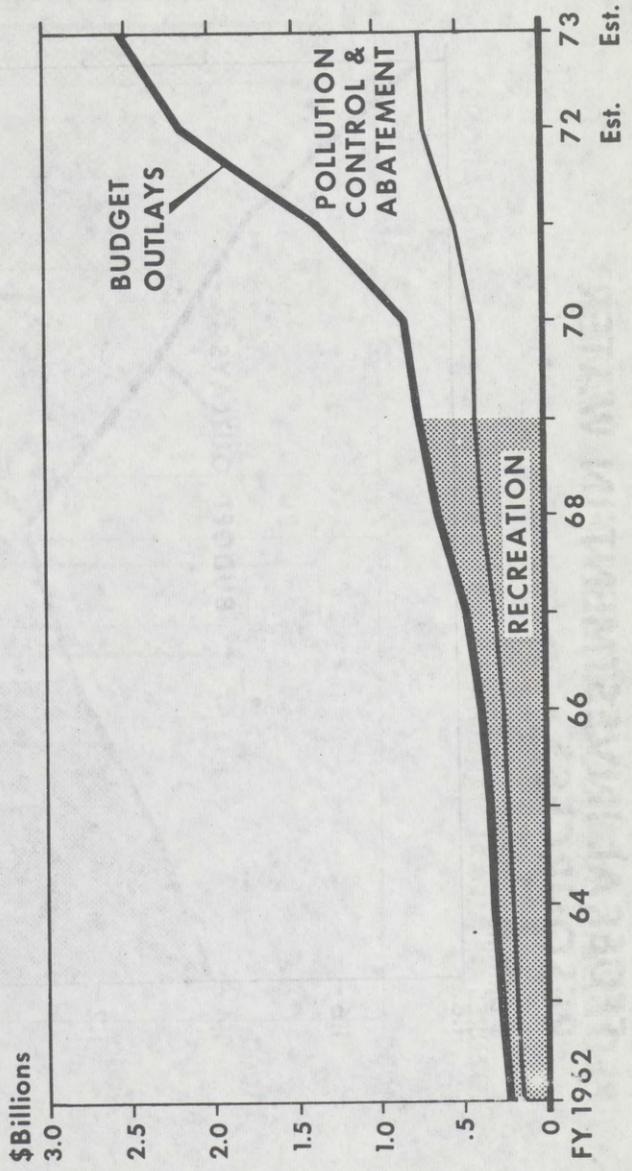
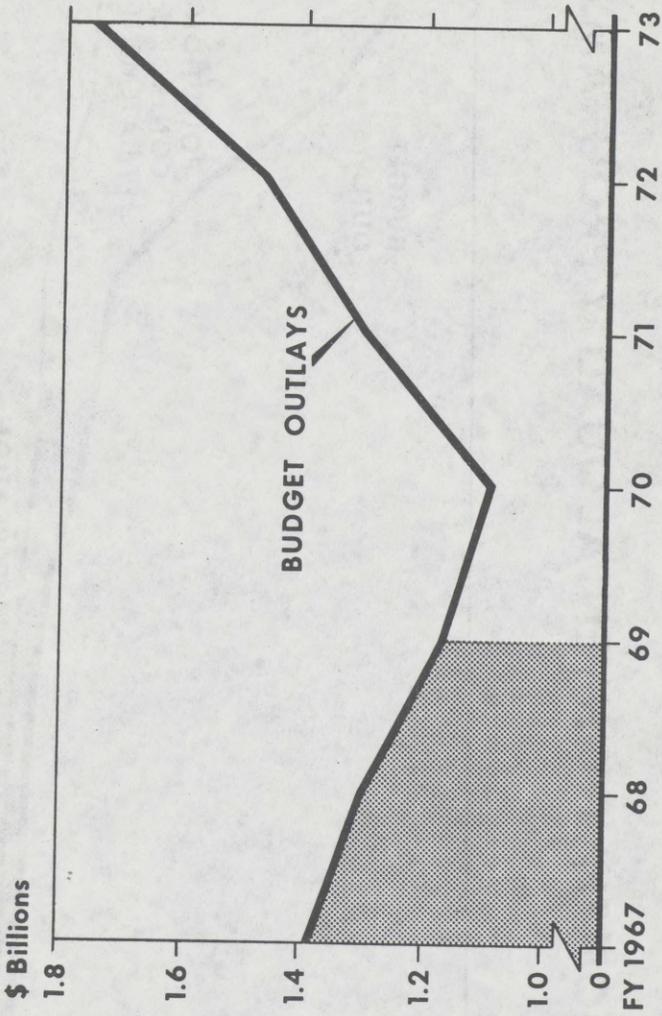


CHART 26

FEDERAL INVESTMENT IN WATER RESOURCES*



*Includes Corps of Engineers, Bureau of Reclamation, and Soil Conservation Service (construction funds only).

Mr. SHULTZ. Thank you, Mr. Chairman. I welcome your comments. I particularly appreciate your comments about the importance of the timeliness of appropriations. Timely appropriations mean that departments get their appropriations in time to be able to manage them properly and have a reasonable planning horizon. They also mean that as we work on a budget to be proposed to the Congress we have some knowledge of what the prior year's budget actually is. For example, the fact that we did not know until December 17 what the Defense appropriations were, presented a considerable problem in working on the 1973 Defense budget.

THE UNIFIED BUDGET

I would be glad to start with a discussion of the three types of budgets, as you requested. As you know, the unified budget—I believe you were a member of the Commission, Mr. Chairman, that recommended the use of the unified budget—has been used now for 5 years. It combines the cash flows of the Government from whatever sources so that we come as close as we possibly can to estimating the gross impact of Federal activity on the economy.

Looking at it from that standpoint, all taxes—social security tax, payroll tax, personal income tax, corporate income tax—represent a flow of money from the economy to the Federal Government.

By the same token, it doesn't matter what the payment is for—whether it is a social security benefit, a medical benefit, a welfare benefit, the purchase of some new material or whatever it is—it represents a flow of money from the Federal Government back to the non-Federal sector. The flow of money in and the flow of money out are put together in the form of the unified budget.

Following the recommendation of the commission that was appointed by President Johnson and following the practice of President Johnson, we have continued to use the unified budget as the main way of stating overall budget totals.

Mr. MAHON. Under the unified budget, you take into consideration the trust funds, which are largely to be found in the social security and the highway trust funds.

Mr. SHULTZ. That is correct.

Mr. MAHON. We have been collecting more revenues in the trust funds, which are dedicated to the highway program and to social security and otherwise, than we have been spending. We have been building up a reserve in those funds. But these funds are dedicated to social security and highway trust fund purposes and cannot be used for other purposes. The surpluses may, however, be borrowed and used for other purposes, but they must be repaid—and with interest. This is something that I think is not well understood by the public. It is true that the unified budget does give the full impact of income and outflow from every source in the Government, and for that reason it is no doubt very useful for analytical purposes. Of course, it is not nearly so shocking and disturbing and in many ways not nearly so revealing as the Federal funds budget. Would you like to discuss the unified budget further?

Mr. SHULTZ. I think that basically you have described the situation and what the basic rationale of your commission was in recommending the unified budget.

THE FEDERAL FUNDS BUDGET

However, the Federal funds budget is useful for many other purposes, including the calculation of what is happening to the national debt. We have a table, Mr. Chairman—Budget Surplus or Deficit (-) by Fund Group—that shows what is happening with Federal funds and with trust funds and how you derive the total by looking at the interplay of these two types of funds.

On the basis of gross transactions with the public, in fiscal 1971 the Federal funds budget was in deficit by \$18.5 billion; in 1972, \$31.8 billion; in 1973, \$23.3 billion.

FEDERAL FUNDS TRANSACTIONS WITH TRUST FUNDS

The Federal funds also have transactions with the trust funds for various reasons. First, the accumulation of assets of the trust funds are held, as you know, in the form of Federal obligations. So part of the flow of interest payments on the debt are made from Federal funds to trust funds. That is one big payment.

Second, the Federal Government has obligations to its employees, including the employees of the Congress, for their retirement benefits. So money is paid from Federal funds into the trust funds to take care of that obligation.

Third, there have been obligations incurred by the Federal Government as a result of law to provide medical benefits under certain circumstances that are not covered by the regular social security trust funds. So there is a payment from the Federal funds to the trust fund to cover that obligation.

Finally there is the matter of trying to pay up for periods of military service for persons under social security and railroad retirement. The Federal Government has undertaken to make such payments because there were no tax collections for such service, but the employees get credit for those periods of time when their retirement annuities are calculated.

These are some of the large transactions between the Federal funds and the trust funds.

Mr. FLOOD. Mr. Chairman, if I may interrupt, is there a record of that table in this budget, Mr. Shultz?

Mr. SHULTZ. It's on page 46 of the budget document, Mr. Flood.

Mr. FLOOD. Thank you.

Mr. SHULTZ. As you can see, Mr. Chairman, if you look on page 46, the Federal funds paid \$11.4 billion to the trust funds in 1971, \$12.9 billion in 1972, \$12.8 billion in 1973. Summing these payments—legitimate, proper payments, called for by law from Federal funds to trust funds—with transactions with the public, then you see the results in the deficit on the basis of the Federal funds concept.

If you want to figure out what is going on in the trust funds in terms of the net results their transactions with the public, you can see by comparing the actual taxes taken into the trust funds with their outlays, that the trust funds are taking in less money than they pay out by about \$4.6 billion in 1971, \$7 billion in 1972 and \$2.2 billion in 1973.

On the other hand, the trust funds are built up by payments from Federal funds by these same amounts, so that you have the appear-

ance—and the actuality—of a surplus in the trust funds. That surplus actually is accounted for entirely by the transfer of Federal funds to trust funds for legitimate reasons.

Then, if you subtract the Federal funds deficit from the surplus of the trust funds, you get the same number that we have been talking about, the deficit on a unified budget basis. That is an effort to trace through the interaction between the trust funds and the Federal funds and to show the relationships between those two concepts.

TREND TOWARD LARGER FEDERAL FUNDS DEFICITS

Mr. MAHON. In brief, for the current fiscal year of 1972, the deficit in Federal funds is estimated in the budget to be \$44.7 billion. Is that correct?

Mr. SHULTZ. Yes, sir.

Mr. MAHON. I believe that is probably the highest since World War II.

Mr. SHULTZ. I am sure it is.

Mr. MAHON. I believe it is correct to say that under the Budget Message the deficit in Federal funds for the 4 fiscal years of this administration is estimated to be \$123 billion plus, which is higher than all the Federal funds deficits since the end of World War II. Is that correct?

Mr. SHULTZ. I am sure that is about correct, Mr. Chairman. While I don't want to appear here as being happy about these deficits, I would point out that every number that we will be talking about when we discuss the Federal budget—whether we are talking about outlays, taxes received, deficits or anything related to the economy—is going to be bigger than numbers in the past. We are now talking about an economy that has a gross national product in excess of a trillion dollars. The gross national product is now much greater than it was in the time that you were citing, the World War II period. The orders of magnitude, in terms of the size of the economy and the budget, have changed very drastically.

CONFIDENCE IN BUDGET AND ECONOMY NEEDED

Mr. MAHON. It seems to me that it's evident from what we read in the press and what we hear from business people and just the ordinary citizen in the street that there is a growing alarm that something has to be done to stop this trend toward larger deficits. It is just intolerable that the trend should be skyrocketing as it has been in recent years. It didn't begin with this administration. It began quite some time before this administration, but the acceleration toward larger and larger deficits has continued with full force.

While people may have money to spend, they are uncertain about the future and they are not necessarily putting it into business or into the economy. It's probably more important to generate confidence than it is to do anything else in this country.

This budget doesn't tend to generate confidence. I haven't seen any evidence that anybody has become confident as a result of the figures, proposals, and estimates in this budget.

Mr. SHULTZ. Mr. Chairman, let me say, first of all, that while the deficit is bitter medicine, as the President says in his budget message,

we have accepted it. The Government must do everything possible to help the economy expand, to help employment expand, to help bring down the rate of unemployment, and to see to it that there is a job for everybody who wants to work. The 1972 deficit is an investment in that objective.

At the same time, the President shares your concern and your view. For that reason, in constructing his budget, the President has made every effort to maintain control over the increases in spending.

We have a chart—growth of budget outlays—which shows that the average increase in outlays for the 3 years preceding President Nixon's incumbency was on the order of 17 percent, in the next 3 years the rate of increase in outlays was on the order of 9 percent, and this year the increase is on the order of 4 percent.

Those numbers can be quarreled with and worked with in one way or another. But the rough orders of magnitude, I believe, are correct. We have been addressing ourselves to the problem, which I think you properly identified, of trying to get control.

Furthermore, the President has proposed—and our hope is that this committee will want to take action, and take action promptly—a rigid, absolute, no escape-hatch type of spending ceiling. A spending ceiling in order to be effective, must bind the Congress as much as it binds the executive branch. It must say to everyone, "This is it for fiscal 1973 and there isn't going to be any way to break through that outlay number."

The President has proposed such a ceiling. We have draft language before your committee. There is a supplemental included in the budget before you to which this could be attached. We urge, in the interest of exactly the objective you specified, Mr. Chairman, that the action recommended by the President to the Congress be taken.

BUDGET DEFICITS—"BITTER MEDICINE" OR SOOTHING SIRUP?

Mr. MAHON. Mr. Director, we will discuss that in some detail as this hearing progresses.

I had occasion on the floor of the House to take note of page 8 of the budget message, which speaks of the deficit as being bitter medicine. The fact that the deficit exists and is projected is a bitter fact. But it seems to me that a deficit is not bitter medicine. Spending more than you have is generally taking the easy way out.

It seems to me that, instead of a deficit being bitter medicine, it is rather something of a soothing sirup. In other words, rather than tighten our belt and impose self-restraint, we say we just can't do that now. Maybe later. So we borrow to pay for what we want to acquire.

We have for 36 of the last 42 years had deficits. It is because we have not been taking bitter medicine that we have gotten ourselves into this plight, as I see it.

What do you mean by referring to budget deficits as bitter medicine? It doesn't make sense to me in this context.

Mr. SHULTZ. I don't have to go into detail, I am sure, about the word "bitter." It seems to me that what is troubling you, Mr. Chairman, is how this "medicine" can be helpful.

I would put it this way: What would we have to do to balance the budget on a Federal funds basis? We would have to find some way

to raise taxes by \$44 billion. Would it make sense to raise taxes and draw out that much money from the economy now—from the pockets of corporations and individuals—at a time when we are seeking an expansion of the economy? I think the answer, all commonsense would tell you, is “No, that would not be a very good thing to do.”

By the same token, we could try to cut \$44 billion out of the outlays. We have worked this budget over very hard, I can tell you. We don't think there is that much money to be taken out of it. If we did take that much out, the flows of funds that are supporting expansion would be reduced and we would seem to be working against ourselves.

We do find it worrisome that the 1972 budget is out of balance when you compare the outlays that would occur at full employment with the receipts that would be generated from the tax system at full employment.

Trying to be responsive to the need for discipline that you spoke of, we have drawn back the 1973 budget so that it is in balance on a full-employment basis. In other words, we have tried to position ourselves so that, as the economy gets to full employment and sustains that for a full year, outlays would not be out of control and the budget would come into balance. In that sense there is discipline here.

We think that it is medicine in the sense that this budget is expansive. It should help the economy to expand. If the economy does expand satisfactorily, then—in the President's judgment—the American people in general will all be better off.

Mr. MAHON. Mr. Director, we all recognize that you couldn't present a balanced budget this year. We can't raise enough revenue or cut outlays enough to balance the budget for the forthcoming fiscal year. The thing that hurts is that we are getting much more out of balance each year—dramatically more.

EROSION OF ORIGINAL BUDGET DEFICIT ESTIMATE FOR 1972

Your reestimate of the Federal funds budget deficit for the current fiscal year 1972, as compared to a year ago when you first made the projection, is nearly \$22 billion wide of the original mark. The original projection for 1972 was a Federal funds deficit of \$23.1 billion. It is now reestimated at \$44.7 billion.

Last year, fiscal 1971, the final Federal funds deficit was also wide of the original budget projection.

Now, you are estimating for fiscal 1973 that the deficit in unified budget funds will be \$25.5 billion and \$36.2 billion in Federal funds.

But if the projection as to fiscal 1973 is no better than the one for fiscal 1972, then we may very well have a Federal funds deficit in 1973 in the sum of, say, \$50 billion or \$60 billion. There is slight comfort in this.

If you had been able to project with some degree of accuracy for fiscal 1972, we might take with smaller grains of salt the estimate for fiscal 1973. How can you give us confidence that maybe these figures are within the ball park?

Mr. SHULTZ. I think that one has to look at the outlay side and the revenue side separately in assessing how accurate or inaccurate we appear to have been in our projections.

On the outlay side, the amount now projected is about \$7 billion more than was projected at this time last year. In percentage terms, in relation to the large flow of funds, that is not a huge amount.

From the things that have gone through the Congress, I think you know many of the reasons for this increase and the difficulties and struggles that the President has faced in trying to keep outlays near the original projections.

On the revenue side, there was a deliberate effort to stimulate the economy by a reduction in taxes which the President proposed last August 15 and which the Congress passed before the end of last year. That accounts for about \$5 billion of the change. Beyond that, there is a \$12-billion decrease in revenues because the economy, while it has expanded, did not expand as fast as we had hoped and thought that it would. The shortfall in revenues represents a misjudgment of how rapidly the economy would expand.

In judging our estimated deficit, I hope that you would agree that we have not thrown out a number and said, "Well, there is our number, \$25 billion", and asked you to take it on faith. That number is supported by a mass of detail on what we think outlays and revenues are going to be.

If you want to question our estimate of outlays, you can see how much we think existing programs will go up. The budget also shows what new proposals the President has made. You can make your own judgment as to whether they are going to be enacted or not. We have presented the President's judgment in the budget.

Similarly, the economic assumptions that underlie the revenue estimates are all laid out in detail. If you think the economy is going to be stronger than we have suggested or weaker than we have suggested, you can make your own estimates—as you and your committee do.

We have tried to lay out in complete candor all of the underlying and supporting assumptions and projections so everyone can see exactly how we arrived at our estimate of the deficit, and it is subject to question. Certainly, the difference between the deficit we projected last year at this time and what we now project is the sort of thing that keeps one humble.

NEED FOR REVENUES

Mr. MAHON. Mr. Director, it would seem to me that the most unsophisticated student of the present fiscal situation would quickly recognize that we can't go on increasing spending and reducing taxes. That is a medicine that has been tried and found wanting. It's estimated that spending in the 1973 budget will exceed that in 1972 by \$9.6 billion. Further, the budget proposes an additional \$21.1 billion in new obligational authority, which is, after all, only the leading edge of expenditure.

It seems to me that we must all recognize here under the glaring lights in this committee room that ways will have to be found, if not this year certainly next year, to find additional revenues.

In the penultimate paragraph of the budget message, the message seems to indicate that it is hoped that the inevitable day when taxes will have to be increased can be postponed as far as possible.

Don't you think we are going to have to raise additional revenues instead of continuing to cut taxes? We cut taxes last fall by about

\$15 billion over a 3-year period. Don't you think we have got to find a way, and soon—this year or next year—to increase the revenues of this Government? Isn't that the fact?

Mr. SHULTZ. Mr. Chairman, we have tried to project the budget outlook not only for this year but also for next year and for 5 years out. We face a very tight fiscal situation. There is no room for maneuver, as far as we can see. Even in the out years, there is no fiscal dividend, as it has been called, that would allow us to spend more money for certain programs without reducing somewhere else.

I agree with you that the fiscal situation now is severely constrained, whether you are talking about it on a full-employment basis or any other basis.

There is no room for maneuver. I would hope we would not first say, "Let's raise taxes." I would hope we would first say, "Let's keep outlays under control. Let's do our best to contain Government spending to what the tax system we now have will yield us."

It is in that spirit that the President suggests an outlay ceiling. We should all roll up our sleeves and be determined to keep these outlays under control. If something new and exciting comes along that we want to do and must do, before we say, "Let's raise taxes to do it," let's see if we can't find some pieces in the budget that we can take out.

I would agree with you, if we must do big, expensive new things and we can't take anything out, then we better raise taxes, because there is no other way to avoid inflation. But first let's do what we can on the outlay side.

Mr. MAHON. If we read the history of what has happened in recent years we know that spending goes up every year. There are reasons why. The population increases, and expectation and standards rise. Of course, we have a war on. It is difficult to hold spending down. So the unsophisticated student of fiscal affairs knows that there isn't much likelihood that a sharp or dramatic reduction in Federal spending will come about.

The pressures from the cities, from the States, from within Congress, and from within the administration are to spend more and more. The budget message calls for a sharp increase in Defense spending. It calls for an increase in spending for health, such as in the anticancer fight. That is very important. It calls for a \$5 billion space shuttle program.

In other words, the budget message doesn't indicate that we are likely to see a reduction in expenditures. Since we are not going to see spending reductions, why is it not very likely that there has to be increased revenue?

I applaud your statement that we should do the best we can to hold the line in expenditures. But we are not holding the line as well as we would like to hold it. I am not advocating anything here. I am just describing what appears to be inevitable forces at work in the budget. It seems to me that an increase in revenues will probably have to take place this year or next year. I assume you are not ready to cross that bridge and I don't complain about that.

EFFECT OF CONGRESSIONAL ACTION ON THE BUDGET IN RECENT YEARS

With respect to the Congress vis-a-vis the administration, we reshuffled and we reoriented and we changed priorities and we reduced here and we added there, but, after all, what we do is only related

to a few billion dollars. The situation confronting this country is not because of the increases or decreases which the Congress has imposed on the recommendations of former Presidents and on the recommendations of this President. Would you agree with that?

Mr. SHULTZ. Yes, sir. I would point out, however, that only 5-year projection which, as I have said, shows a constrained situation, does not suggest that Government spending has to decline. We estimate on a full-employment basis that revenues from the tax system we have, comparing 5 years from now with now, will rise by approximately \$100 billion. This will permit more spending without raising tax rates. I believe we should contain outlays within the framework we have now, plus the rise in revenues that will take place.

You might think that \$246 billion in Federal spending should be able to satisfy every human need anyone could think of but, of course, it doesn't work out that way. This is one of the frustrations of working on the budget. But \$246 billion is a very large sum. With that amount, plus another \$100 billion 5 years from now, we should be able to manage our affairs.

That is why I say let's not get ourselves in the position where we just accept the fact that we must have an increase in taxes. Maybe we will. But let's first work on the outlays.

DAMPENING EFFECT OF DEFICITS ON ECONOMY

Mr. MAHON. Well, now, the Federal funds deficit in 1970 was \$13.1 billion. Last year it was just short of \$30 billion. It is going to be \$44.7 billion in 1972 according to the present estimate. So we are going on up. Now, what concerns many people, in my judgment, is that this kind of budget picture constitutes a dampening effect on the economy. It tends to rob us of confidence. We seem to be defeating our objective to get the country going again with these accelerating deficits. This seems to me to be a very important consideration. Would you comment on that?

Mr. SHULTZ. I think, Mr. Chairman, the aspect of the deficit that would concern me in the long run is the relationship of the deficit to the problem of inflation. On the whole, I think that a deficit tends to be stimulative as far as employment and real gross national product are concerned. Where one needs to worry is the inflation side. The economy should not become so stimulated by what Government does, added to what the private sector is doing, that we will return to the wildly escalating inflationary problem that resulted from the large full-employment deficits we had in 1966, 1967, and 1968. When inflation gets to the point it reached in 1968 and 1969, the economy has to be given a wrench, as it was. We didn't like to have to do that, but I think we all recognize that it had to be done.

Given the inflation problem, we have felt it is important to keep the full-employment outlays within the full-employment revenues so we don't get back to that 1966, 1967, and 1968 situation. As the economy moves toward full employment we do not want to generate demand inflation.

We do have some good things going for us right now in the fight against inflation. The numbers are showing improvement and I have a chart there that shows that.

Mr. MAHON. We will get to the chart with respect to the inflation matter a little later. I know that there is continuing unacceptable inflationary pressure, but the rate is reduced. That I think is the encouraging thing.

FULL-EMPLOYMENT BUDGET

Mr. Director, we started out to discuss the three budgets. We talked about the unified budget and we talked about the Federal funds budget.

Now we come to that glorious type of budgeting put into effect for the first time in the history of the Nation last year. It is the most soothing and comforting thing that has come out of the Office of Management and Budget in a long time. It is a good idea, provided it doesn't mislead people. I wish you would tell us now about this Alice in Wonderland concept which we call the full-employment budget.

Mr. SHULTZ. Mr. Chairman, first let me say that I am really very pleased to know that this concept has proven comforting and soothing to you. If that is widespread I think it is worth it in and of itself.

The full employment budget is really a very simple idea and it is an idea that has been around for quite a long while. President Nixon is the first President to use it explicitly, although I think others have implicitly worked with it.

What it does, very simply, is to look at the programs as they exist and ask what the outlays from those programs would be if the economy were operating at full employment. The principal difference between the outlays in the unified budget as shown and the outlays at full employment is that payments for unemployment compensation would be substantially less at full employment. By definition there would be less unemployment, so you reduce your outlays by that amount.

These outlays are compared with the revenues that the current tax system—not making any assumptions about new taxes at all—would generate at full employment.

In the late 1960's the economy was operating right up to its capacity and all resources were being fully used with the private sector demands at a very high level. At that time the Government was demanding more resources—in the case of 1968 roughly \$25 billion—from the economy than it was taking out in taxes. With the resources already fully used, this had to bid up prices. In that situation, the Government, at a minimum, ought to be taking out as much as it puts in, so it doesn't add fuel to the fire.

Today, we want stimulation. We are willing to accept a deficit. We are not too happy about the fact that there is a full employment deficit in 1972, but we accept that in the interest of stimulating the economy and doing something about unemployment. We must struggle to contain outlays, as we have. We must try to bring the budget into balance again on a full employment basis so that we don't repeat the 1966, 1967, 1968 situation.

UNEMPLOYMENT ASSUMPTIONS IN FULL EMPLOYMENT BUDGET

Mr. MAHON. Mr. Director, the full employment budget, as I understand it, works like this: You assume that you have full employment. You assume that you are collecting the revenues which would accrue from full employment. Then you borrow the money to spend that you

would hope to have received from full employment for the running of the Government. Now, what do you mean by full employment? Do you mean 4-percent unemployment, or 4½- or 5-percent unemployment?

Mr. SHULTZ. We used 4 percent as the working measure. Now, when we are talking about Federal receipts, it is not so much the unemployment figure that is the operative one, but rather the gross national product and, within that, corporate profits and personal income. These are the numbers we actually work with in calculating receipts. In terms of the conventional definition, however, we have used the 4-percent figure as our measure.

Mr. MAHON. I suspect that everyone in and out of the Government who works in this field does not expect during fiscal 1973 that we will have only 4-percent unemployment.

Mr. SHULTZ. Nor do we, Mr. Chairman.

FIRMNESS OF PROJECTED FULL-EMPLOYMENT BALANCE FOR 1973

Mr. MAHON. So it would seem that you have already projected in a sense a full-employment deficit for fiscal 1973. Last year you projected a full-employment surplus of a tiny bit, about \$100 million, but of course that is now in deficit by about \$8 billion?

Mr. SHULTZ. Right.

Mr. MAHON. I feel very skeptical about the projection that you have presented with a full-employment budget in balance. Four-percent unemployment is admittedly not realistic in the context of the present situation and in the context of the history of the past. How do you equate that with the facts?

Mr. SHULTZ. Full-employment receipts are the receipts which would be generated at full employment, regardless of what the rate of unemployment turns out to be. The fact that the economy doesn't operate at full employment doesn't change the receipts that would be generated if the economy were there. We don't expect that unemployment will come down that rapidly although we do expect a decline.

I think it is worth noting that the insured unemployment rate, which was at about 4.5 percent back in the early fall has fallen to 3.8 percent in the most recent months for which we have data. That is a large decline in insured unemployment. The initial claims for unemployment insurance have declined in recent weeks. The layoff rate in manufacturing is down to 1.4 per 100. That is getting down into the range where it was in 1969 and early 1970, and the accession rate, is nearly three times the layoff rate, which is a pretty good ratio. So we are beginning to see some signs of health and movement on the employment side.

If the tax system stays in place the way it is now, it would generate the full-employment revenues we have estimated. Those revenues won't be affected by the rate of unemployment we actually have. They will only change if tax rates are changed. If the outlay ceiling is adopted and we are able to hold to it, we will be able to meet a full employment balance.

CHANGE IN DEFINITION OF OUTLAYS IN FULL EMPLOYMENT BUDGET

Mr. MAHON. If you had used the same guidelines and yardstick for the full-employment budget this year that you used in last year's

budget for fiscal 1972 you would already be out of balance, would you not, on the fiscal 1973 budget?

Mr. SHULTZ. Well, looking back to fiscal 1972, if tax rates had not been changed, the full-employment deficit would have been reduced by a little less than \$5 billion, from \$8 billion to \$3 billion. If we had chosen not to engage in some of the outlays that the Congress and the administration together have done, the full employment deficit could have readily disappeared. However, we have been trying, and I think properly, to stimulate the economy. Thus, we have accepted the deficit as something that is on the whole desirable. At the same time we believe it is very desirable to bring the full-employment budget back into balance right away. I don't think that the full-employment deficit in fiscal 1972 is all that big when viewed, in proportionate terms. The proportion of the deficit to the total budget would be much smaller than in the late 1960's.

Mr. MAHON. It is not quite clear to me that in responding to my question you have stated whether or not we would be in deficit on the fiscal 1973 budget as presented in the recent budget message if you had employed the same concept that you had last year. Haven't you refined that concept and therefore enabled your projection to be in balance, whereas otherwise it wouldn't be in balance on the full-employment budget?

Mr. SHULTZ. Are you speaking of the question of the full-employment outlays?

Mr. MAHON. Yes, sir.

Mr. SHULTZ. Yes; we have refined the concept somewhat. Last year when we talked about the full-employment balance, we viewed it not as a point, but rather as a band, with a range of error of \$2 or \$3 billion.

We had in mind the fact that not only is there room for differing assumptions on the receipt side, but also on the outlay side.

This year we decided to be more explicit. In fact, the people who have used the full-employment concept over the years have always made this kind of calculation on the outlay side. We have reduced the outlays estimated in the unified budget by the amount which we think unemployment compensation would fall if unemployment were at 4 percent. In fiscal 1972 it is \$3.5 billion and in fiscal 1973 budget it is about \$2 billion.

Now, I think it is commonsense to make this outlay adjustment. There are many people who feel that outlays would actually fall by more because they believe welfare payments and other such transfer payments will tend to decline when the economy is better.

We have made a careful effort to try to estimate the magnitudes of such changes. We feel this is an area that requires further work and we don't feel confident that we can estimate very accurately as yet some of these other outlay changes. We also feel that one has to recognize that there are some offsetting changes. When the economy is operating at full employment interest rates will likely be higher than they are now. Therefore, your payments of interest on the debt will likely be a little higher. On the whole, we have taken a rather conservative approach to the problem of estimating full-employment outlays.

Mr. MAHON. I assume it would not be correct for me to interpret what you have said in a general way to mean that if we don't have unemployment as low as 4 percent, the full-employment budget as projected will be out of balance for fiscal 1973?

Mr. SHULTZ. No. What I have pointed out is that when you are operating at full employment you have less outlays for unemployment compensation than when you are at a higher level of unemployment. Everybody knows that. It is not difficult to calculate the amount that unemployment compensation would fall. If you are going to try to make an estimate of the relationship of receipts and outlays at full employment you should make that calculation, and we have.

Mr. MAHON. Mr. Director, we recognize on this committee that it will be difficult to hold the line at the figure in new obligational authority requested in the budget even though it is about \$270 billion. There are going to be great pressures for greater authorizations, which will result in greater expenditures. It is going to be difficult for the administration to hold the line just as it is going to be difficult for the Congress to hold the line. I am not minimizing these problems or pointing the figure. We are dealing with the question of what this great country can do to prevent a fiscal collapse, to preserve the strength of our economy and the value of our dollar at home and abroad. These matters are vital to us all.

Now, we have these distinguished gentlemen sitting at the table with you, Mr. Director: Mr. Caspar Weinberger, the Deputy Director of the Office of Management and Budget, Mr. Charles Walker, Under Secretary of the Treasury, and Mr. Paul Volcker, the Treasury Under Secretary for Monetary Affairs. I wonder if the Treasury would like to comment helpfully in connection with this colloquy which we have had here. What does this discussion cause you to say by way of further enlightenment for the committee on the overall budget picture at this time?

QUALITY OF 1973 BUDGET PROJECTIONS

Mr. WALKER. Let me say, first of all, Mr. Chairman, I am a good listener and it has been good to hear this thorough discussion of the concepts that underlie these different sorts of budget approaches.

I think I would only add one thing and that is to agree and emphasize with Director Shultz that the probability of the performance in the budget totals in fiscal year 1973 as contrasted with the shortfalls we saw in fiscal year 1972, the probability of achievement there is very good indeed, providing that we can get the outlay ceiling that has been discussed.

Referring particularly to the revenue side, which is the responsibility of the Treasury, I would note that this year, and as Director Shultz emphasized, it is the GNP figure that is the important figure with respect to estimating personal income and especially corporate profits. It is the important figure with respect to whether you do or do not meet your revenue estimates.

Director Shultz pointed out that in this current fiscal year about \$12 billion in this shortfall reflected in one way or another the fact that the economy did not rebound, although it expanded, as quickly as we thought it would. The GNP shortfall was almost \$20 billion and the corporate profit shortfall was \$13 billion.

I think we have a strong unanimity of opinion among the professional economic forecasters that our GNP estimate for this calendar year of \$1,145 billion and our corporate profit estimate of \$99 billion are very much in the ball park. On that basis I would say that we can be reasonably confident that we are going to come much closer to the mark this year.

I would ask Under Secretary Volcker if there is any point he would like to make.

Mr. VOLCKER. I don't think so at this point, Mr. Chairman.

Mr. MAHON. Mr. Weinberger, would you like to add anything to this discussion with respect to these matters?

CONTROLLING EXPENDITURES

Mr. WEINBERGER. Yes; Mr. Chairman and members of the committee, I would like to add a point to the general line you were taking in your opening questions: I do not think we should assume at this point, that we cannot stay within the projected revenues of the next 3 or 4 years.

We made a major effort to control outlays in this budget. Holding the increase to only 4 percent over 1972 is a major achievement when compared with the much higher percentages of 9 percent for each year between 1969-72, and 17 percent for each year between 1965-68.

The other thing I think should be pointed out is that 71 percent of this budget is uncontrollable. That is, unless the current laws are changed, this administration or any administration—regardless of philosophy or economic theory or anything else—is required to fund certain activities. These activities currently require very substantial sums: in this year's budget, about \$175 billion. Unless there are changes in the existing laws we have very few options. The President's—any President's—room for maneuver is very limited and his discretionary choice is very small.

For example, of the roughly \$10 billion increase in outlays projected for 1973, \$6 billion is for social security increases, an item over which we have no control. The same is true of medicare, most veterans' compensation, and most welfare payments. We simply take bills submitted by the States and pay them. We do have a very difficult problem controlling outlays. Lowering the rate of increased outlays from 17 percent to 4 percent a year is, I think, an indication of this administration's desire to manage and to keep hold of the budget. The uncontrollable portion of the budget which has been increasing and now is 71 percent of the budget is a fiscal fact of life, one we must live with as we attempt to control outlays.

These are things I think should be kept in mind. When we add a fallout in revenues, it is easy to see how we get the deficit the President refers to as "bitter medicine."

EROSION OF SPENDING ESTIMATES IN RELATIVELY UNCONTROLLABLE PROGRAMS

Mr. MAHON. I have been looking at pages 14 and 15 of the budget message and I read the following:

Keeping the 1973 budget in full-employment balance will not be easy.

And I am sure that is correct and you have emphasized that. Then on page 15 I read:

The task is made harder by the fact that the growth of programs, especially uncontrollable programs, which now account for 71 percent of total outlays, could easily lead to another full-employment deficit in 1973 if the Congress adds to my recommendations for domestic spending as it did last year.

Congress has done some adding and subtracting, but these figures have not been massive one way or the other, and the net effect on the President's spending recommendations for fiscal year 1972 has been about a standoff. Following are the spending increases over the original budget estimates, exclusive of Congressional action and inaction experienced in the designated uncontrollable programs included under the various outlay ceilings for 1969, 1970, and 1971:

In fiscal 1969 the increase was \$6.9 billion.

In fiscal 1970 the increase was \$4.5 billion.

In fiscal 1971 the increase was \$4.3 billion.

And in fiscal 1972 the projected increase, exclusive of Congressional action, is \$6 billion over the original budget estimate of relatively uncontrollable outlays.

So these matters give us pause, of course.

Mr. WEINBERGER. There is one other factor, Mr. Chairman, in fiscal 1972. As a result of the President's August 15, 1971, announcements we planned to reduce outlays about \$4.8 billion. However, congressional increases more than offset that planned reduction. Total net outlays would have been lower if those additions had not been made. That is one of the principal reasons, Mr. Chairman, the President has proposed the outlay ceiling legislation that is before you.

Mr. MAHON. Well, now, we have had some discussions here of fiscal matters. Maybe they are a little bit abstract in the minds of some, but they are very vital. A discussion of the overall picture is necessary in Congress before we focus on what we are going to do in defense, what we are going to do in agriculture, what we are going to do in foreign relations matters, in the various fields, health, labor, and otherwise. I think we need to look at this broad general picture.

I would like to ask Mr. Whitten, the ranking majority member, if he would like to question in connection with this general situation.

DEFINITION OF GROSS NATIONAL PRODUCT

Mr. WHITTEN. Thank you, Mr. Chairman. I have listened with interest to the discussions and I think they have been very helpful. There are several points, like any lawyer, that come to mind as we listen to discourse by others. One of the things that is not made clear here is that we talk about the gross national product but the public doesn't seem to understand that wasteful spending and payments for services that are not valuable are added up as a part of the gross national product. Your side of the table has repeatedly testified that the gross national product includes the value of services rendered whether they were real services or imaginary.

PRODUCTIVE EMPLOYMENT

A second point is that there has been a lot of discussion about full employment. I think that it might be better to discuss productive employment.

Some years ago, I went to Russia with members of the staff. You don't find any unemployment in that country, or did not at that time, because anybody who was not working was put to pushing leaves around in the streets of Moscow or walking around watching ducks and geese as they traveled about, so you had no unemployment but lots of the employment was not productive.

Now, another point your discussion neglects is that we have inflation because there is more and more money and less and less goods to buy with it. Many of you will recall some years ago that, notwithstanding the law which authorized this Nation to sell competitively in world trade our excess agricultural products the then administration held off world markets the production, surplus to our domestic needs. These commodities were not surplus to world needs. The result was that we held a ceiling over foreign production and moved U.S. acreage overseas. That acreage is still overseas. Now we are following a policy of trying to cut back. In the last 2 or 3 years, we haven't had goods to sell that were readily salable and needed in the world.

So I am saying to you that the Executive policy, not just in this administration, of trying to give markets to our friends and neighbors, and sometimes our enemies, has meant that we have scaled back production in this country to the point that we have fewer and fewer domestic goods for this money to buy that we are talking about. If we keep that policy up of not having productive employment we will only further aggravate the situation. So I think if you went over your testimony and struck out "full employment" and put the word "productive" in it, then we might get down to the gist of the issue.

Then if you went over it again and saw how much of our foreign exports we have given to the European Common Market, which we put in business and then they kept our exports out we would see some other things that have brought it about.

SPENDING CEILING

Now, another point is the fact that, while you ask for a congressional spending ceiling, doubtless you wouldn't want one. The budget which you yourselves have recommended has a spending ceiling, and I note that in the budget in one instance that I deal rather closely with, you have asked for a 72-percent increase. Half of that is new legislation you yourselves are asking Congress to pass.

In the last few years in matters that have come before me as chairman of one of the subcommittees and on other committees where I am a member, you have had in much of your budget projections your requests for funds for laws that don't exist except in your minds. In many instances it is quite evident Congress will never pass them. In the budget as I look at it that there are many, many nice sounding phrases that ignore the realities.

WITHHOLDING OF APPROPRIATED FUNDS BY THE PRESIDENT

I would like to hear from you as to whether you mean a budget ceiling below your own recommendations, or does it mean that if we don't reduce your own recommendations that the President will exercise his power to freeze the money for programs that Congress believes are needed. May I say here I don't think the President has any moral right to withhold funds appropriated by the people's branch of the Government, the Congress. Now, these last few years we have had great news stories going out about the President's recommendations for many new programs. Then we have seen them neutralized by personnel ceilings, by freeze orders.

Mr. Chairman, I have been besieged in recent weeks by people calling me because we were going to revitalize rural America. But no one pointed out that \$58 million is being frozen now which Congress provided for water systems and sewer systems. They didn't point out at that time that funds were being frozen, announcements were being reduced, where 1 million Americans were doing something about protecting the environment through the A.C.P. program. They didn't point out at that time that \$216 million in electrification loans to be repaid were being held up.

What I am trying to say in this matter before us is now is the time to ask, Mr. Shultz and Mr. Weinberger, do you want a ceiling below your own recommendations? Are you threatening item veto? Looking at page 36 of the budget in the next to the last paragraph, where you state "This administration will vigorously oppose irresponsible short-sighted spending policies that would commit large sums of Federal money to schemes that are politically attractive—". That looks like it is a threat to item veto. When the President on the recommendation of Mr. Weinberger or Mr. Schultz freezes funds that the people's branch has made available you are certainly exercising might. There is a high question as to whether you are exercising a moral right.

Many things have passed against my wishes and I am sure there are things in the budget perhaps against yours. So I would like to ask, Mr. Chairman, the gentleman to address themselves to their opinion on soundness of including in the gross national product the spending in the red for which you don't get any value? I would like to ask them if they don't recognize that White House policy under any administration of withholding American goods on world markets at competitive prices, is a mistake and if they see any hope of stopping this policy of promoting our competitors, as we did with the European Common Market. In other words, I am asking if you recognize that full productive employment must be the guide rule and not just simple employment without any return in the way of goods? Doesn't inflation come because you put out the money but don't have any goods to buy? I have raised these questions. I would be interested in your response, Mr. Shultz.

Mr. SHULTZ. Thank you. You have raised a great many questions in your statement and I am sure that I haven't noted them all. I have noted five down here.

Mr. WHITTEN. I will be satisfied if you will answer three out of five.

BUDGETING FOR PROPOSED LEGISLATION

Mr. SHULTZ. First, on the point of budgeting for proposed legislation, we believe that when the President makes a proposal—for example, the President's proposed schedule of effective dates for revenue-sharing—we should show this committee the budgetary effect it will have if enacted. Doing so is, we believe, an important and proper aid to the whole legislative process. Therefore, we try to show what the outlays will be if the President's program is enacted, and if it is not enacted.

Mr. WHITTEN. May I commend you for that statement, but does it represent that the President is asking us to hold back what he has been unable to do himself?

Mr. SHULTZ. The President has reduced the rate of increase in outlays very greatly from the 17-percent rate prevailing during the 3 years preceding his administration. For the first 3 years of his administration, the rate averaged 9 percent and in this budget outlays rose only 4 percent. So the President has been working and struggling hard to gain control.

At the same time, I would imagine you expect that when the President makes a proposal for something new, he would show you how it fits into the budgeted flow of money. I am trying to be responsive to one of your questions.

Mr. WHITTEN. Well, I don't know that it is, Mr. Shultz. Certainly I think my statement carried the fact that you just mentioned. We both agree that it has been done. I am asking you if in recommending additional legislation which will cost money he hasn't broken this so-called limit of expenditures that he is asking us to adopt?

Mr. SHULTZ. No.

Mr. WHITTEN. He is human like the rest of us. I am not condemning anyone. I am just trying to point out what you have before us.

Mr. SHULTZ. The outlay estimate of \$246.3 billion includes all of the things that the President recommends including proposals not yet enacted.

The proposals can all be enacted within the \$246.3 billion estimate.

EXPENDITURE CEILING

Mr. WHITTEN. If the Congress in its wisdom or lack thereof should put a ceiling on spending would you think the first thing in order would be not to pass the legislation that he has asked for which would increase spending?

Mr. SHULTZ. No. The President has proposed some new programs, but most of the budget proposals are to cover existing programs and, in some cases, to provide for their extension. We have estimated the required amounts and come to a total which we believe—given our expectations about the operations of the economy in fiscal year 1973—is the right balance of outlays and revenues.

Mr. WHITTEN. Well, your budget estimate does say that the Congress should pass a ceiling. Would that not be a matter of the legislative branch, the people's branch, surrendering to the President the right for item veto? Wouldn't it be an invitation to veto?

Mr. SHULTZ. If we are to carry out the injunction given to us by the chairman to have some discipline on outlays there are, it seems to me, three things that must be done. First, the President, all of his Cabinet, and people working on the budget with him must exercise discipline in the budget that he presents to you.

Second, the Congress, as it processes authorization and appropriation bills, must exercise discipline. It must constantly, as it works on individual matters, think about what is happening to the overall total. The legislative process has to go forward with a sense of discipline and restraint.

And, third, since history teaches us that even with the best of intentions we may very well exceed our projected total, somebody somewhere has to be able to exercise control. Hence, the proposed spending ceiling. I don't see any way to implement the ceiling unless somebody has the right and the responsibility to change allocations within it,

given the possibility that spending will run over the limit that is set.

Mr. WHITTEN. Mr. Shultz, may I ask you this one question? Having recommended to the Congress the total spending which is in the budget and if the chairman of our committee in executive session should offer a motion that sets a ceiling not to exceed by one dime the total amount of money that you have recommended, would that ceiling be satisfactory to you?

Mr. SHULTZ. Yes, sir.

SETTING PRIORITIES WITHIN A SPENDING CEILING

Mr. WHITTEN. Then if the Congress in its wisdom as representatives of the people should rearrange those funds in line with what we believe to be the best interest of the country, you couldn't have any complaint at that since we represent the people; could you?

Mr. SHULTZ. The President represents the people, too. He also stands for election. I don't believe that Representatives alone represent the will of the people.

Mr. WHITTEN. But the Constitution has been forgotten in many instances, in my humble opinion. From all my reading of it it is the executive branch that represents the law enforcement, the appointive positions, and the people's branch according to all the debate and according to all the provisions of this Constitution is identified as the Congress; is that not right?

Mr. SHULTZ. I have the impression that a great many Members of Congress are busy running for the Presidency and, in that process, they think that they will have some degree of representation on a national basis. It seems to me that the distinction is in the breadth of the representation; that is, a Member of the Congress, represents a district or a State. The President's constituency, so to speak, is the Nation as a whole, not any particular district or any individual State.

Mr. WHITTEN. Your answer was hardly an answer but your comment was worthy of laughter from the group. I had wondered why they were running. Maybe it is because the executive branch has taken onto itself the decision of where the money will be spent. I hadn't thought of that until you raised it. This freezing of funds clearly is a case of the executive branch taking onto itself the power to appropriate.

Mr. SHULTZ. We have prepared a statement on this question of the withholding of funds as well as a listing of all of the areas that are involved and the types of withholding, as we see it. I would be glad to go into an extensive discussion of this, if you would like.

Mr. WHITTEN. The chairman has been most gracious to yield me time. I know I am interested, as all the committee is, but I think it would be more appropriate to wait until you are back in the hands of the chairman. Thank you, Mr. Chairman.

Mr. MAHON. Mr. Bow, the ranking minority member of the committee.

Mr. Bow. Thank you, Mr. Chairman.

The chairman has suggested this should not be a partisan hearing. I quite agree with him, but it seems to me that we have had some undertones here that I would like to clear up if I may.

EFFECT OF TAX REDUCTION ON REVENUES

One of the things I think very important is the consideration of the 1972 deficit. What is the 1972 deficit?

Mr. SHULTZ. As the chairman has pointed out, it depends on the concept. We could say the 1972 deficit is \$8 billion.

Mr. Bow. I am not talking about the full employment budget. What is it on your unified budget?

Mr. SHULTZ. \$38.8 billion.

Mr. Bow. If you had the same income from taxes, that the last administration had when this administration came into office; what would that deficit be?

Mr. SHULTZ. The amount by which individual income taxes have been reduced since this administration came into office is approximately \$22 billion. If the 1967 income-tax rates were in effect, and everything else remained the same, the amount of 1973 revenue would be greater by that amount, and therefore the deficit would be reduced.

Mr. Bow. Am I correct in stating that if income taxes today were what they were when this administration took office, there would be a reduction in the deficit by \$22.4 billion?

Mr. SHULTZ. Broadly speaking; yes, sir. I think if we were going to have a technical discussion, we would have to go back and estimate the economic impact of those tax cuts, but if you just take the rates then and in fiscal 1973, the difference is \$22 billion.

Mr. Bow. In other words, these tax reductions reduced receipts into the Treasury by \$22.4 billion for fiscal 1973.

Mr. SHULTZ. Yes.

Mr. Bow. From the income tax on individuals.

Mr. SHULTZ. You can find in the President's budget message a tabulation of the proportionate distribution of these tax reductions by family income groups.

Mr. Bow. I think that is on page 9, is it not?

Mr. SHULTZ. Yes. On page 9, the table at the top of the page.

Mr. Bow. I would ask that you would put that in the record at this point.

Mr. SHULTZ. We will be pleased to do that.

(The information follows:)

FEDERAL INCOME TAX REDUCTIONS FOR MARRIED COUPLE WITH 2 CHILDREN, 1969-72 (CALENDAR YEAR)

Wage income	Taxes paid		Reduction between 1969 and 1972	
	1969	1972	Amount	Percentage
\$5,000.....	\$290	\$98	\$192	66
\$7,500.....	756	484	272	36
\$10,000.....	1,225	905	320	26
\$15,000.....	2,268	1,820	448	20

GROWTH OF BUDGET OUTLAYS

Mr. Bow. Further, you referred to this on several occasions, but it seems to me still quite important. That is the growth of budget outlays. You have got a chart there. As I understand it, the budget outlays for fiscal year 1965 to 1968, which, of course, is prior to this

administration, was an increase of 17 percent a year; is that correct?

Mr. SHULTZ. That is correct. It was 51 percent over the total time period, and if you simply divide that by 3, you get 17 percent.

Mr. Bow. And from 1969 to 1972 the increase was 9 percent per year.

Mr. SHULTZ. Roughly 9 percent.

Mr. Bow. And under the control, the discipline in this administration, the increase from 1972 to 1973 is cut to 4 percent?

Mr. SHULTZ. Yes, sir.

Mr. Bow. I would suggest, Mr. Chairman, if we may, that we put this chart in the record.

Mr. MAHON. I would suggest, Mr. Bow, that we put this chart in the record and also the chart in the record which shows the escalation in the other direction of the Government deficits. You can't just consider the growth of rate budget outlays being reduced without considering the growth of the rate deficits going in the other direction.

GROWTH RATE OF BUDGET DEFICITS AND GROSS NATIONAL PRODUCT

Mr. Bow. Yes. We can do that and also put in the record at this point the growth of GNP.

Mr. MAHON. All right.

Mr. Bow. Which I think has something to do with this whole subject we are discussing now.

(The information follows:)

The charts referred to, numbered 2 and 5, appear on pages 10 and 13 respectively. The additional information requested follows:

[In billions of dollars]

Fiscal year:	Gross national product	Budget surplus or deficit (-)
1961	506.5	-3.4
1962	542.1	-7.1
1963	573.4	-4.8
1964	612.2	-5.9
1965	654.2	-1.6
1966	721.2	-3.8
1967	769.8	-8.7
1968	826.1	-25.2
1969	897.6	3.2
1970	953.3	-2.8
1971	1,008.2	-23.0
1972 estimate	1,089.5	-38.8

Mr. MAHON. Will you please proceed as you desire, Mr. Shultz.

Mr. SHULTZ. Thank you, Mr. Chairman. I will try to rearrange my presentation somewhat to avoid repeating what we have already covered. If I might, I would like to stand by the charts so that I can move them around.

Mr. MAHON. You will probably have to speak a bit louder over there near the charts, but we can hear you easily.

OUTLAYS AS A PERCENT OF GROSS NATIONAL PRODUCT

Mr. SHULTZ. Chart 1 (see chart 1 on p. 9) shows the receipts and outlays on a unified budget basis, which, of course, we have

covered. It has on additional piece of information that may be of interest to the committee: Outlays as a percent of the gross national product have been fairly constant.

Mr. MAHON. We talked about the reduction in the rate of growth of budget outlays.

INFLATION

Mr. SHULTZ. Yes; and we talked about the importance of exercising discipline and the President's determination to do so. This shows his efforts are bona fide. We have also talked about the full employment budget (see chart 2 on p. 10), and the fact that we are trying to bring discipline into the picture there.

I think it is worth pausing a moment on chart 4 (see chart 4 on p. 10). One of the economic problems that we have been worrying about, of course, is the question of inflation, and it is legitimate to question whether we are getting anywhere in the fight against inflation. This chart shows that inflation built through the late 1960's, reaching a year over year increase of 6.1 percent in 1969. Since then it has been going down. In 1971, prior to the President's August 15 moves and the wage-price freeze, the rate of increase was lower than in the previous year. Since August it has been still lower. While we are not satisfied yet with the record on inflation, headway is being made, and that encourages us to stick with the discipline that we have.

INFLATION RELATED TO INTERNATIONAL TRADE

Mr. MAHON. Mr. Director, with respect to this chart and the fact that some headway is being made in the fight against inflation, do you think that probably we are moving toward a position where we will improve our balance-of-trade situation and our balance-of-payments situation? Of course, the balance of payments is reaching a disastrous proportion at this time, and it gives us all concern. Are we going to be able to put American goods back in world markets, if we continue this trend which you are talking about here, and do you think the trend may continue?

Mr. SHULTZ. Yes sir; I do think we are progressing toward that important goal. If we are going to regain our health in international trade, we first have to get our own price level under better control. We are doing so, particularly when compared with other parts of the world, where they are having, on the whole, more trouble than we are right now.

Second, it is vital for us to improve the rate of increase in our productivity. I think the record of the year 1971, as compared with the past 4 or 5 years, is good in that respect. Figures released yesterday show that the rate of productivity growth has improved, and we think it will continue to improve in the year ahead.

Third, there must be an improvement in the arrangements of international trade, both in terms of the exchange rates which relate the dollar to other currencies and the rules of trade with other countries. A major shift in the exchange rate picture has been put into play as a result of the Smithsonian agreement, as we all know. Work has gone forward in many respects on trade arrangements, and we hope that there will soon be an interim culmination and then a longer term one.

The President has been making a determined effort in the field of international trade. Clamping down on inflation is related to improving our international trade position, although, of course, the principal motivation for fighting inflation is what is happening to the value of the dollar within our own country.

DEFENSE-RELATED EMPLOYMENT

The other side of this coin, of course, has to do with employment. We think that with the \$100 billion expansion in the economy which many foresee, we will begin to see an impact on the labor market and on unemployment. Chart 3 (see p. 11) shows that over the past few years, we have been carrying a big bogey, so to speak, on our backs in the labor market. There are 2.5 million people no longer working in war-related jobs. That is a big drawdown. In order to bring those workers back into the labor force, we have had to deal with the transitional problems and expand the economy.

Mr. FLOOD. How many people?

Mr. SHULTZ. There has been a decrease of 2.6 million people employed—from the 1968 level of about 8 million to the 1972 level of 5.4 million. While employment is still declining somewhat, this major transition is now nearly complete, and as the economy expands, it doesn't have to take up this big slack. Defense-related employment will be more constant. We are now actually below the 1964 level and expect to stay more or less level. It may even rise a little bit. That I think is a good feature on the economic side.

INCREASE IN DEFENSE BUDGET

Mr. MAHON. How do you relate this matter of defense-related employment to the fact that the defense budget is going up? It goes up this year to \$80 billion plus. The war is winding down, but defense spending is going up. How does that relate to what you have just been saying?

Mr. SHULTZ. First, the outlays for defense are not rising much. They are rising about \$1 billion. The budget authority is up by about \$6 billion, and as you know, budget authority leads outlays.

A very important fact in the defense area—and let me just skip ahead here—is this budget authority increase for defense. The increase is mainly for strategic programs, the research and development area—a very important increase—and shipbuilding.

Mr. MAHON. Shipbuilding is accelerated?

RATE OF PAY IN MILITARY SERVICES

Mr. SHULTZ. Shipbuilding is accelerated, but I think an important point, responsive to your question, is this: The rate of pay in the military services has gone up tremendously. It has doubled in the last 4 years for new enlistees without prior service and increased sharply for all others, so that you spend more, but you don't employ more people. You pay them more. Chart 12 (see p. 20) shows what has been happening to our military pay. At 1964 rates of pay, if you spent \$1 billion on defense manpower, you could employ 219,000 military personnel. At the proposed 1973 rates of pay, \$1 billion will employ 105,000 people. That is why there can be a rise in defense costs, without a rise in employment.

We support these pay increases. The rates of pay in defense did not increase for a long period of time when there was inflation, and we were badly underpaying our military people. We were, so to speak, imposing a tax when we drafted a young man, put him in the service, and made him take less pay than he could earn in the labor market. So, we think these pay increases are good, but there is a cost, and the taxpayer now has to bear that cost.

RESEARCH AND DEVELOPMENT

Another aspect of the budget that the President has given a great deal of attention to is the area of research and development. Chart 13 (see p. 21) shows the trends in three functional areas. As you know, the whole NASA budget is counted as research and development and has been trending down as the Apollos have been built. That procurement program is behind us. The NASA budget is now leveling out and we hope that we can hold it to the order of \$3.2 billion.

You can see that the research budget in defense has been moving up now for the last couple of years and it is projected to rise further in 1973. There is a strong upward trend in civilian research. The President has a special program in that area which is described in the budget and in the separate special analysis volume. You can see that civilian research—other than NASA—increases about 65 percent between 1969 and 1973.

I would tie this back, Mr. Chairman, to your question about our position in international trade. Historically America's strength in international trade has reflected the strength of our work in science, in technology, and in engineering. We must maintain this orientation and the 1973 budget does so.

Just to go through briefly some of the other aspects of the budget, I think that it is important to note that while there is a very strong thrust in the defense area, 45 cents of each budget dollar spent in 1973 will be for human resources against 32 cents for defense. Four years ago, that proportion was exactly reversed. There has been a massive shift in priorities, at least to the extent that the budget dollar reflects priorities.

Chart 15 (see p. 23) is a chart of dollar amounts and percentages for human resources and how they have increased over time.

OUTLAYS FOR THE ELDERLY

Beginning with chart 16, we show spending trends for some of the human resources programs. In chart 16 (see p. 24) outlays for the elderly are plotted against the population of elderly people.

Mr. MAHON. It is a bit interesting to note in the budget message that expenditures for the elderly are estimated to be in fiscal 1973 about \$50 billion; is that correct?

Mr. SHULTZ. The number of elderly people is over 21 million and the amount to be spent is \$50 billion.

FOOD ASSISTANCE PROGRAM

Mr. MAHON. Food assistance is escalating rapidly.

Mr. SHULTZ. There has been a great deal of discussion about food stamps. You can see in chart 17 (see p. 25) the growth of the food

assistance program as the President's commitment to feeding the hungry has been realized—at least in my judgment it has been. At the same time, when a program increases with that speed, it suggests that we should be careful to assure that the administration is proper and not subject to abuse.

Mr. MAHON. I think it indicates your ability to proceed in a timely manner, that you should discuss food assistance just as the clock strikes 12 noon. You may proceed.

Mr. SHULTZ. Mr. Chairman, I get the message and I shall try to go through these charts rapidly.

CHILD NUTRITION PROGRAM

The child nutrition programs (chart 18, see p. 26) have been much discussed. Their rate of increase has been fairly rapid. I think the real issue is the large gap between the amount spent on all children and the amount spent on needy children. What do we want? Do we want a Federal program for middle income, or for rich and poor alike, or is taking care of the needy what we should be doing with our limited tax dollars?

EDUCATION AND MANPOWER

Chart 19 (see p. 27) shows outlays for education and manpower training.

VETERANS' BENEFITS

Chart 20 (see p. 28) shows outlays for veterans' benefits.

CRIME REDUCTION

Chart 21 (see p. 29) shows outlays for the reduction of crime. You can see how rapidly this program has built up—both in terms of direct Federal work and in aid to States and localities. We have been trying, in the OMB, to develop measures of what we getting from this spending. Chart 22 (see p. 30) is a product of this work and it indicates that there are increases in indictments, convictions, and so on. So, we can see some output to go with the input.

VETERANS' BENEFITS

Mr. JONAS. Will you go back to those veterans' benefits a bit? You touched that lightly.

Mr. MAHON. Comment on that, Mr. Director, if you will please, at the request of Mr. Jonas.

Mr. SHULTZ. In a sense, the Veterans' Administration is a miniature HEW. It provides services in the areas of income security, health care, education, training, and rehabilitation. You can see the increases. Partly they reflect the number of veterans and partly they reflect efforts to improve the services and level of benefits. We have made a great effort, for example, to improve the quality of service in veterans' hospitals. As one measure of that, the number of staff per patient has risen. Cap, I think you have those staff ratios.

Mr. WEINBERGER. Yes; it is now 1.5 staff to 1 patient.

Mr. SHULTZ. That is a great increase from 2 or 3 years ago.

Mr. MAHON. Your total budget estimate for veterans' benefits and services for fiscal 1973 is how much?

Mr. SHULTZ. It is \$12.4 billion in budget authority.

DRUG PROBLEM

The drug problem is one we are worrying about very much in this administration. Chart 23 (see p. 31) shows that the effort in 1969 was relatively quite small. Since then there has been a rapidly increased effort on both sides of the problem, on the law enforcement side and on the treatment-rehabilitation side. Similar to our efforts against crime which are beginning to show results, here, too, we see some results. Chart 24 (see p. 32) shows the increases in arrests for drug violation and seizures of illegal narcotics. We are beginning to see some headway.

ENVIRONMENTAL QUALITY

Environmental quality programs are very much to the fore. Chart 25 (see p. 33) shows what has been happening in the area of pollution control. We have been spending rapidly increasing amounts of money there.

WATER RESOURCES

Chart 26 (see p. 34) shows a similar kind of growth in the area of spending for water resources. The trend was going down and now it is sharply up.

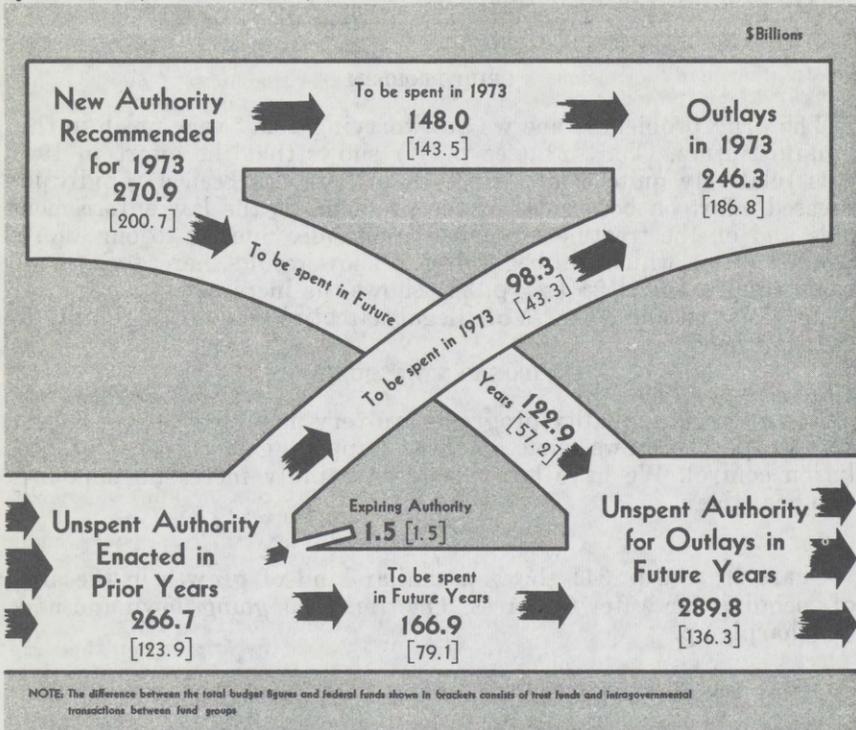
RELATION OF BUDGET AUTHORITY TO OUTLAYS

We have talked about this question of budget authority. We blew up the relation of budget authority to outlays chart, Mr. Chairman, because I know it is one of your favorites. You can explain this better than I can, but here is the chart. And with that, Mr. Chairman, I will conclude. Thank you.

(Chart follows:)

Relation of Budget Authority to Outlays—1973 Budget

Figures in brackets represent Federal funds only



Mr. MAHON. It seems to me that is a very dramatic illumination of the situation. I think, Mr. Director, that these charts are very significant. They sometimes show a dramatic visual picture that language doesn't quite capture. Does that generally complete the outline of your remarks?

Mr. SHULTZ. Yes, sir.

Mr. MAHON. Without objection, we will recess until 2 o'clock. Thank you gentlemen, for a very helpful and informative morning.

Mr. MAHON. The committee will resume the hearing.

I wish to take note of the appearance in the committee room of Dr. Herbert Stein, the architect of the price and wage control program and Chairman of the President's Council of Economic Advisers, an experienced and able man in the field of economics and otherwise.

Following the completion of Director Shultz's statement this morning, it is now appropriate to have some comments from the Treasury.

Mr. Walker, do you wish to make a statement at this time?

STATEMENT OF THE UNDER SECRETARY OF THE TREASURY

Mr. WALKER. Mr. Chairman, I do not think that I can add anything to what Director Shultz has already said. I have a prepared statement on the revenue side of the picture that I would like to submit

for the record and yield my time to Under Secretary Volcker, if I might.

Mr. MAHON. Without objection, this will be done.
(The statement follows.)

Mr. Chairman and members of this distinguished committee, I am pleased to appear before you today to discuss certain aspects of our budgetary position, and especially the revenue outlook.

The tables appended to my statement present the revenue side of the Federal budget in considerable detail, so I will merely touch on a few of the highlights.

Our current estimates show a moderate gain in tax receipts in fiscal 1972 and a large increase in fiscal 1973. The total for the current fiscal year is \$197.8 billion—\$9.4 billion above last year. This increase is only about half of what we would expect from the growth in the economy this year. The shortfall is primarily due to tax reductions.

Unified budget receipts in fiscal 1973 are estimated at \$220.8 billion, an increase of \$23 billion over fiscal 1972. This estimate is based on the expectation that the GNP in calendar 1972 will total \$1,145 billion, an increase of \$98 billion over calendar 1972. This contrasts with a GNP increase of \$72.5 billion in calendar 1971 over 1970. Personal income in 1972 is expected to be up 8 percent—to \$924 billion—and corporate profits before taxes are estimated to rise 16 percent to \$99 billion.

The substantial rise in budget receipts from fiscal 1972 to 1973 will result mainly from the strong and balanced expansion in economic activity expected in the next year and a half. Personal and corporate tax cuts in 1973 are approximately offset by scheduled increases in social security taxes.

Although the projected Federal budget will require somewhat less borrowing in fiscal 1973 as compared with the current year, we will require a substantial increase in the debt limit. The Ways and Means Committee will open hearings on Monday on a Treasury request to increase the debt limit by \$50 billion, an amount that should be adequate to meet our needs into the first months of 1973.

I am sure that this committee is, as we are, deeply concerned about the large deficits in prospect for fiscal 1972 and 1973. No one can be happy about deficits of this size. Yet they must be analyzed in the light of our current economic circumstances.

Although we have had very robust gains in the employment totals in recent months—1.7 million persons added to the payrolls since June—the unemployment rate is still in the neighborhood of 6 percent. That is a rate that is not acceptable to this administration. There is slack and excess capacity in the economy. At this time, an attempt to balance the budget by cutting spending or raising taxes would risk impeding the business advance and reduction in unemployment we seek. On the inflation front, we are making progress, and conditions are favorable for continuing that progress. The financing needs arising from the deficit will be manageable, given this economic background, the relatively good supply of funds in the market, and prevailing monetary conditions.

In these circumstances, the deficits in our 1972 and 1973 budgets are bearable. They are an inevitable price for what we want to do. There are, in fact, a reflection of a coordinated program that is designed—along with an appropriate monetary policy, manpower program, and other economic policies—to put a significant dent in the unemployment rate in the coming year while making further progress against inflation.

At the same time, it would clearly be foolhardy to fail to face up to the need to discipline Federal spending. For fiscal 1973, the expenditure total is already about equal to the revenues that the present tax structure would produce at full employment. Expenditures should be held to that level to assure that the deficit shrinks and disappears as we reach our economic goals and the economy is operating nearer its capacity. Otherwise, we will jeopardize and even cast away the hard won progress on the inflation front. In this context I urge that this committee act upon the President's call for a firm ceiling on spending which would be binding on both the Congress and the administration.

Budget Receipts

Under Legislation Proposed in Fiscal 1973 Budget Document
Fiscal Years

(\$ billions)

	Actual	Estimated	
	1971	1972	1973
Individual income tax	86.2	86.5	93.9
Corporation income tax	26.8	30.1	35.7
Employment taxes and contributions	41.7	46.4	55.1
Unemployment insurance	3.7	4.4	5.0
Contributions for other insurance and retirement	3.2	3.4	3.6
Excise taxes	16.6	15.2	16.3
Estate and gift taxes	3.7	5.2	4.3
Customs duties	2.6	3.2	2.8
Miscellaneous receipts	3.9	3.5	4.1
Unified budget receipts	188.4	197.8	220.8
Deduct:			
Trust funds, etc.	54.6	60.0	70.2
Federal funds receipts	133.8	137.8	150.6

Underlying Economic Assumptions - Calendar Years

	1970	1971	1972
GNP	974	1047	1145
Personal income	804	857	924
Corporate profits before tax	75	85	99

Projected Changes in Budget Receipts
Fiscal Years 1972-1973

	(In billions of dollars)	
	Fiscal 1972 from Fiscal 1971	Fiscal 1973 from Fiscal 1972
Revenue changes traceable to:		
Economic growth	+17.6	+24.0
Tax Reform Act of 1969	- 2.7	- 2.5
Revenue Act of 1971	- 4.4	- 2.5
Changes in Depreciation Regulations	- 3.0	- 0.2
Social Security changes, enacted and proposed	+ 2.1	+ 6.4
Other changes	- 0.2	- 2.2
Total	+ 9.4	+23.0

Mr. MAHON. Mr. Volcker, during the grave fiscal crisis of 1968, Secretary Fowler went scurrying to Europe, conferences were held at the White House, and many actions were taken by the Executive and the Congress to try to prevent a collapse of the dollar in the money markets of the free world. This was a very distressing and disturbing time.

I think of it in the context of the recent budget message because the budget message indicates such a tremendous increase in the deficit above what had been anticipated. This seems to me not only shocking to the American people but shocking to our friends overseas.

Would you give us some guidance as to this matter? Discuss with us what we can probably look forward to in the field of international trade during the forthcoming fiscal year, and give us any general information which you think would be helpful to us as legislators as we confront the problem of what disposition to make of the recommendations of the President in his budget message.

STATEMENT OF THE UNDER SECRETARY OF THE TREASURY FOR
MONETARY AFFAIRS

Mr. VOLCKER. Thank you, Mr. Chairman. I would be glad to try to do that.

I should say first that I have a brief statement almost entirely on the international situation. I won't attempt to read that, but I would appreciate it if that could be placed in the record and meanwhile deal more directly with the questions which you raised which are also touched upon in the statement.

Mr. MAHON. Without objection, this will be done.
(The statement follows:)

THE INTERNATIONAL FINANCIAL SITUATION IN LIGHT OF THE SMITHSONIAN
AGREEMENT

Mr. Chairman and members of the committee, nearly 6 weeks have passed since the Group of Ten agreed at the Smithsonian Institution to a multilateral exchange rate realignment and other measures to restore international monetary stability and expand world trade. The committee may be interested in a brief assessment of the international situation in the light of that agreement.

Let me say first that we have been encouraged by the widespread view, here and abroad, that the Smithsonian agreement represents major progress both for the United States and for all countries. Certainly we recognize that much remains to be done in basic monetary reform, trade policy, and defense sharing to attain and maintain a more equitable and balanced world payments structure. Much will also depend—and I would emphasize this—on how well we and our trading partners operate our domestic economies. But the fact that the Smithsonian agreement has been generally accepted as a major step in adjusting to today's realities and a base for further progress is heartening.

In negotiating a multilateral exchange rate agreement covering a number of major currencies, we made new and unique progress in monetary cooperation. There is no science that can tell us with accuracy what set of exchange rates is precisely needed to assure market stability and restore multilateral payments equilibrium. Vital national interests were affected, and a hard negotiating and bargaining process took place. In the give and take of negotiations, one side rarely, if ever, can achieve its full objective. But there is a general consensus that a fair blending of competing interests yielded acceptable progress for all. In sum, I believe the agreement is a fair and reasonable one which will make a real and substantial contribution to a better balance in world trade and payments. That was our judgment on December 18, and that is certainly our judgment today.

During the weeks since December 18, the exchange markets have been progressively adjusting to the new circumstances and exchange rates. During the early aftermath, the dollar remained generally at a premium and near the "ceiling" in terms of the range of the 2 1-4 percent margins above or below the new stated exchange rates stipulated by the Smithsonian agreement. More recently, the dollar exchange rate has moved down toward the new base rates and, in some cases, beyond. As of yesterday, it stood at a premium in terms of five of the G-10 currencies and discount in terms of the other four. It has strengthened slightly since December 18 against the Canadian dollar, which continues to float.

Contrary to the expectations of many, there has not been a heavy flow of dollars from foreign central bank reserves since the new rates were established. I do not believe this is a cause for concern. In our press conference at the conclusion of the Smithsonian agreement, we made clear that the prospects for such a flow were doubtful.

Indeed, there are several factors working to moderate the speed with which speculators and others who transferred funds abroad during the crisis would wish to transfer funds back to the United States in large amounts. Undoubtedly, much of the speculation into foreign currencies was of the nature of leads and lags—businessmen anticipating future foreign payments and the like. This phenomenon would be expected to unwind only over a period of time. Secondly, interest rates during this period have provided no incentive for reflows to the United States. With the present slack in the U.S. economy, our short-term interest rates have been at the lower end of the international spectrum while a number of European countries, which have been maintaining policies of restraint to slow down inflation, have maintained relatively higher rates. In addition, during much of the period since December 18, the dollar has, as I have indicated, been at a substantial premium in the exchange markets relative to the new base rates. This has meant that anyone transferring funds back to the United States stood a risk of "losing" if the rate for the dollar subsequently moved lower. With the wider margins now in operation, the scope for such rate fluctuations is now increased.

I believe it would be a mistake to conclude that no reflows of short-term funds are occurring, as leads and lags unwind. Reports—admittedly fragmentary—of our payments position over the period since December 18 indicate that our overall official settlements position has probably showed a modest surplus in the past month. There has been some net reduction in total foreign official dollar holdings since the agreement. Since many important elements in our balance of payments were almost certainly in sizable deficit during this period, there must have been a net reflow of short-term funds, not now identifiable, which offset the other deficit items.

Apart from questions concerning short-term flows, there is the question of the impact of the realignment on trade and other elements in our balance of payments. No one should expect the realignment and other measures agreed December 18 to have a large immediate effect on our trade and other basic elements in our balance-of-payments position, such as direct investment and tourism. In fact, the immediate effects of an exchange rate change are usually perverse—for example, where commitments have already been made to purchase certain imports, the change in exchange rates may merely mean that the U.S. importer must pay more for the same quantity of goods. It is only over an extended period—probably 2 years or more—that the full effects of the rate changes can work their way through the system. While we should see part of the effect much sooner, it is only over such longer period that producers and consumers, in the United States and abroad, can fully adapt to the new rates and the new price structures and competitive opportunities which those rates bring.

I feel that developments since the Smithsonian agreement represent a reasonable adjustment to the new situation. But this is only the experience of a few short weeks. The important question is where do we go from here. And this depends in very large measure on policies which we pursue in our domestic economy.

The United States has an obligation—to its own citizens and to the entire free world—to eliminate the slack in its economy with policies for strong and noninflationary growth. The advantages of higher employment and increased U.S. production to our domestic prosperity are obvious. But it is not always recognized how critically important a strong and growing U.S. economy is to a healthy world economy—particularly at a time when growth rates abroad are slackening. Without reasonable growth and employment in the United States,

a stable international equilibrium is not likely to be achieved—and a resurgence of protectionism would be a danger.

The challenge is to achieve the needed expansion in our economy while progressing further toward price stability, not only to assure that our expansion brings growth in real output rather than higher prices, but also to enable us to strengthen our ability to compete in domestic and overseas markets with foreign competitors. Only then can we take full advantage of the opportunities provided by the exchange rate realignment to restore our trade and payments position on a lasting basis.

Thus, both our balance of payments and our domestic objectives call for policies of expansion and for the containment of inflation. Those are the policies we are now following. The budget deficit for the present year is certainly very large. But, in the context of the desirability of providing an expansionary stimulus through fiscal policy, this deficit can be accepted. There is room in the economy to allow for expansion without inflation. Our wage and price program will help to ensure that our expansionary policies lead to growth in real output. The budget for the next fiscal year is held to full employment balance, which means diminished fiscal stimulation as the economy expands. We must maintain that discipline and would welcome its enforcement by a truly effective expenditure ceiling. This is the sensible approach from the viewpoint of our domestic and international economic needs. It will best serve to increase our domestic prosperity consistent with restoring a strong balance of payments.

RELATION OF DOMESTIC ECONOMY TO HEALTH OF INTERNATIONAL FINANCIAL SYSTEM

Mr. VOLCKER. I think the general point that should be made in this connection, and emphasized always, is the one that arose this morning in a colloquy, I think between you and Dr. Shultz, that performance of our domestic economy cannot be disassociated from our performance in trade and in balance of payments and it can't really be disassociated, therefore, from the general health of the international financial system. The better job we do at home, the better job we will do competitively abroad, the more stable, well-functioning international, financial and trading system we will have.

That really involves two aspects. The one that is clear, direct, straightforward is related to the progress that we make on inflation. I think it is terribly important in this connection in terms of our competitive position, in terms of international financial stability, that the United States does continue to make progress on inflation. Fortunately, as was pointed out this morning, we have been improving in that respect in general. At the moment our performance is better than that of almost all other industrialized countries. The batting average in that league has not been very high recently. So one takes perhaps limited satisfaction from that comparative analysis. I don't think we can escape the responsibility here for, of course, doing a better job in absolute terms as well as in relative terms.

There is another aspect, too. I think we also in this connection have a responsibility, internationally as well as domestically, for maintaining a growing economy and a productive economy. It is important in terms of business, health and prosperity around the world. It is important in terms of our own economic and political ability to maintain open markets in this country.

Even if you look at it from the international dimension, it's not a single-minded objective of dealing with inflation, fundamental as that is. But you have to do that in tandem with promoting a productive and expanding domestic economy. Of course, that is what we are trying to do in terms of the total program.

I can well understand that you look at something like this budget figure that you are dealing with here today and you look at that in isolation and it's a big figure. Nobody on this side of the table has expressed any happiness about that figure or any denial of the fact that it's a big figure and a much bigger figure than anyone would like to see and something we want to pare down and get rid of just as soon as we can. In that sense I suppose its a startling psychological fact.

One of the things I was trying to say in a recent press briefing, which I would repeat here, is that it is important to see that figure, not just as a deficit figure hung out there, but look at it in perspective of the total program at the time for dealing with the problems of the economy. Look at it in terms of dealing with inflation and achieving balanced growth. When you look at it in full context, its still a big deficit. But I think it's an understandable development at this particular phase of business development.

What is important is that we don't create any impression that in having a deficit of this size at this time this has become the order of the day forever and that we lose the sense of discipline that was discussed all morning.

I cannot, and don't want to, expand upon what was said this morning in that connection, other than these concerns that you and Director Shultz were expressing this morning are part of the international dimension as well as the domestic dimension.

A movement such as the expenditure ceiling itself—and a good, tight, rigid expenditure ceiling—looking at it now from the international standpoint, is important in encouraging, and could be highly important in conveying, the right impression as to our intentions and possibilities and avoiding a wrong impression that can sometimes arise when startling figures of this sort are first circulated.

I think the reaction to this has generally been understanding, so far as I can appraise it. But I think it's important that we make the Congress and the Executive together make its intentions clear in terms of the kinds of disciplines that were discussed this morning.

THE SMITHSONIAN AGREEMENT

I might make a couple more comments, Mr. Chairman. This Smithsonian agreement that was referred to this morning has produced, in terms of other industrialized countries—apart from Canada, which is an important trading partner of ours—an average exchange rate change of something between 11 and 12 percent. I exclude Canada because their currency has not been fixed but remains floating, and it remains to be seen just how that currency moves over a period of time.

This is a significant adjustment. It followed a period of rather intense bargaining. There is no scientific measure by which anyone can say that that is precisely the right number or not. I think it does represent a kind of reasonable, fair consensus represented around the bargaining table of what was possible at that particular point in time and what seemed to be consistent with everyone's interests at that point in time.

BALANCE OF TRADE

This gives us a more competitive economy compared to what we had before. We needed that help because our trade position has been deteri-

orating. It has deteriorated to the point that we had a trade deficit last year in excess of \$2 billion, as you saw in the papers recently. That had been anticipated, but it is a reflection of the fact that we have had a steady severe erosion in our trading position and in our competitive position. This exchange rate realignment goes some ways toward laying the conditions for restoring our competitive position.

But there are other elements in the problem—for example, the very important one about domestic performance. I shall return to that. But we are trying to deal at the same time with trading patterns, trading arrangements around the world, with emphasis in the short run on those where we think our entry into the foreign markets is unfairly impeded.

Mr. Whitten, this morning, struck a responsive chord in my breast when he began talking about some of the difficulties we have had in agriculture, where the United States is inherently a highly competitive producer. But we have found in some cases markets increasingly closed to us, or threatening at least. In other cases markets that were always closed have not been liberalized with any rapid rate of speed. We have been working to speed liberalization where that was possible or to avoid closing where that might be a threat. This has been an important dimension of the negotiations which have been proceeding for almost 6 months now.

I think there has been some progress in some of these areas, in other areas not nearly as much progress as I think we should see and need. Those negotiations are proceeding with intensiveness.

PROSPECTS FOR IMPROVEMENT IN U.S. TRADE POSITION

Mr. MAHON. Do you think there will be a marked improvement in our trade position during the forthcoming fiscal year?

Mr. VOLCKER. During the forthcoming fiscal year; yes. I think it's important to realize that when you get exchange rate adjustments or when you make an adjustment in any single dimension of this problem, the improvement in the figures comes with a lag. In fact, it has been a rather common experience with exchange rate adjustments that the very short-term effect may actually statistically be in the opposite direction, because it takes people time to change their trading patterns.

But when you speak of fiscal 1973, we should be seeing strongly positive effects in reversing the deterioration in our trade balance and moving back into surplus, an increasing surplus.

Mr. MAHON. Do you think in calendar year 1972 we will have a favorable balance of payments?

Mr. VOLCKER. I wouldn't want to promise that in this calendar year. We have been on a declining trend moving into a deficit of some size. I hope very shortly we are going to reverse that and come out on the other side of the V. But it's a little early, given the uncertainties of timing and the impact of an exchange rate, I think, to try to predict it too closely for the year as a whole.

Mr. MAHON. What would you say—I realize this will have to be an estimate—about calendar 1973, as to the trade balance?

Mr. VOLCKER. I don't want to give a numerical estimate and I don't have one, Mr. Chairman. I would think we should be in a strongly positive and growing positive position once again in our trade balance.

It should be higher at the end of 1973 than at the beginning, but it will take about 2 years for the full impact of this to work through.

That assumes, of course, that we are going to—as we intend—do a good job in domestic inflation. I certainly think by that time we should have an increasing and strongly positive trade balance.

Mr. MAHON. Will you proceed with the statement you were making?

Mr. VOLCKER. Those are the main points I wanted to make, Mr. Chairman.

IMPACT OF LARGE DEFICITS ON INTERNATIONAL CONFIDENCE IN AMERICAN ECONOMY

Mr. MAHON. This morning we talked about the need of confidence at home and the need to inspire confidence abroad in the American economy. I think the high estimated deficit for this year and next year, coupled with the trend toward larger deficits, tends to create a lack of confidence, especially in view of the inaccurate forecasts of last year and other years.

How do you read the attitude of people abroad in regard to this matter that I have just mentioned?

Mr. VOLCKER. You get all kinds of attitudes expressed, Mr. Chairman. Many of the people with whom I deal directly, sophisticated financial officials, understand very well the conditions in the United States. In fact, in many cases they have urged us in the particular conditions in which we find ourselves to rely rather heavily on fiscal policy. They rather favor the fiscal policy route toward promoting economic expansion. In that sense they can understand, and I think accept, what we are trying to do here and support what we are trying to do here.

As in the United States, I am sure you will find people abroad who will say this is a very startling figure, and it will raise questions in their minds. Because it will raise questions in their minds of the sort you have raised, we have the responsibility for making as clear as we can what our intentions are over a period of time and maintaining the discipline of which you were speaking.

EXPENDITURE CEILING

If I had to suggest to this committee the one single action that it could take to reinforce this discipline and help maintain and restore the confidence abroad, it would be to act upon this expenditure ceiling. That is the kind of action they can understand.

We have acted on expenditure ceilings in prior years. What has happened is that, while there has been some variation in the expenditures, we have been more or less unhorsed by actions that don't immediately relate either to the Congress or the executive because estimates of the executive on interest payments and other uncontrollables have been so far wide of their mark that the projected expenditure ceiling is not very meaningful. I don't see how we could be sure that these so-called uncontrollables would not unhorse us again.

We know that Congress is not going to make a marked increase in spending over the budget. It will make some increases perhaps and it will make some decreases. In view of that I don't know just how good this tool is.

USE OF DEBT CEILING FOR BUDGET CONTROL

Suppose we didn't raise, through the action of the Ways and Means Committee, the debt limit. That would be something that would be very, very binding upon the Executive and upon Congress. Is that the way we ought to approach this?

Mr. VOLCKER. I don't think so, sir. I couldn't recommend that course of action at all. I think the basic trouble with the debt ceiling, as you well know, Mr. Chairman, is that it comes at the very end of the process when the obligations have been incurred and the expenditures are made and it comes to the Treasury to pay the bill. It's too late then to control it.

What you would have, in attempting tight control through that end of the sausage grinder, so to speak, is ultimate chaos and lack of confidence instead of the kind of control that you would like to see on an expenditure process. It's just the wrong end of the process, to my mind, to exert really effective control.

The debt ceiling discussion always provides a forum, and I suppose a useful forum, for discussing some of the implications of the budget.

In terms of attempting to exert a tight control through that particular device, it seems to me it does not work and the attempt would only lead to a degree of financial disorganization that would undermine the very objective that you have in mind in maintaining confidence in the finances of this Government.

Mr. MAHON. Is it perhaps true that the most important ingredient in this matter is not legislation but a matter of the will? You cannot make yourself do by legislation what you are unwilling to do.

Mr. VOLCKER. I would personally, fully agree with that, Mr. Chairman. In speaking of the expenditure ceiling, I was thinking of a concrete action that this committee could take itself. I don't say it's the most important element in fiscal discipline as a whole, and I think you have put your finger on obviously a basic element—is the country willing to approach this whole matter with discipline, with the will to maintain control over spending.

DRAMATIZING THE SERIOUS NATURE OF THE FISCAL SITUATION

Mr. MAHON. I have been trying to dramatize, as I said this morning, as much as I could the very serious nature of our fiscal situation. I must say that the full employment budget tends to deemphasize the dramatizing and tends to glamorize the picture a bit. People read headlines and they see a surplus projected under the full employment concept. When they read further, they discover that the deficit is going to be \$38.8 billion under the unified budget this year. They still don't realize that it will actually be \$44.7 billion, because we are going to borrow from the trust funds about \$6 billion this year and about \$10.7 billion next year. This tends to make the seriousness of the situation less apparent.

I don't know how we can change the image here. If we get sufficiently frightened we will do something about this situation. I am much disturbed. I don't know how contagious it is. Do you have any suggestions?

Mr. VOLCKER. We have certainly a serious and continuing problem in maintaining budgetary control. I am not sure I am capable of frightening you, Mr. Chairman. I have no particular suggestions along those lines.

I want to make one point, lest silence be taken as agreement—that I do think this full employment budget concept is an honest and legitimate attempt to set some kind of a guideline, and a realistic guideline, for maintaining the kind of control you want.

We run into the problem that you are dealing with estimates. You are not dealing with a number that arises from the balance sheet. I think in a sense that bothers some people.

But seeing it as a disciplinary device—and that is what I see it as—not as an escape from discipline, not as an attempt to say these deficits aren't important, but as a disciplinary device for trying to give as concrete a figure as possible as to what a reasonable level of spending is and to relate that level of spending to the tax generating capacity of the economy or of the tax system, it's an attempt to bring home the relationship between the spending decision and the taxing decision. Viewed in that light, I think it is a useful attempt to maintain discipline, and not the opposite.

Mr. MAHON. I am going to ask Mr. Whitten to take the chair and I am going to yield at this time to the gentleman from North Carolina and the gentleman from Illinois for questions.

LONG-RANGE PROJECTION OF REVENUES UNDER CURRENT TAX STRUCTURE

Mr. JONAS. Mr. Shultz, you said in your opening statement, or in your colloquy with the chairman, that if tax rates and the tax structure is not changed and remains constant over the next 5 years you project that that will increase revenues \$100 billion at the end of 5 years. Do you mean \$100 billion a year, or over the 5-year period?

Mr. SHULTZ. This would be per year, in the fifth year.

Mr. JONAS. At the end of 5 years, with the increase in productivity and the stimulation of the economy which you visualize or hope for, the present tax rates will be generating \$100 billion a year more than they do today?

Mr. SHULTZ. Yes, sir.

Mr. JONAS. That, I suppose it can be said, is about the most favorable way to look at this spending program. If the economy is stimulated enough we will, before the end of 5 years, in a normal course of events, get into a surplus position unless spending is substantially increased over current levels.

BUILT-IN SPENDING INCREASES IN ONGOING PROGRAMS

Mr. SHULTZ. No, sir. The projections that we have made show that the built-in increases in the programs now on the books, with their natural evolution, will take up most of that additional revenue. When we project both outlays and revenues, we see a continuing tight fiscal situation. That is in contrast to the outlook in many past years. In the past, one could see a fiscal opening after a couple of years because the current programs and those then being proposed would not use up all the receipts being projected from the existing tax system.

RELATIONSHIP OF NEW BUDGET OBLIGATIONAL AUTHORITY TO BUDGET EXENDITURES

Mr. JONAS. That is the result of the situation graphically described in the chart, which shows that there is no actual real relationship between budget authority requested in a given year and spending or outlays in that specific year. There is a lot of money in the pipeline—as I recall it, in the neighborhood of a couple of hundred billion dollars, \$200-odd billion.

Mr. SHULTZ. We had that on the chart we showed this morning; yes.

Mr. JONAS. That has previously been made available in obligational authority which has not been used. It's important, I think, for the public to understand, and for the record to show, that one cannot necessarily determine the spending levels of the Government by the new budget authority request in this bill. You have to segregate new obligational authority sought for from spending authority. Is that correct?

Mr. SHULTZ. Yes, sir; although the enactment of obligational authority doesn't mean that the executive branch is in a position to spend the money at its own discretion. It can only be spent as prescribed by the authorizing legislation.

Mr. JONAS. I understand that. But it is built-in authority to spend money according to the legislative authority granted in previous acts.

Mr. SHULTZ. It certainly is. We think this is another reason why the Congress might be interested in placing a ceiling on outlays. The ceiling will set a number which cannot be exceeded.

Mr. JONAS. The information I seek right now is in the budget documents and in the charts. I think it ought to be in this record also because we are trying to pull together in one volume as much of the pertinent information as possible.

Of the new spending authority requested in the budget for 1973 over 1972, what does the increase amount to? I don't mean in NOA but spending.

Mr. SHULTZ. In total, outlays are estimated to rise by \$9.6 billion. The obligational authority, however, rises by about \$21 billion.

Mr. JONAS. The difference comes about by reason of the fact that some of the money you request to obligate will not be spent in the next fiscal year but in succeeding fiscal years?

Mr. SHULTZ. Correct.

SIGNIFICANT SPENDING INCREASES—1973 OVER 1972

Mr. JONAS. Can you list for this record we are making today the major programs where the increased spending occurs?

Mr. SHULTZ. Yes, sir, we can do that. Perhaps the simplest thing to do is to put the table into the record at this point, since it's lengthy, unless you would like us to read it.

Mr. JONAS. Don't read it. Put the table in the record, but pick out significant increases in spending. There is considerable interest in this hearing as manifested by the large number of people attending. It will be some little time before this record is printed. The press is well represented. I think they might be interested to hear half a dozen of the major increases in spending proposals, places where the additional increased spending will occur.

Mr. SHULTZ. Yes, sir. I will ask Mr. Weinberger to pick four or five from the table.

Mr. WEINBERGER. The biggest increase is proposed for social security—\$6.9 billion. General revenue sharing would add \$2.8 billion. Interest on the debt is estimated to increase by \$1.3 billion. Medicare costs will be up about \$900 million. Veterans compensation, pensions, and readjustment benefits will rise about \$600 million. Civilian agency pay raises of approximately \$500 million are planned. Housing subsidy payments would go up about \$500 million. There is a \$350 million item for the startup costs of welfare reform and a like amount for emergency employment assistance. Emergency school assistance is up about \$300 million. Corps of Engineers and Bureau of Reclamation projects will increase by about \$300 million.

There are also some major decreases. We look for a decrease of a billion dollars in medicaid and \$500 million in Postal Service. We anticipate that unemployment insurance payments will decrease by about \$1.2 billion.

Further, offsetting receipts for 1973 also show some major changes. Receipts from offshore oil lands will be up by about \$2.4 billion and stockpile sales will rise by about \$500 million.

The net effect of all the increases and decreases, as shown in the table, is an overall increase of \$9.6 billion.

Mr. JONAS. You didn't mention Defense.

Mr. WEINBERGER. Defense goes up by \$900 million. The additional cost of the pay raises is partially offset by decreases in other areas of defense.

Mr. JONAS. That is a table which actually deals with the subject of spending money rather than obligating the Government for future spending.

Mr. SHULTZ. Yes, sir.

(The information follows:)

CHANGE IN BUDGET OUTLAYS
1972 to 1973
(In Billions of Dollars)

Total 1972 Outlays.....		236.6
Defense and military assistance :		
Pay raises (January 1972 and 1973) and additional for all-volunteer army.....	+2.3	
All other Defense.....	<u>-1.6</u>	
Net change for Defense (+0.9 billion) and military assistance (-0.2 billion).....		+0.7
Civilian agencies and programs:		
Major increases:		
Social security (OASDI including proposed legislation).....	+6.0	
General revenue sharing.....	+2.8	
Interest on the debt.....	+1.3	
Medicare.....	+0.9	
Special revenue sharing (added amount).....	+0.6	
Veterans compensation, pensions and re- adjustment benefits.....	+0.6	
Civilian agency pay raises (January 1972 and 1973).....	+0.5	
Housing subsidy payments.....	+0.5	
Retirement and other employee benefits.....	+0.5	
Emergency employment assistance.....	+0.4	
Welfare reform.....	+0.4	
Emergency school assistance.....	+0.3	
Corps and Reclamation.....	<u>+0.3</u>	
Total major increases.....		+15.1
Major decreases:		
Offshore oil and receipts (effect on outlays).....	-2.4	
Unemployment payments (including Federal)..	-1.4	
Medicaid and other public assistance.....	-1.0	
Postal Service.....	-0.5	
GSA stockpile receipts (effect on outlays)..	<u>-0.5</u>	
Total major decreases.....		-5.8
All other changes, net.....		<u>-0.3</u>
Total 1973 Outlays.....		246.3

RELATIVELY UNCONTROLLABLE PROGRAMS IN BUDGET

Mr. JONAS. Now, it is generally understood—and you have stated, Mr. Director, today again that about \$175 billion in this budget, or roughly 71 percent or 72 percent—is virtually uncontrollable. Here again we have a table in the budget which discloses the itemization.

Mr. WEINBERGER. Page 501.

Mr. JONAS. And that will go in the record. Was that on one of your charts?

Mr. WEINBERGER. Yes, sir.

Mr. JONAS. I wish you would do the same thing with respect to that table as you just did about the increases in spending and list for this record and orally now a number of these uncontrollable items so we can get an idea or the audience can get an idea of what we mean by uncontrollable.

(The information follows:)

1973 BUDGET
CONTROLLABILITY OF BUDGET OUTLAYS

(In millions of dollars)

Description	1971 <u>actual</u>	1972 <u>estimate</u>	1973 <u>estimate</u>	Change 1972 - 1973
Relatively uncontrollable under present law:				
Open-ended programs and fixed costs:				
Social security trust funds:				
Social security.....	35,874	40,055	46,034 ^{1/}	5,979
Medicare.....	7,875	8,972	9,916	944
Unemployment.....	6,132	7,316	6,127	-1,189
Retirement and other.	<u>4,987</u>	<u>5,577</u>	<u>6,036</u>	<u>459</u>
Subtotal, social insurance trust fund.....	54,868	61,920	68,113	6,193
Interest.....	19,607	20,066	21,159	1,093
Veterans benefits: Pen- sions, compensation, education & insurance.				
Medicaid program.....	7,625	8,522	8,674	152
Other public assistance grants.....	3,362	4,401	4,142	-259
Other public assistance grants.....				
Farm price supports (Commodity Credit Corporation).....	6,281	8,658	8,228	-430
Food stamp program....	2,822	4,439	4,303	-136
Military retired pay...	1,568	2,066	2,305	239
Postal Service.....	3,386	3,928	4,326	398
Legislative and Judi- ciary.....	2,183	1,943	1,409	-534
Other.....	526	649	693	44
Subtotal, open- ended programs and fixed costs...	<u>3,298</u>	<u>4,805</u>	<u>4,875</u>	<u>70</u>
Subtotal, open- ended programs and fixed costs...	105,526	121,397	128,227	6,830

Description	1971 <u>actual</u>	1972 <u>estimate</u>	1973 <u>estimate</u>	Change 1972 - 1973
Outlays from prior-year contracts and obligations:				
National defense.....	22,053	20,616	19,699	-917
Civilian programs.....	18,167	19,733	23,120	3,387
Allowance for pay raises:				
Department of Defense.....	--	800	2,745	1,945
Civilian agencies.....	--	250	775	525
 Total, relatively uncontrollable outlays.....	 <u>145,746</u>	 <u>162,796</u>	 <u>174,566</u>	 <u>11,770</u>
Relatively controllable outlays:				
National defense.....	52,094	52,711	51,609 ^{2/}	-1,102
Civilian programs:				
General revenue sharing proposal.....	--	2,250	5,000	2,750
Other.....	20,962	26,420	23,173	-3,256
 Total, relatively controllable outlays.....	 <u>73,056</u>	 <u>81,390</u>	 <u>79,782</u>	 <u>-1,608</u>
Allowance for contingencies.....	--	300	500	200
Undistributed intra-governmental transactions.....	-7,376	-7,878	-8,590	-712
 Total budget outlays.....	 211,425	 236,610	 246,257	 9,647

1/ Includes \$4,020 million for pending legislation raising and liberalizing benefit payments.

2/ Includes \$390 million for proposed volunteer armed-forces pay adjustments.

Mr. WEINBERGER. The information above is based on table 7, Congressman, page 501 of the budget.

Mr. JONAS. Just in general, what do we mean when we say "uncontrollable"? What are examples of uncontrollable?

Mr. WEINBERGER. Social security, medicare, unemployment insurance, and civil service and military retirement payments are examples of programs we have to fund, assuming the present law does not change. We have no control over the amounts paid. We simply have to pay the bills as they come due. Under social security, for example, people who meet the criteria set forth in existing law become eligible for benefits. We cannot say that we will pay only some of these people or some of the benefits. We are required to pay them all. Interest on the national debt is in the same category; so are veterans' benefits and pensions. For uncontrollable programs, we have no discretion with respect to making the payment or determining the amount. It is simply whatever the existing legislation requires.

The programs currently designated as uncontrollable will remain so as long as the existing law does not change.

In order to move these into the controllable category, there would have to be statutory changes. Returning to the uncontrollable items, they also include military retired pay, farm price supports, public assistance grants, expenses of the legislative and judicial branches, and outlays from prior-year obligations—for example, contracts that we have to fulfill this year that were signed in previous years. These outlays from prior-year obligations total about \$20 billion in national defense and about \$23 billion in civilian programs. Expected outlays from all uncontrollable programs in 1973 total \$174.6 billion.

Mr. JONAS. When you say uncontrollable, you mean by that that you have little, if any, discretion? These are legal obligations imposed on the Government by statute or by contract and when the bills come due they have to be paid?

Mr. WEINBERGER. That is correct; yes, sir.

Mr. JONAS. In the budgetmaking process you can't exercise any judgment?

Mr. WEINBERGER. That is right.

Mr. JONAS. You have to budget those things for expenditure and this amounts to outlays of money.

Mr. WEINBERGER. That is right, yes, Mr. Jonas.

In short, the main effect of these uncontrollable programs is that judgment decisionmaking in the budget process is now limited to just about a quarter of the total budget.

Mr. JONAS. Well, I would like to express publicly my appreciation, Mr. Weinberger, for your discussion this morning, and particularly to the Director, Mr. Shultz. I thought you made a very fine presentation. The colloquy between you and the chairman developed a number of the points that need to be understood by the public as it grapples with this huge budget.

Without seeming to be necessarily defending the budget, and you people are doing a good job in that regard, I think it should be kept in mind as we consider it that we are living in a different world than we were living in in Revolutionary War days and it is not really very pertinent to compare expenditures today with expenditures in 1800, 1900, or another date centuries or decades ago. You have to take into

consideration the increase in people and in programs and the various other things that have occurred, the increase in our economy, in the gross national product, and all of those things.

I think, as the chairman has stated today and as he stated on the best job I think that could possibly be done to explain these reasons for this big budget, and whether all of us are satisfied or not about it is a different matter. I want to assure you that I am aware of the need for discipline and am prepared when the time comes to vote contrary to the wishes of a lot of the pressure groups that are on our necks always. I want to hold the line. I want to see a sound dollar. I want to do my part this year, and expect to, in cooperation with the chairman to try and minimize this crisis that we are in in the fiscal part of our Government.

NECESSITY FOR ADDITIONAL REVENUES

Mr. MAHON. Mr. Volcker, you were here this morning when I raised the issue with Mr. Shultz with respect to the need for additional revenues. Part of the problem is, of course, holding spending in line, but certainly a very important part of the problem is that of additional revenues. It seems apparent to me that we will have to take steps to try to raise additional revenues. I don't think—however—it is realistic to expect that we will this year.

I would say categorically again this afternoon that whoever is elected President in November is going to have to present ways and means of increasing revenue when the calendar year 1973 comes around. It seems to me inevitable, something we can't sidestep any longer. A man as wise as you I believe must agree with me. Of course, we hope the economy will surge upward and thereby create some additional revenue.

Now, what steps are you taking to draft plans and proposals to raise additional revenues? You have to have them. Now, for the record and for the country and for the Congress, let us have some enlightenment here.

Mr. VOLCKER. You are really going to be getting now into an area in the Treasury which more properly falls with Dr. Walker, Mr. Chairman. I will accept your comment as to my wisdom, but taxes are his bailiwick.

Mr. MAHON. Well, he is a good, strong, and able Texan and he may be able to come up with a positive unequivocal statement on this subject.

Mr. VOLCKER. I would just comment I think there is an implicit assumption in your comment about what expenditures are going to do and I think you are saying that expenditures are going to rise faster than revenue-yielding capacity at present tax rates, even at full employment. If that is the case, I think we have to face up to precisely the decision that you are speaking of, but that is an assumption.

Mr. MAHON. The budget message in the next to final paragraph foresees that we may have to have additional revenues. You people are not shortsighted. What have you decided to do? Mr. Walker, you have to do something.

Mr. WHITTEN. Mr. Chairman, may I interject so he might address himself to this point, too? It is appropriate, I think, \$5.1 billion, as I understand it, is recommended for revenue sharing. In fact, some

prominent Democrats have gotten into that. But that would be for 5 straight years and that much more of the money would be frozen because the legislation you advocate would freeze that much, in effect appropriate the money, so if it were to be passed you have aggravated the situation to which the chairman addressed himself by freezing even a bigger percentage of the budget, which in turn would leave more pressure on you to do something for what is left.

Mr. MAHON. Whoever presents the budget to us next January will have a most difficult task.

Now, what are we planning to do, Mr. Walker?

Mr. WALKER. Mr. Chairman, just as Director Shultz said this morning, we think the first line of attack should be on the spending side, by establishing a very firm ceiling on spending that is applicable both to the executive branch and to the Congress.

Mr. MAHON. All right; let us say we have adopted the ceiling and that the net result of congressional actions is about a standoff, at most adding a relatively small amount. That has been our experience over the last few years. Then what are we going to do about revenues to pay for the expensive government where we have high so-called built-in costs in ongoing programs, where we have the space shuttle, proposed increases in defense expenditures, and other new initiatives? Where are we going to get the money? We cannot afford to go in the red year after year in the area of \$40 billion or \$50 billion in Federal funds.

Mr. WALKER. Mr. Chairman, I think it follows if we do have a firm spending ceiling and if we are, as we are, confident our policies are going to move us back to economic growth, reduction in unemployment, to a strong healthy economy, we will automatically move toward generating the tax revenues that are necessary to eliminate the red ink.

REVENUE SHARING

I would like to say a word about revenue sharing, if I might.

Mr. MAHON. Please go ahead.

Mr. WALKER. I just wanted to say that this is a proposal that has been before the Congress since August 1969, and, Mr. Whitten, it is simply a matter of priorities. As we look at the problems that State and local governments face, we feel that a high, top priority item should be to come to their aid through a revenue-sharing proposal. It costs money. There is no question about it. But all good things do.

Mr. MAHON. Well, the revenue sharing is going to make the deficit just deeper?

Mr. WALKER. It is in the budget now.

Mr. MAHON. I know, but if we had approved revenue sharing in calendar 1971 the current predicted deficit for fiscal year 1972 would be greater than it is now.

Mr. WALKER. It might be somewhat greater. At the same time I think you would have seen less employment problems and certainly less problems of public services at the State and local level, particularly the city level.

PLANS FOR INCREASING REVENUES

Mr. MAHON. Well, I am trying to look into this crystal ball but I am not making much progress. What are you planning to do in case

the deficit appears to continue to stay at this high level or go up for fiscal 1973? What are you going to do about it next year? What plans are you making? Are you going to have a value added tax, an increase in the corporate tax, an increase in the personal income tax? What are you thinking in terms of? I know you must be planning something.

Mr. WALKER. That question can only be answered in terms of the reason that we do not generate the revenues. If the reason we do not generate the revenue is, despite the almost unanimous forecasts of economists inside and outside the Government, that the economy doesn't respond, then I certainly wouldn't call for a tax increase which in turn would knock the economy deeper. I think we would have to back up and take a hard look at just what is the particular thing in our economy that makes it behave so differently from periods in the past. If there were to be a plebiscite of the American people who said in effect we want x billion dollars of revenue through taxes, if that is what the people through the Congress decided, well, every day of the week we are studying and looking at various approaches to taxes in the Treasury. It is quite obvious that you have income taxes. You have excise taxes. These are what we have relied upon in the past.

We have studied the techniques that are growing much more popular abroad, known as the value added tax. It is being put in place in all of the countries of the Common Market. We would be remiss in our duty as Treasury public officials if we had not studied that tax and attempted to understand it. But there is no tax on the drawing board now to be used in the sense that you think of it because we don't think that that is the probable outcome of the situation.

REVENUE SHARING

Mr. MAHON. Well, we have talked, and this is somewhat of an aside, about uncontrollables. With your revenue sharing you have an additional uncontrollable element in the budget once it is enacted. So we are just moving toward an almost totally uncontrollable budget. This is very disturbing to me. We are spending \$44.7 billion more than we have and borrowing from the trust funds and from the private sector. To talk about revenue sharing when we are having to borrow that much from trust funds and the private sector seems to border on the incredible.

Mr. WALKER. No, sir; I disagree with that, Mr. Chairman. This is a matter of priorities. When you have looked into this problem of the State and local governments, you have found that as a result of the fact, sort of an accident in a sense, of the Revenue Act of 1932 when these progressive tax rates were set up, that over the years the Federal Government has been in, if not completely, almost a preemptive position with respect to the income tax picture. Quite frankly, Congress on average except during wars—World War II, Korea, and the Vietnam situation—has had sort of a luxury of getting the advantage of the fruits of economic growth and has reduced tax rates considerably over that period, whereas State and local governments have had to put into effect some 466 tax increases since 1950.

Now, I say, we say, the President says it is high priority to deal with this problem by permitting the State and local governments on a more or less automatic basis to tie into the Federal personal tax base. Then we can argue about the priorities but I don't think it is nonsensical when you look at the problems of these units of government face. They are horrendous.

RELATIVELY UNCONTROLLABLE PROGRAMS IN THE BUDGET

Mr. MAHON. We are moving toward the time when nearly every expenditure of the Government will be relatively uncontrollable. If we get into revenue sharing in a big way then nearly everything will be uncontrollable. Therefore, why talk about priorities? We will have passed that point when priorities will have become significant.

Mr. WEINBERGER. Mr. Chairman, with respect to uncontrollables, there is no immutable requirement that the programs which make up the 71 percent uncontrollable portion of the budget continue. I emphasized each time when I mentioned the uncontrollable figure that it assumes no change in the law. The President in his budget message did not speak about the inevitability of new taxes. He said he was exerting downward pressure rather than accepting the inevitability of new taxes. The President has said that in the future the hard choice will be to determine whether or not funding a new program is worth either new taxes or eliminating some existing programs.

Special revenue sharing involves terminating some federally required and dominated programs and substituting payment of cash to local governmental units. Local governments will then be able to carry out the programs which they judge to have the highest priority. They will no longer have to accept dictation from the Federal Government and a mass of Federal requirements that add enormously to the expense of those programs. So while uncontrollability is a fact now, it is not an inevitable fact. We encourage the elimination of existing programs which are not really working, or solving problems, or realizing their objectives. If those programs were terminated, more room would be available either for tax reduction or for additional new programs.

BUDGET MESSAGE STATEMENT ON TAXATION

Mr. MAHON. I would like to put in the record at this point the next to the last paragraph in the President's budget message which makes some reference to new taxes.

(The paragraph follows:)

I do not wish it said of my administration that we furthered or encouraged the process of discarding that heritage. So, I have emphasized fiscal responsibility and downward pressure on Federal expenditures, rather than simply accept all requests of all special groups and hope that the inevitable need for new taxes could be delayed as long as possible.

TREND IN FEDERAL SPENDING RELATED TO REVENUES AND DEFICITS

Mr. MAHON. Now, we have been talking in the discussion today about the reduced rate of growth in Federal expenditures. I would like to read from page 8 of the budget message:

From 1965 to 1968 Federal spending increased by 51 percent, an annual average of 17 percent over a 3-year period, 1969 to 1972. Spending rose by 28 percent,

an average of 9 percent per year. The increase from 1972 to the spending level proposed in this budget is only 4.1 percent. This slash in the momentum of Federal spending is all the more dramatic when you consider that 71 percent of Federal spending is uncontrollable; that is, locked into the budget by previous congressional decisions.

The text then goes on to point out how much American families have benefited by tax reductions over recent years. I would make some observations on these statistics.

We were building up in Vietnam from 1965 to 1968, the years we referred to. You would expect at least a slower rate of growth in expenditures during 1969 to 1972 when the war was winding down and is winding down. After World War II and Korea we actually experienced a drop not just in the rate of spending but a drop in actual expenditures for several years. But you don't give us any hope of a drop in expenditures after the end of the present conflict.

While Federal spending rose by 28 percent over 1969-72, an average of 9 percent a year, I would point out to you that the Federal receipts during those years rose by only 5.3 percent, an average of only 1.7 percent per year.

Now, here is where the clincher comes. The Federal deficit grew during those years no matter how you look at it, under the unified budget or under the Federal funds budget. As a result of the actions of the Congress and the recommendations of the administration we have been reducing revenues. The taxpayers have more money, but the situation has created excessive rates of inflation and unacceptable deficit spending. It seems to me we have certainly not been successful in this approach to the problem which confronts the country. What is your response to that?

Mr. SHULTZ. Mr. Chairman, I agree with your points about the buildup of war during 1965 to 1968 and the winding down of war and the movement toward peace in the subsequent years. I would only observe that there are many benefits to winding down a war and moving toward peace, and one of them is saving a lot of money. That is in a sense the least of the benefits, but it is, nevertheless, a benefit and we are glad to have been able to realize a peace dividend. The Congress, by extending the President's recommendations, passed that dividend to the people in the form of tax relief.

Mr. MAHON. Well, but the tax relief has not been what might have been expected because of the increased deficits, and the increased inflation, and the devaluation of the dollar and the resulting loss of buying power.

CHANGING FROM A WARTIME TO PEACETIME ECONOMY

Mr. Bow. Mr. Chairman, will you yield to me at that point?

Mr. Director, this is a very important question, I think. Can you tell us just what the situation was in the latter part of the former administration so far as the economy was concerned and what we have now with bringing 500,000 troops back from Vietnam? This makes quite a difference in our picture on inflation, on employment, and other situations. Can you explain that to us?

Mr. SHULTZ. Associated with the large full-employment deficits that came with the war, demand inflation built up in the late 1960's, which the chart that we looked at this morning showed. Since that

time, as a result of strong efforts to bring the budget under better control, the inflation was wound down. We have reduced the number of jobs in war-oriented industries and we now have an expansion underway.

I would have say that the decision to take strong steps to cure inflation was a bipartisan decision. The 1969 budget, which is where the shift occurred, was, in a sense, half President Johnson's budget and half President Nixon's budget. I think there was broad recognition that the problems of building inflation and of rising budget levels had to be dealt with, and they have been dealt with. We feel that we are gaining control and that we can do better in the future.

Mr. Bow. Let me suggest to you that in 1969 we had a wartime economy. We had practically full employment and we were spending on the basis of practically full employment. Now we have a situation where we are winding down the war. We are going from a wartime economy to a peacetime economy, where you now have about 500,000 troops that are being brought out of Vietnam.

Now, can you explain to us the difference between the previous situation when we had somewhat full employment on a wartime basis as against the situation we have now with about 500,000 people out of Vietnam who are not being shot at, and we now are trying to place them in a position of employment?

Mr. SHULTZ. I think we should look at the overall budgetary situation. There was a shift from the large and building full employment deficits of 1965 through 1968 to the full employment balances which we have seen since then with the exception of what we see in fiscal 1972. This shift is what has brought us to better grips with the inflation problem.

Mr. Bow. You will say that back in 1969 we did have somewhat full employment. We were in a wartime economy. Am I correct in that?

Mr. SHULTZ. Yes, sir.

Mr. Bow. And today we are now shifting from a wartime economy to a peacetime economy where you brought back 500,000 of our troops. They are a part of this so-called unemployment, and so forth. This is one reason why you had to do something about the economy?

Mr. SHULTZ. We have had to cool the inflation. We have also had to absorb a drawdown in employment of 2.5 million people associated with the war. The goal of economic policy, which we have addressed with some success, has been to achieve full employment in peacetime with reasonable price stability. We do need to push harder in some respects and we are trying to in this budget.

Mr. Bow. The effort now is to change from the wartime economy to a peacetime economy without inflation and to try to establish a reasonable picture of employment. Am I right or wrong about that?

Mr. SHULTZ. Exactly right.

Mr. Bow. Thank you.

Mr. MAHON. While at the same time you are proposing to increase defense spending.

Mr. SHULTZ. We have had large decreases in defense spending. I don't have the table here with me, but over a 2-year stretch from 1969 through the third quarter of 1971 the annual rate of outlays quarter by quarter came down more than \$13 billion, from the level of about 80 to the level of about 67. The level has started back up again as

the pay raises become effective and as the new obligational authority that has been granted for fiscal 1972 begins to be spent. The decreasing trend is beginning to turn just a bit.

Mr. Bow. The increase in defense spending has already been authorized by the Congress; has it not?

Mr. SHULTZ. Yes.

Mr. Bow. Thank you.

Mr. SHULTZ. We have had several pay raises within the year for the military. I showed on the chart this morning the tremendous impact that has on the flow of outlays.

Mr. Bow. And also some of the increases in research and development, building the Navy, have also been approved by authorization by the Armed Forces Committees of the House and the Senate?

Mr. SHULTZ. Those that are reflected in the 1972 budget have been. There are also major increases in authorizations proposed by the President for fiscal 1973 and these, of course, will be considered by the Congress.

Mr. Bow. I thank you, Mr. Chairman.

RELATION OF DEFICITS TO INFLATION AND THE ECONOMY

Mr. MAHON. We are pleased to have before us today Dr. Herbert Stein, Chairman of the Council of Economic Advisers. I believe the "Economic Report" has been released today. Is that correct?

Mr. STEIN. Yes, Mr. Chairman.

Mr. MAHON. Does it portray a rosy and optimistic outlook for the forthcoming year?

Mr. STEIN. Well, as you can see, it portrays a colorful outlook but I would not say rosy, Mr. Chairman. It portrays the picture of a strong and steady expansion of the economy during 1972, but this is by no means an economy which is rising at an exuberant pace. It is not an economy that is rising at a pace which threatens to revive inflation. I think that is a matter that is of great importance in the discussion here, because one of the questions that comes most obviously to people's minds when they see the deficits that are in this budget is whether they threaten to speed up the inflation again after a year in which we have been making considerable progress in reducing the rate of inflation.

I think probably the most important thing that I can say on that subject to this committee is that there is no direct and automatic transmission line between deficits and inflation. Whether deficits cause inflation or not depends on what else is going on in the economy. I think that is one of the implications of the questions that Mr. Bow was asking. The accumulating deficits that we had from 1965 to 1968 generated a very rapid rate of inflation because they were piled upon an economy which was already operating not only at its capacity but beyond its capacity and where there was a great deal of excess demand pulling prices up.

That is not the situation we confront now. We have a situation in which we have deficits essentially because the economy is operating with a great deal of slack. This is what we mean when we say that the full-employment budget is approximately in balance but we have large actual deficits. What this measures is that the economy is operating substantially below its potential and as a consequence we have these deficits, mainly as a result of a lower rate of revenue.

From the standpoint of our concerns, and I think the concerns of the people in the country, the main thing to be said about these deficits is that given all the circumstances that exist in the country we need them. We need these deficits to keep this expansion going, and the expansion that is underway, I repeat, is not one that by any means threatens to blow the economy out of the water or to overwhelm the price and wage control system that we have put into place.

This administration confronted last summer a very difficult situation, the dilemma of the need both to reduce the rate of inflation and to expand the economy, and it took measures of unparalleled strength and vigor to deal with both of those. One step, of course, was the establishment of a price and wage control system, and the other step was a budget policy which would involve running deficits while the economy is below full employment.

I think it is important to note that in the past 40 years there have been three episodes in which serious attempts were made to bring budgets into balance when the economy was operating substantially below full employment. I think these are relevant today.

One which I am old enough to remember—some of you may not be—was Mr. Hoover's attempt in 1931-32, the results of which in retrospect seem disastrous both politically and economically.

The second was Mr. Roosevelt's in 1936-37 when, the economy being still far below full employment, the budget moved—some people thought in a kind of fit of absentmindedness—fairly close to balance, and we then had one of the sharpest recessions in history. And again in 1959-60 we moved rather prematurely in an effort to bring the actual budget into balance with again unfortunate consequences for the economy.

The administration is following a policy which meets what I believe is the primary concern of this committee with budgetary policy. That is to assure that a certain discipline is maintained so that as decisions are made about increasing expenditures, decisions are similarly made to generate the revenues that will pay for them when the economy is operating in a normally prosperous condition. That is the consequence of the rule of balancing the budget at full employment to which the administration is dedicated. It is a principle which, I think, has a good deal of recognition and acceptance in the country, so that we believe the budget program that the administration has put forward is part of a policy with many facets which will contribute to a strong, steady, and noninflationary expansion in 1972. I think this is the primary objective of the exercise.

GENERAL STATEMENT OF THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS

Mr. MAHON. Dr. Stein, we will place your prepared statement in the record at this point.

(The information follows:)

Mr. STEIN. Mr. Chairman, there is in the administration an organization called the troika, consisting of the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Chairman of the Council

of Economic Advisers. The standard joke is that the Treasury has the revenues, the OMB has the expenditures, and the Council of Economic Advisers has the deficit.

I suppose my function here today is to discuss and explain the deficit. In my opinion, we have the deficits in fiscal 1972 and fiscal 1973 because we need them. Taking the 2 years together the budget would be very close to balance if the economy were operating at full employment. This means that we have the deficits of \$39 and \$25 billion because the economy is below full employment and is expected to be below it, although rising, in 1972. The effort to bring the budget into balance in such circumstances, by raising taxes or cutting expenditures, would only depress the economy. Whether it would succeed in even reducing the deficit is problematical.

While there is a great deal of grumbling about deficits, the fact is that in the past 40 years there were only three serious efforts to bring the budget into balance while the economy was significantly below full employment. One was President Hoover's effort in 1931-32, which was followed by disastrous economic and political developments. A second was President Roosevelt's in 1936-37, followed soon thereafter by one of the sharpest recessions in American history. The third was President Eisenhower's in 1959-60, followed by the recession of 1960 and the election of John F. Kennedy. I don't think any government will ever again try to balance the budget when the economy is well below full employment.

The effort to achieve budget balance under conditions of economic slack is not only dangerous. It is also unnecessary from the standpoint of the most important purpose that lies behind budget balancing. The basic reason for holding to the budget-balancing rule is disciplinary. We want to make sure that governments count the costs when they decide to spend money, and the most obvious form in which the costs of expenditure appear to governments—whether in the legislative, or in the executive branch—is the necessity to levy taxes to pay for them. Therefore, we believe that it is a sound fundamental rule that governments should not add to the expenditure side of the budget if they are unwilling to face the responsibility of taxation.

However, we do not believe that this disciplinary objective requires continuous budget balancing. On the contrary, we believe that the full-employment budget is a better guide to this disciplinary objective. What this says is that if the Government is going to make a decision that would raise the total expenditures that would occur under conditions of full employment it should assure that the revenues would be available under conditions of full employment to pay for it. This is the principle on which the administration is operating.

Three questions arise in connection with the application of this principle today: First, if we are operating on the principle of balancing the budget at full employment, why do we have a deficit in the full-employment budget for fiscal 1972? The answer is that if we look at the true significance of the trend of fiscal events, not seeking to score debating points, we are conforming to the principle. For the 3 fiscal years 1971, 1972, and 1973 we have a full-employment deficit of \$2.5 billion, or less than four-tenths of 1 percent of the outlays for the 3 fiscal years. That comes as close to balance as human agents can manage budgets of almost \$250 billion a year. If the deficit is concentrated in fiscal 1972, as it is, that is all to the good from the standpoint of stimulating the economy when it needs stimulation. The basic decisions the Congress and the administration are now making are decisions about expenditures for fiscal 1973, and the administration has made its decisions within the discipline of the full-employment budget-balance rule. We hope that the Congress will do so also.

Second, it may be asked whether these actual deficits projected for fiscal year 1972 and fiscal year 1973 are inflationary. This is a question about which we should be quite clear. There is no direct transmission line from a budget deficit to a rising price level. A budget deficit is inflationary when, in combination with other circumstances, it generates a rate of increase of demand which pulls up prices and labor costs. However, as we foresee the economy for 1972 and 1973, with the deficits in prospect, this is a most unlikely development. We expect, as do most other students of the subject, a strong and steady recovery, but not so exuberant as to revive the forces of inflation. In 1973 we will be nearing the potential output of the economy, and it will be most important then not to exceed the budget we have proposed. But we believe firmly that the fiscal plan we have outlined in the conditions we envisage will not be inflationary.

Third, will the deficit disrupt financial markets, raise interest rates, and set back the recovery? It should be noted that the implication of this question is the opposite of the preceding one. The preceding one suggested that the deficits might

be too expansionary. This question suggests that they might be too depressing. While the questions have opposite implications the answer is the same. We estimate these deficits to be consistent with a strong, steady, noninflationary expansion. The reason we have the deficits is that private savings are exceptionally high and private investment is not very high. This tends to hold down the economy and generate a deficit. However, this very combination of facts—high private saving and low private investment—provides the room from financing the deficits. We expect that as we proceed into fiscal 1973 private investment will strengthen and at some point the savings rate will decline. As this happens the room for financing the Federal deficit, with an economy expanding steadily but not booming, will contract. This will help to bring about and make appropriate the smaller deficit we plan for fiscal year 1973.

In summary, it is our judgment that the budget plan submitted will serve the twin purposes to which it is addressed—moving the economy along the path of steady, noninflationary expansion, and retaining discipline over Federal spending decisions.

GENESIS OF FULL EMPLOYMENT BUDGET

Mr. MAHON. We have had economists since the Nation was founded, but the full-employment budget was first formally presented by the President last year. Why did the economists wait so long to impress upon the Government that the way to deal with our problems was through the full-employment budget? Why did this come so late?

Mr. STEIN. Mr. Chairman, I am glad to have this question because I wrote a book about it called "The Fiscal Revolution in America," published by the University of Chicago Press, and it is available.

Mr. SHULTZ. Mr. Chairman, if he would just put the book in the record then we could all get it at a much-lower price.

Mr. MAHON. A much-lower rate. I am afraid with inflation the price has gone up. When was the book published?

Mr. STEIN. What would that do to my royalties?

The book was published in 1969. It more recently has come out in paperback, so that one is cheaper than the original. If you would like, I will give you a 5-minute version. Although it did take economists quite a long time to recognize this, an economist like other people, I suppose, comes to hard grips with the facts of life when conditions get serious.

Mr. MAHON. It took politicians and statesmen longer than it took economists.

Mr. STEIN. I am afraid that is the case, sir.

Mr. CEDERBERG. We haven't made it yet.

Mr. STEIN. But in a practical sense, you see, I think the politicians and statesmen came to this conclusion a little earlier than they were prepared to admit to the public. I think they had come to that conclusion because, as I have indicated, it had become common practice, if not common oratory in America, to accept the fact that we do have large deficits when the economy is operating significantly below full employment. This was learned in those days of Hoover and Roosevelt in part from the teaching of economists but in part just from the hard facts of life that in the face of an economy that is operating well below potential nobody really is going to move to raise taxes or to cut expenditures. It is quite obvious that if you cut expenditures you throw people on the street and if you raise taxes you cut people's outlays. So I will admit that it took economists from the founding of the Republic 160 years to learn this fact, but we have learned it.

I don't want to suggest, of course, that deficits are a panacea. Much of what we learned 40 years ago we have unlearned since, but I think

that in conditions such as those which now prevail in the United States we ought to recognize the simple fact that a deficit is not only politically inevitable but economically necessary.

Mr. WHITTEN. I would like to ask, Mr. Chairman, since I raised earlier that full employment in Russia means they push leaves sometimes from one side of the street to the other, it means that some people trail around watching the geese as they feed, does the gentleman mean productive employment?

Mr. STEIN. Of course, in the United States we mean not only productive employment but we mean productive employment devoted to producing the kinds of things that people want. I think that is an aspect of what has been referred to earlier here about the decision, really the joint decision of Congress and the administration, to cut the rate of tax receipts by about \$20 billion. This means that we have restored to the people the right to determine what gets produced with these resources.

Mr. WHITTEN. Mr. Stein, I don't mean to interrupt but my question was, Does the gentleman mean productive employment or not?

Mr. STEIN. I mean productive employment; yes, sir.

Mr. WHITTEN. Thank you.

WAGE AND PRICE CONTROLS

Mr. MAHON. You have been publicly identified as one of the principal administration officials responsible for the design of the wage and price controls. As you know, Congress approved wage and price controls on a discretionary basis back in 1970. That law expired and then it was again approved in August of last year. That, in my judgment, was a good move, though of course we can't expect it to work perfectly.

Now, how well are these programs working and what are the implications for the budget of the price and wage control program?

Mr. STEIN. Mr. Chairman, in the report that we just published, issued at noon today, we have a chapter discussing this question, a chapter we were required by the act to incorporate. Our judgment is that these controls operate in a way which gives us a good deal of confidence that, along with the other features of the economy in 1972, we will achieve the goal of a rate of inflation not in excess of 2 to 3 percent by the end of this year.

We believe that the standards set forward by the Pay Board and the Price Commission taken together are consistent with the achievement of these objectives and that noninflationary demand conditions in the economy will allow the price and wage control system to function and to achieve the objectives set for it. I think that the Board and the Commission are to be complimented on the way in which they have approached their task.

Mr. MAHON. If I may interrupt, I wish you would put a concise analysis of that chapter in the record at this point.

Mr. STEIN. I would like to do that; yes, sir. Thank you.

(The information follows:)

EXTENSION OF THE STABILIZATION AUTHORITY

The Economic Stabilization Act of 1970—the legal basis for the freeze and Phase II control programs—was scheduled to expire at the end of April 1972. In response to a Presidential request, the Congress extended the Act to April 1973. Extension of this authority provides sufficient continuity and duration of the stabilization program to permit it to succeed. In extending the Act, however, the Congress substantially amended it, and some provisions of these amendments may significantly modify certain policies developed under the initial economic stabilization program. Under the revised Act:

1. Wage and salary increases which were scheduled to take effect after the freeze according to contracts entered into before August 15, 1971, were to be paid unless “unreasonably inconsistent” with Pay Board standards.

2. The President was directed to take action to permit wage and salary increases which were scheduled to take effect during the freeze according to contracts negotiated prior to the freeze, but not paid because of the freeze, to be paid retroactively unless “unreasonably inconsistent” with Pay Board standards.

3. The President was directed to take action to require the retroactive payment of wage and salary increases provided for by law or contract prior to August 15, 1971, where prices had been advanced, productivity increased, taxes had been raised, appropriations had been made, or funds had otherwise been raised or provided for in order to cover such increases, regardless of Pay Board standards.

4. Employer contributions to pensions, profit-sharing, annuities, and savings plans qualified under the Internal Revenue Code, as well as contributions to group insurance and disability and health plans were not to be included in the definition of “wages and salaries” for control purposes unless they were “unreasonably inconsistent” with standards for wages, salaries, and prices.

5. Wage increases to any individual whose earnings were substandard or who was a member of the working poor were not to be limited in any manner, until such time as his earnings were no longer substandard or until he was no longer a member of the working poor.

ASSESSMENT

The Economic Stabilization Act requires this *Report* to give “an assessment of the progress attained in achieving the purposes of this title.” As stated in the Act, the aims are “to stabilize the economy, reduce inflation, minimize unemployment, improve the Nation’s competitive position in world trade, and protect the purchasing power of the dollar.”

These purposes cannot be achieved by operations under the Economic Stabilization Act alone. The freeze and Phase II contribute to their attainment as part of a combined program which also includes fiscal and monetary measures, exchange rate readjustment, and trade measures. The relation of the wage-price controls to the rest of the package is important. If monetary and fiscal policy keep the growth of demand moderate, the price and wage controls can bring about more quickly and surely the lower rate of inflation that competitive forces would cause in such circumstances. But if demand is allowed to grow excessively, the price and wage control system will lose its value. Correspondingly, if the presence of the price and wage control system becomes an excuse for laxity in monetary-fiscal policy, the system's effect on controlling inflation will be negative.

As discussed in Chapter 3, we believe that the combination of policies in effect in 1972, including the price-wage control system, will produce substantial progress toward the goals of the Stabilization Act. The goals may be summarized as less unemployment, less inflation, and a U.S. economy which is more competitive in international markets. In this section of the *Report* we concentrate on the contribution of the steps taken under the Economic Stabilization Act.

Evolution of Prices and Wages

In the accomplishment of its own objectives, the freeze was an unqualified success. It had the desired shock effect on the public's inflationary psychology, and it held the line on prices and wages, allowing time for a more flexible and durable system to be devised and put in place. The statistical evidence on price behavior during the freeze is presented in Tables 20, 21, and 22.

Assessment of Phase II is obviously more difficult. It has been in operation too short a time to generate any substantial body of evidence, statistical or other, about its effects. The data on prices and wages for December, the latest available, are not a measure of the effectiveness of Phase II and should not be so interpreted. A temporary period of faster than desired wage and price increases was an inevitable byproduct of decisions made with respect to the transition from the freeze to Phase II. Several months of experience are required before Phase II regulations and rulings will be fully reflected in price and wage trends. At this time, therefore, the future outcome of policies which have only just been inaugurated is chiefly a matter of speculation. The principal questions are: Will the standards of the Pay Board and the Price Commission lead to the desired results? Will the standards be observed?

The standards announced by the Pay Board and the Price Commission imply the following arithmetic: If compensation per hour of work rises by $5\frac{1}{2}$ percent per annum, and if output per hour of work rises by 3 percent per annum, labor costs per unit of output will rise by approximately $2\frac{1}{2}$ percent per annum. If prices rise in the same proportion as labor costs, which are the largest element in total costs for the economy as a whole, then prices will also rise by $2\frac{1}{2}$ percent, a rate within the range of the goal set by the CLC.

Pay Board Decisions

A number of important factors must be taken into account in assessing the prospects of achieving the goal. The basic standard of the Pay Board is a 5½ percent permissible pay increase. Under certain circumstances, however, existing Pay Board regulations permit increases in excess of this average standard. One of the most important of these exceptions is the rule that permits wage increases scheduled under existing contracts to be granted, even if they exceed 5½ percent, unless they are challenged by five members of the Board or a party to the contract; in that case they will be reviewed by the Board. If all the known deferred increases in excess of 5½ percent that are scheduled for 1972 under major collective bargaining situations were granted and increases arising from cost-of-living escalator clauses were restrained by a small rise in the CPI (2 to 3 percent), they would add about 0.25 percent to the average rate of pay increase for the year (i.e., if the average outside of situations providing deferred increases were 5.5 percent and scheduled deferred increases were all granted, the average rise in hourly wages for all private sector workers would be about 5.75 percent). The business members of the Pay Board have indicated their intention to challenge all deferred increases in excess of 7 percent. If all known deferred increases that are in excess of 7 percent were limited to 7 percent, then deferred increases would add a little more than 0.1 percent to the average rate of wage increase in 1972.

The Pay Board rules also permit increases in excess of 5½ percent if they are necessary to bring the cumulative increase during the last 3 years to 7 percent a year, or to preserve certain limited traditional relationships with other wages, or to attract labor in shortage situations. Pay increases allowed under any or all of these exceptions may not exceed 7 percent (that is, 1½ percent above the general standard) and the 3-year catchup provision expires on March 31, 1972. While the direct impact on increases in compensation for the entire economy of these exceptions probably will be small, their impact through tandem wage relations and relative wage pressures could be significant.

As this *Report* is written, the Cost of Living Council has not yet issued an interpretation of the terms of the Economic Stabilization Act which excludes from control substandard wages and wages of the "working poor." Neither has the Pay Board interpreted the exclusion of increases in certain fringe benefits unless they are "unreasonably inconsistent with the standards for wage, salary, and price increases."

The foregoing are all provisions of the regulations which would permit wage increases to exceed 5½ percent in certain circumstances. Moreover, even if no particular wage rate rose by more than 5½ percent, the average compensation per hour of work could rise by more than that percentage because of increased overtime or a more than average increase in employment in sectors where wage rates are above the average. Both of these causes tend to operate in a period of economic expansion such as is envisaged for

1972. In addition, labor costs per hour of work will rise slightly in 1972 from an increase in employers' Social Security contributions arising from an increase in the taxable earnings base.

On the other hand, and this point is most important, the standards of the Pay Board are only the standards of *permitted* wage increases, not the standards of *required* wage increases. Certainly in the conditions of 1972, when labor shortages will be highly infrequent, we should expect many wage increases to be below the normally permissible amount. In 1970, when the average wage increase in large union contracts was 8.8 percent, 22 percent of all the workers covered by such contracts received increases below 5 percent. If in 1972 it develops that 5½ percent is the standard, or most common, wage increase, there will be many increases below that, including many instances of no wage increase at all. Some support of this expectation may be found in the fact that several of the pay increases approved thus far by the Pay Board have been significantly below the standard.

Our expectation is that the combination of the Pay Board rules and the natural forces at work will, after the initial post-freeze bubble, hold the rate of increase of compensation per hour close to 5½ percent. Certainly the rules themselves contain nothing which makes this rate clearly unobtainable. However, the course of events and decisions will have to be closely observed to see what wage outcome is in fact being generated by the system.

Unit Costs

The simple arithmetic outlined above assumed that output per hour of work in the private economy would rise by 3 percent per annum, which is about the average rate of the post-World War II period. The rise of productivity was below average in 1969 and 1970 but faster in 1971; it could reasonably be expected to be even higher in 1972, since the rate of increase in productivity commonly exceeds the historical average in years of strong expansion. One reason is the same as that which makes the rate of increase of average compensation relatively high—a shift of employment and output to industries with above-average productivity and wages.

Thus it seems not inconsistent with the existing rules that the rate of increase of labor cost per unit of output should be in the range of 2 to 3 percent. Other costs will also be taken into account in the price ceiling formula—notably depreciation costs, indirect business taxes and interest. The anticipated rate of increase of these nonlabor costs combined in 1972 would probably not be so large as to force the rate of increase of total costs per unit of output outside of the 2- to 3-percent range.

Price Commission Decisions

Whether the average behavior of prices will, in fact, approximately follow the behavior of unit costs is an important question. Under the general rules of the Price Commission, price increases are permitted in proportion to cost increases. However, there are several circumstances in which permitted price increases may be either larger or smaller than actual cost increases.

1. Prices may not be raised as much as costs if the effect would be to raise the net profit margin above that of the best two of the past 3 years.

2. The Price Commission will not automatically recognize all cost increases in calculating "allowable cost" for determining permitted price increases.

3. The price regulations for wholesale and retail trade do not permit such firms to pass on cost increases except increases in the costs of purchased goods.

4. The operation of the term limit principle may result in a firm's acceptance of a smaller average permitted price increase than its costs would justify in order to qualify for use of simpler and more flexible procedures.

5. If it is necessary to use industrywide trend estimates of productivity, in the absence of other information, in projecting costs, permitted price increases will turn out to be larger or smaller than actual cost increases where the actual productivity increase is larger or smaller than the estimate used. In a period when actual productivity rises may be exceeding the trend, this would mean price rises exceeding cost rises, on the average, but this effect would be limited by the profit margin ceiling.

6. As a result of specific exemptions by the CLC or the statute, items in the CPI comprising 21 percent of its total weight are not controlled by the Price Commission.

7. Public utilities may be granted above-standard rate increases where necessary to meet essential service demands.

8. Exceptions from the general cost-justification rule have been provided for firms with losses or very low earnings.

9. If costs decline, the system does not require price reduction unless the "windfall profit" situation is encountered.

In the foregoing circumstances, and possibly others, legally permitted price increases may be greater or less than cost increases. The net of all this is impossible to estimate. Without more experience no more can be said than that the rules and procedures do not seem inconsistent with permitted price increases coming out on the average fairly close to permitted cost increases.

The actual behavior of prices will be determined not only by what the Price Commission permits but also by what the market permits. The limitation of the market, including competition by firms with relatively small cost increases, will work in the direction of holding price increases below those legally permitted.

Although much remains to be seen, a reasonable judgment at this time is that the standards so far promulgated, applied in the context of strongly-rising productivity without excess demand, are probably consistent with achievement of the anti-inflation goal for the end of 1972. This is not, of course, inconsistent with the expected bulge of prices in the early part of the year as the transition from the freeze is completed. The longer-run effect of the present standards will depend on specific policy decisions and interpretations by the control authorities, as well as on the cooperation of business and labor. And the outcome of the system as a whole will depend on the

ability to amend the rules if it should appear that the existing rules are not leading to the desired end.

Compliance

A further question which must be asked is whether the rules of the system are likely to be observed by businesses, landlords, and unions. In fact, the question is twofold: Whether the rules will be overtly defied, and whether they will be covertly evaded. This issue also allows only a judgment on the basis of limited experience. Overt defiance seems unlikely, given the extensive support for the system which seems to prevail among the public and the legal sanctions provided by the Economic Stabilization Act. Evasion may be a greater problem. A control system is imposed upon millions of economic units by an administrative staff of 3,000 or 4,000. Whether control measures can succeed will depend upon three things:

(a) The continued belief of the American people that compliance with the program is essential to the national interest;

(b) The ability of the managers of the system to devise self-executing rules;

(c) The judgment of the Cost of Living Council in excluding from the system, at the appropriate time, sectors of the economy which do not add greatly to inflation but make important inroads on the resources of the control system. In mid-January, the CLC moved along this path by exempting from coverage all retailers with annual volume of less than \$100,000 and, under certain circumstances, rental units owned by individuals with fewer than four such units. Exclusion of these numerous small units from coverage will permit the administrators of the controls system to focus their efforts and resources on large economic units which have a far greater impact on markets and whose competition will in turn limit price increases by the uncovered units.

On the basis of the experience so far, we believe that the program will help achieve the economy's transition to a situation in which reasonable price stability can be expected without controls. The outcome will depend in large part upon decisions made, and still to be made, by the Cost of Living Council, the Pay Board, and the Price Commission. However, it will depend even more upon the support and self-restraint of the American people. This is the inescapable character of the system.

BUDGET IMPLICATIONS OF WAGE AND PRICE CONTROL POLICY

Mr. MAHON. Mr. Stein, what are the implications for the budget?

Mr. STEIN. There are two kinds of implications for the budget. One is that the Government is a very big purchaser. And it not only purchases a lot of things, it pays for other people's purchases of things, for example, through the medicaid and medicare programs. As the operation of the price and wage control system tends to hold down prices, including the prices of things that the Government buys, it tends to hold down Government expenditures. In that sense it has a very positive effect on the money level of Government expenditures.

It also does provide a certain additional defense against inflation, although I would not suggest that it provides by itself a sufficient defense. That is important in considering the nature of the budgetary decisions you are going to make.

WITHDRAWAL OF WAGE AND PRICE CONTROLS

Mr. MAHON. When do you estimate it will be practical to withdraw wage and price controls? Will it be at the end of this year? Will it be within a few months? Will it be next year? What is the best estimate you can give us on this question?

Mr. STEIN. I wouldn't like to give you an estimate on that subject, sir. We have a very clear position in the administration that the program will be continued as long as it is necessary to achieve its objective and not one day longer. To say now how long that will be is a prediction about the behavior of the economy in a circumstance that we have not previously experienced, and I am afraid that for me to make a guess about the month in which this might occur could be misleading to many people.

The Congress extended the authorization to April 30, 1973, and I believe the budget contains funds to carry the program on through that date.

Mr. MAHON. Do you think it would probably be desirable to end it sometime next year?

Mr. STEIN. I think that is a matter that will have to be decided in light of the economic circumstances as they then exist.

Mr. MAHON. Mr. Bow.

BALANCED BUDGET POLICY

Mr. Bow. Mr. Stein, I have been a Member of Congress now for 22 years. During that period of time I have made a good many speeches about balanced budgets and spending limitations. I made a speech on the floor of the House, within the last few days, supporting this present budget with deficit spending, because I believe that what we have now is a different situation than what we had back in 1968 and 1969.

I should like to have you tell us today when you think we may be able to come to that day when we may have a balanced budget and begin to pay off this terrific debt that we have. Would you like to address yourself to that?

Mr. STEIN. Yes, sir. In the first place, it is certainly the intent and the expectation of this administration that we will regain the position in which the actual budget is in balance. We have established a budget

program for 1973 which would bring the budget into balance when the economy regains full employment, and it is the effort of the administration, the intent of the administration, and the expectation of the administration, that we will regain full employment.

Mr. Bow. When you speak about full employment what are you talking about; 4 percent?

Mr. STEIN. The calculations in the budget are based on 4 percent.

Mr. Bow. Right; go ahead.

Mr. STEIN. Moreover, I believe that the policy on which we have embarked, which gives the economy a good deal of stimulus at this time, is the policy most likely to get us to full employment and to a situation of balance in the budget. If we tried some other, weaker policy, we would only perpetuate our lag below full employment and perpetuate the period in which the budget remains unbalanced. Therefore, I think a policy of balancing the Federal budget in these days must be a policy of getting the economy back to operation at its potential level.

Mr. Bow. Forgetting the full employment budget, getting back to the unified budget, the administrative budget, whichever one you want to take, is it the desire of this administration that we have a balanced budget?

Mr. STEIN. It certainly is. I don't know how I can make that any clearer.

Mr. Bow. I want it just as clear as we can make it, because I spent 22 years preaching this theory. I am sure the administration has done the same thing. We now are in a situation going from a wartime economy to a peacetime economy, which finds us in a very difficult position, but do we still believe in a balanced budget?

Mr. STEIN. Yes; we do.

VALIDITY OF ECONOMIC ASSUMPTIONS UNDERLYING THE BUDGET

Mr. MAHON. Thank you for that affirmation. What do you think of the validity, Mr. Chairman, of the assumptions that underlie the budget? Are we going to have a hearing here next year and have someone say, "So sorry, our Federal funds deficit calculations which we made in January 1972 were \$22 billion in error on the low side?" What do you think it is going to be like when we meet in January 1973? Will someone say, "So sorry" or will someone say, "I told you so, it is great?"

Mr. STEIN. I think the economic assumptions underlying this budget are very realistic and moderate, and are certainly not higher than estimates that are commonly being made by forecasters of the economy outside of this administration.

We explain in our economic report the basis for our estimate of an increase of approximately \$100 billion in the gross national product between calendar 1971 and calendar year 1972. Of course, economics is not an exact science. If anybody needs to remind you of that I will. There are a number of uncertainties, which we point out in our report, but these uncertainties we think lie on both sides of our estimate and I would not think it is more likely that the outcome will be below our estimate than above it.

Mr. MAHON. You were rather certain last year, when we had these hearings, that the projections at that time were sound and would be

realized. Of course they were not sound. But you feel confident this year, as you did last year, but you just can't predict what is going to develop.

Mr. STEIN. I would like to differentiate the projections we made last year from those that are being made now. At that time we knew that our projections for the year were quite different from those being made generally by private economists, that our projections were well above their consensus, and there was a reason for that. The reason was that we have an obligation not only to project but to establish some targets and try to move toward them. We did not believe that the projections made by private economists were a description of a satisfactory course of the economy. We laid out what we thought was a satisfactory course, and we said that if the policy we had then was not leading to it, we would adapt the policy.

We came to the middle of 1971 and found that we were not moving on the track that we had laid out at the beginning of the year, and made a very sharp turn of policy. The forecast that we are now making does not imply any wrench of the economy off the path on which it seems to be embarked. It does not imply any very great increase in the rate of expansion of the economy over that which we experienced in the fourth quarter of 1971. As I have indicated, it is one that is supported by a great many private experts, and I feel that it does not entail the same difficulties of achievement that were entailed by the forecasts of last year.

Mr. CEDERBERG. Will the chairman yield to me there?

Mr. MAHON. Yes.

Mr. CEDERBERG. Isn't it true, however, that there is no way in the world you can know what actions this Congress is going to take during this session or this year that may mandate you to do things that aren't projected in your plans? Such action could throw your projections off. This being 1972, an election year, I make no predictions as to what actions this Congress may initiate or whether it will go along with the spending ceiling. Don't you have to consider that?

Mr. STEIN. Yes, certainly. I thank you for that qualification. Our projections are based on the policy that the administration has put forward. If policy adopted by the Congress is significantly different from that, then the economic outcome we would expect would be different.

EROSION OF THE 1972 BUDGET DEFICIT PROJECTION

Mr. MAHON. Mr. Shultz, at this point in the record, would you put an analysis of the \$27.2 billion swing from the \$11.6 billion unified budget deficit projection made last year to the \$38.8 billion projected now for fiscal 1972. Just put it in the record.

Mr. SHULTZ. Yes, sir.

(The information follows:)

GROWTH OF THE 1972 DEFICIT
(in billions)

January 1971 estimate.....	\$11.6
Congressional referral of social security tax base increase, March 17, 1971 (reduced revenues).....	+2.5
President's August 15 proposals:	
Import surcharge (for period it was in effect, only) ^{a/}	-0.5
Other tax proposals ^{b/}	+5.8
Outlay reductions.....	-4.8
Congressional change in August 15 tax proposals.....	-1.4
Congressional increase in outlays, affecting both January 1971 estimates and August 15 proposals.....	+4.8
Effect of economic activity on revenues projected last January.....	+12.9
Uncontrollable outlay increases (unemployment benefits, farm price supports, public assistance shift, etc.).....	+6.0
Reestimates... ..	+1.8
Receipts (+.2)	
Outlays (+1.6)	-----
January 1972 estimate.....	38.8

a/ Estimate on August 15 was \$2.1B for full fiscal 1972.

b/ Revised from August 15 estimate of \$6.3B.

Mr. MAHON. I will yield to anyone on my left who has a question. The gentleman from Indiana.

BASIS FOR 1972 PROJECTIONS

Mr. ROUSH. Mr. Chairman, I am rather astounded with the statement I just heard. I thought that last year the projections were based upon studies and information in the hands of some of the Nation's most prominent economists. It was not based on a track we hoped to go on, but on a track which was set out for us.

To my mind this leaves some doubt, not only to your projections for this year, but also to projections that you may make in other areas. I sat through the hearings last year and came to the conclusion that you were not telling us what we hoped to do, but what you were going to do based upon facts, that were based upon good sound projections. I don't understand the statement I just heard, Mr. Chairman.

Mr. STEIN. I would like to explain it. I didn't appear before this committee last year, but I think that our written report made it quite clear, that there was a common range of forecasts in the country. We thought those forecasts were too low because we said it was the goal of the administration to do more than that. Moreover, we believed that the combined policy of the administration and the Federal Reserve would achieve more, so that we said this was both our goal and our expectation, and that was accurate.

Now if your question is whether we made some mistakes last year, I cannot deny it. As for the reasons for thinking that this year's projections are likely to come true, I can only offer you the analysis item by item which appears in our report, and the confirming estimates of others who may not share our particular biases on the matter.

Mr. MAHON. Are there further questions on my left at this time? On my right is there a question? The gentleman from Michigan?

COST OF FULL FUNDING 1973 BUDGET

Mr. CEDERBERG. We have a word going around these days in the Congress and around the country called "full funding." There are groups known as the full funding groups, wanting to fund everything right up to the limits set forth in some authorizing bills. Could you give us an estimate as to what would happen if all of these authorizations were fully funded?

Mr. SHULTZ. We can estimate the amount. You can get an idea of it by looking at the authorizations shown on one of the morning's charts.

Mr. CEDERBERG. Would you just give me an estimate now, and correct for the records if necessary.

Mr. SHULTZ. Sam Cohn is here. He is working on his 26th budget, I am told. I think we ought to have a celebration or something.

Mr. MAHON. Perhaps you could give us a ball park statement.

Mr. SHULTZ. We now estimate that full funding would raise outlays by something in the order of \$20 to \$30 billion a year.

Mr. CEDERBERG. So if we went the full funding route, even half way, we could add \$10 to \$15 billion more to what we are talking about right now.

Mr. SHULTZ. Easily.

Mr. CEDERBERG. This is a further indication to me that the time has come to put the rigid ceiling on spending that you have requested, if we are ever going to expect to get our fiscal house in anywhere near order at all.

REVENUE LOSS DUE TO 1969 AND 1971 BILLS

There are always two sides to a budget, the revenue side and the spending side. How much did Congress reduce revenues over and above what the President requested in his request for reductions in revenue?

Mr. SHULTZ. In the August requests?

Mr. CEDERBERG. I am talking about the 1969 tax bill. I think the Congress went beyond what the President requested by several billion dollars. Do you have any idea about how much we did there?

Mr. WALKER. On the tax side alone in the Revenue Act of 1971 it was about \$4.4 billion in fiscal year 1972, but the Congress did very close to what the President requested there. There wasn't that much difference. In other actions that have to do with employment taxes, contributions and a few other areas, the 1971 legislation reduced the revenue that we estimated in the January 1971 budget by \$6.6 billion.

Mr. CEDERBERG. It was my understanding in the act of 1969 that the Congress did go far in excess of what the President requested in reductions.

Mr. WALKER. Yes, sir; that would be a very large figure. In the 1969 act we sent up tax reform proposals which were balanced, completely balanced. The results of the reform actions, including the repeal of the investment credit, were not any net revenue reductions, but if you take the period 1970 through 1973, as a result of the 1969 act, let's just take the year 1971 as an example. Individual tax relief, as a result of the 1969 act, was \$4.6 billion, that is calendar year 1971, whereas corporate taxes increased \$3.6 billion.

Mr. CEDERBERG. Please include a table reflecting that. I think the record will indicate that when requests for a reduction do come from an administration, regardless of the party, the Congress usually exceeds to some degree the amount that the administration requests as far as reductions are concerned. These changes affect your overall budget figures.

(The information follows:)

Revenue Effect of Tax Reform Act of 1969 ^{1/}
by Calendar Year of Liability

	(\$ billions)			
	Calendar Years			
<u>Tax Reform Act of 1969</u>	1969	1970	1971	1972 : 1973
Reform and relief:				
Individual	-1.4	-5.2	-8.1	-10.8
Corporation	<u>+1.0</u>	<u>+1.1</u>	<u>+1.2</u>	<u>+1.3</u>
Total	-0.4	-4.1	-6.9	-9.5
Termination of investment credit:				
Individual	+0.4	+0.6	+0.6	+0.6
Corporation	<u>+0.5</u>	<u>+1.9</u>	<u>+2.7</u>	<u>+2.9</u>
Total	+0.9	+2.5	+3.3	+3.5
Total	<u>+0.9</u>	<u>+2.1</u>	<u>1/ -1.0</u>	<u>-3.6</u>
				<u>-6.0</u>

February 1, 1972

Office of the Secretary of the Treasury
Office of Tax Analysis

^{1/} Excluding surcharge.

PEACE DIVIDENDS

Mr. CEDERBERG. We have also heard a great deal, and the director has referred, to the peace dividend. You would certainly have to say that current spending of 45 cents of the Federal spending dollar for human resources and 32 cents for defense, which is a complete turn around from what it was a few years ago, is really a part of that peace dividend, in addition to the tax reduction that all taxpayers are now receiving.

Mr. SHULTZ. That is absolutely right.

THE BALANCED BUDGET

Mr. CEDERBERG. Is there any way you think this budget can be balanced without doing irreparable damage to the economy or to several programs which mean so much to so many people?

Mr. SHULTZ. No, Mr. Congressman. The President has put forward a budget that he thinks is the right budget for the times, and would not want to try to balance it.

Mr. CEDERBERG. And you really haven't any choice but to take the position that you are taking.

Mr. SHULTZ. In budgeting, I believe we always have to adapt the budget to the times. Budgeting is not something that should be done as though we were operating in a vacuum.

Mr. CEDERBERG. I think this has been stated many, many times, but you don't have anything in this budget for expenditures or for revenues that haven't been approved by the Congress, have you?

Mr. SHULTZ. I believe we have.

Mr. MAHON. Yes, revenue sharing.

Mr. CEDERBERG. You had revenue sharing in last year's budget, so it is pending before the Congress.

Mr. SHULTZ. That is right.

Mr. CEDERBERG. Hearings have been held as a matter of fact. Revenue sharing has been embraced by, I believe, the chairman of the Ways and Means Committee in one form or another. You really can't spend any money that you are proposing, unless the Congress gives you the authorization or the appropriation to do so; isn't that right? The ultimate responsibility of whether or not we are going to run these deficits rests right here on this side of the table and not over here.

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

Mr. CEDERBERG. Yes.

WITHHOLDING APPROPRIATED FUNDS

Mr. GIAIMO. The Congress may authorize and appropriate but isn't it so that many times you do not spend the money that Congress appropriates and don't you in fact hold back considerable billions of dollars in expenditures?

Mr. SHULTZ. The reserves that are genuinely restrictive, in the sense that they are intended to prevent some spending that would otherwise have taken place, are very small relative to the total.

Mr. GIAIMO. But isn't it a fact that at one point last year there were approximately \$11 billion in authorized appropriations or new obligational authorities which were not expended, and held back?

Mr. MAHON. Mr. Giaimo, Mr. Weinberger has a statement in regard to that particular problem. That is a good question and tomorrow we expect to get into it in detail.

Mr. GIAIMO. Fine; the point I am making, Mr. Chairman, is this. I have been listening to some of the statements which have been flowing back and forth, and they sound suspiciously self-serving to me. I want to make it clear that in my own opinion it isn't just the responsibility of Congress, and it isn't just Congress which is to blame because it has compelled or forced the administration to make greater expenditures that it would otherwise make. There is flexibility on the part of the administration. It can hold back and it does not have to expend all of those sums appropriated and authorized by Congress.

Mr. SHULTZ. We believe that your statement is absolutely correct, and I would like the record to show that clearly.

Mr. CEDERBERG. I want to go on record as stating that I also believe that statement is correct.

Mr. MAHON. The gentleman will proceed.

Mr. WHITTEN. I think this should go into the record. Everybody has his individual viewpoint. I wish to make it clear that the executive branch has the power to fail to carry out the appropriations or to use them as provided by the people's branch of the Congress, but I would like to draw a sharp distinction between having the power and having the moral right to spend what he wishes and to withhold what he doesn't wish. If that is carried to the *n*th degree we haven't got a legislative body, we have only an executive which runs both branches. I want the record to show that that is the way I feel.

REVENUE EFFECT OF TAX LEGISLATION SINCE 1962

Mr. MAHON. On page 8 of the budget message there is an italicized sentence as follows:

In 1973, individuals will pay \$22 billion less in Federal income taxes than they would if the tax rates and structure were the same as those in existence when I took office.

There is further elaboration of this point. Mr. Walker, I wish you would make sure, in response to the questions which have been provided here by Mr. Cederberg, that you give us, for the record, positively the impact of the tax reductions in the 1969 act and in the 1971 act.

Mr. CEDERBERG. Mr. Chairman, if you wouldn't object, I think it might not be bad to go back to the 1964 act.

Mr. MAHON. I think it would be well.

Mr. CEDERBERG. That would give us a decade of what has happened with revenues. It might give us a clearer picture.

Mr. MAHON. Yes, give us the picture of the eroding tax base. That is what it has been, an eroding tax base, which in my opinion has been very significant, and which has a very direct relationship to the situation now confronting us. Make it as clear as you can, so that we, who are not economists, can understand it.

(The information follows:)

Estimated Effect on Calendar Year Tax Liabilities of Tax Actions Since 1962
Excluding Trust Fund Taxes and User Charges

	Calendar Years											
	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
(\$ billions)												
<u>Revenue Act of 1962</u>												
Investment credit:												
Individual	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6
Corporation	-0.8	-1.1	-1.3	-1.7	-2.0	-2.1	-2.4	-2.5	-2.6	-2.8	-3.0	-3.2
Other provisions:												
Individual		+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3
Corporation		+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2
Total	-1.0	-0.6	-0.8	-1.3	-1.6	-1.7	-2.0	-2.2	-2.4	-2.6	-2.8	-3.0
<u>Depreciation guidelines of 1962</u>												
Individual	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Corporation	-1.0	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.8	-0.8	-0.9	-1.0
Total	-1.2	-1.0	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.9	-0.9	-1.0	-1.1
<u>Revenue Act of 1964</u>												
Individual		-6.7	-12.2	-13.3	-14.3	-15.5	-16.5	-17.3	-18.6	-20.9	-22.9	-24.9
Corporation		-1.6	-3.0	-3.3	-3.2	-3.4	-3.4	-3.4	-3.1	-3.3	-3.8	-4.1
Total		-8.3	-15.2	-16.6	-17.5	-18.9	-19.9	-20.4	-21.7	-24.2	-26.7	-29.0
<u>Excise Tax Reduction Act of 1965 (excluding reductions later rescinded)</u>												
Individual				-0.9	-2.8	-2.8	-3.0	-3.1	-3.2	-3.4	-3.5	-3.6
Corporation												
Total				-0.9	-2.8	-2.8	-3.0	-3.1	-3.2	-3.4	-3.5	-3.6
<u>Other excise legislation</u>												
Individual												
Corporation												
Total												
<u>Revenue and Expenditure Control Act of 1968</u>												
Individual												
Corporation												
Total												
<u>Extension of surcharge</u>												
Individual												
Corporation												
Total												
<u>Tax Reform Act of 1969</u>												
Extension of surcharge:												
Individual												
Corporation												
Total												
<u>Other provisions:</u>												
Individual												
Corporation												
Total												
<u>Total</u>												
Individual												
Corporation												
Total												

+2.1
+0.8
+2.9

- 2 -
(\$ billions)

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Reform and relief:											
Individual					-1.4				-1.4	-5.2	-8.1
Corporation					+1.0				+1.0	+1.1	+1.3
Total					-0.4				-0.4	-4.1	-6.9
Termination of investment credit:											
Individual				+0.4	+0.6				+0.6	+0.6	+0.6
Corporation				+0.5	+1.9				+0.5	+2.7	+2.7
Total				+0.9	+2.5				+0.9	+3.1	+3.5
Total				+0.9	+5.0				+0.9	-1.0	-3.6
Administrative Depreciation Reform											
Individual									-0.6	-0.6	-0.5
Corporation									-2.2	-2.7	-3.2
Total									-2.8	-3.4	-3.7
Revenue Act of 1971											
Individual									-1.3	-1.3	-1.7
Corporation									+0.5	+0.5	-2.1
Excise									-0.8	-2.2	-1.9
Total									-1.6	-3.0	-5.7
Grand Total	-2.2	-1.6	-10.0	-18.2	-21.8	-22.7	-16.0	-13.8	-21.8	-34.1	-46.5
Individual											
Corporation	-0.4	-0.2	-6.8	-12.4	-13.5	-14.5	-10.5	-8.6	-16.4	-25.5	-33.3
Excises	--	--	3.2	4.9	-5.5	-5.5	-2.6	-2.2	-2.3	-4.5	-7.6
Total	--	--	3.2	4.9	-2.8	-2.7	-2.9	-3.0	-3.1	-4.1	-5.6

Office of the Secretary of the Treasury
Office of Tax Analysis

January 21, 1972

194B

1/ Interest equalization tax beginning in calendar year 1964; tax on foundations beginning in 1970.

2/ Less than \$50 million.

The gentleman from California.

Mr. McFALL. Mr. Chairman, with reference to the matter which Mr. Cederberg discussed, this was a matter which was discussed with Mr. Connally last year. I believe that the hearings from last year will show that in the first 2 years of operation the 1969 tax bill passed by the Congress provided more revenue, and the reduction in the tax did not come about until the third year. I would like to insert that portion of last year's hearings at this point in the record. I would also like to insert in the record at this point an indication of how much we have cut the President's proposal for appropriations in every Congress in the last few years.

Mr. CEDERBERG. Mr. Chairman, will you yield to me?

Mr. MAHON. Yes.

CONGRESSIONAL ACTION ON BUDGET OUTLAYS—1969-72

Mr. CEDERBERG. I think that would contribute to the record. However, I would also like to have accompanying that the actions of Congress that mandate expenditures, including those that we don't necessarily have any control over in the appropriations process, which, for instance, happens in your unemployment compensation programs. We don't have any immediate control over those things. I think you have to have the whole picture that reflects what the total congressional action was, not just what the appropriations action was.

(The information follows:)

IMPACT OF CONGRESSIONAL ACTION
ON BUDGET TOTALS,
FISCAL YEARS 1969-72 1/

(in millions of dollars)

	Enacted impact on:	
	Budget authority	Outlays
FISCAL YEAR 1969		
--90th Congress, 2nd Session:		
Appropriation bills.....	-13,288	-4,225
Mandatory authorization measures.....	+272	+252
Other measures, including inaction on Administration proposals.....	+540	+24
Subtotal.....	-12,476	-3,949
--91st Congress, 1st Session:		
Appropriation bills.....	-462	-325
TOTAL, FISCAL YEAR 1969.....	-12,938	-4,274
FISCAL YEAR 1970		
--91st Congress, 1st Session:		
Appropriation bills.....	-5,594	-2,920
Mandatory authorization measures.....	+212	+133
Other measures, including inaction on Administration proposals.....	+5,858	+2,449
Subtotal.....	+476	-337
--91st Congress, 2nd Session:		
Appropriation bills.....	+158	+51
Mandatory authorization measures.....	+107	+94
Other measures, including inaction on Administration proposals.....	+996	+186
Subtotal.....	+1,262	+331
TOTAL, FISCAL YEAR 1970 2/.....	+1,738	-6
FISCAL YEAR 1971		
--91st Congress, 2nd Session:		
Appropriation bills.....	-1,706	-211
Mandatory authorization measures.....	+1,971	+2,314
Other measures, including inaction on Administration proposals.....	+2,421	+1,276
Subtotal.....	+2,685	+3,379

	<u>Enacted impact on:</u>	
	<u>Budget</u>	<u>Outlays</u>
FISCAL YEAR 1971 (cont'd.)		
--92nd Congress, 1st Session:		
Appropriation bills.....	-911	-446
Mandatory authorization measures.....	-157	+626
Inaction of Administration proposals.....	-495	-273
	<hr/>	<hr/>
Subtotal.....	-1,564	-92
TOTAL, FISCAL YEAR 1971.....	+1,121	+3,287
FISCAL YEAR 1972		
--92nd Congress, 1st Session:		
Appropriation bills 3/.....	-2,222	-744
Mandatory authorization measures.....	+702	+3,586
Other measures, including inaction on Administration proposals.....	-4,946	-2,915
	<hr/>	<hr/>
TOTAL, FISCAL YEAR 1972 4/.....	-6,466	-73

- 1/ Source: Budget Scorekeeping Report, Joint Committee on the Reduction of Federal Expenditures.
- 2/ The budget request to which these totals relate reflects revisions transmitted to the Congress on April 15, 1969, shortly after the current Administration took office, which comprised reductions from the budget totals of \$5,511^{million} in budget authority and \$4,022^{million} in outlays. The totals do not take into account reductions of \$25 million in outlays, made by the President during the Summer Review of the 1970 Budget.
- 3/ Includes, for purposes of comparability, -\$1,582 million in budget authority and -\$500 million in outlays for the Foreign Assistance Appropriation, which was pending at the adjournment of the first session.
- 4/ Through the end of the 1st Session of the 92nd Congress. Included in the indicated change are decreases of \$3,506 million in budget authority and \$2,419 million in outlays, reflecting inaction on the President's general and special revenue sharing proposals. These decreases assume the deletion of all amounts for revenue sharing in fiscal 1972. The 1973 budget proposes that general revenue sharing be made retroactive to January 1, 1972, and includes \$2,500 million in budget authority and \$2,250 million in outlays for fiscal 1972.

IMPACT OF CONGRESSIONAL ACTION ON BUDGET TOTALS,
PAST FOUR SESSIONS OF CONGRESS

(in millions of dollars)

<u>All measures enacted during:</u>	<u>Enacted impact on:</u>	
	<u>Budget</u>	<u>Outlays</u>
	<u>authority</u>	<u></u>
90th Congress, 2nd Session <u>1/</u>	-12,989	-4,359
91st Congress, 1st Session.....	+14	-662
91st Congress, 2nd Session.....	+3,947	+3,711
92nd Congress, 1st Session.....	-8,030	-165
Total.....	-17,058	-1,475
Average change (per session).....	-4,264	-369

1/ Includes -\$513 million budget authority and -\$410 million outlays, reflecting impact on the fiscal year 1968 budget of action during this session.

TAX REFORM ACT OF 1969

Mr. WALKER. I do have some figures here on the Tax Reform Act of 1969. When I stated that the tax reform proposals which the administration sent up were balanced, that is correct, but as a result of some problems on the Hill at that time, you will recall that both the investment credit repeal and the extension of the surcharge, which had passed the House more or less separately, were all put together in the Senate, and the extension of the surcharge was a different factor there, but relative to what the original Treasury proposals were for the Tax Reform Act and the legislation that came out, in 1970 our proposals in all of these aspects would have raised \$4.3 billion. What happened is the Congress raised \$3.8 billion or a half billion less. The shortfall in 1971 vis-a-vis Treasury proposals and what came out was \$2.9 billion negative, and by 1972 it was \$5.7 billion negative. But in the first couple of years, yes, the Tax Reform Act, partly because the surcharge was part of it, raised net revenue.

Mr. McFALL. In the first 2 years the legislation passed by the Congress raised more revenue than the proposals made by the administration.

Mr. WALKER. No, less; half a billion dollars less in 1970 and \$2.9 billion less in 1971. Where it really hits is when you get down around 1973 and 1974 in the Tax Reform Act alone, which has been changed by the Revenue Act of 1971. In 1974, our proposals would have raised \$4.2 billion, but Congress did lower it \$6.7 billion or a \$10.9 billion revenue shortfall, which is part of the pinch.

Mr. McFALL. That is not the way Mr. Mills explained it to me when we passed the legislation, and that is not what is in the hearings of last year from Mr. Connally's statement. Mr. Chairman, I will get the information and put it in the record.

(An excerpt from p. 170 of the 1972 hearings follows:)

REVENUE TRENDS AND 1969 TAX REFORM ACT

Mr. McFALL. Mr. Secretary, in reply to Mr. Robison's question of the effect of the Tax Act of 1969, I think some of the answers you gave are at variance with the description of the effect of the act by the House Ways and Means Committee chairman, Mr. Mills. As I undersand Mr. Mills' statement, the tax cut features of the act are not effective until the third calendar year after the passage of the act. In the first 2 years of the operation of the Tax Act, there is a \$6.4 billion surplus over and above the tax structure as it existed prior to the change.

When I discussed this last year with Secretary Kennedy, I asked him about the tax cut, and he said the tax cut we are referring to is the cut from the bill which the President sent up to the Senate as a suggestion of how he would want the Tax Act to be constructed. I think there is a difference on this basis.

Is Mr. Mills right or are you right?

Secretary CONNALLY. I think we are possibly both right, and we may be talking about apples and oranges.

The first year, 1970, fiscal year, there was a net increase overall of \$1.2 billion.

Mr. McFALL. A net increase?

Secretary CONNALLY. The second year there is a net increase of \$200 million. The third year there is a net decrease of \$2.1 billion. Then the next year, 1973, there is a net decrease of \$4.5 and then \$5.9 billion.

Mr. McFALL. This is in conformity with what Mr. Mills said, although his figures were larger than yours. Perhaps his was a projection.

Secretary CONNALLY. I think he added in the surcharge.

I think that is where the big difference is.

Mr. MAHON. I wish the staff would undertake to work with the witnesses with respect to the clarification of the facts here. I am sure

you can work that out. Are there any questions on my right? The gentleman from Illinois.

EXPENDITURE CEILING

Mr. MICHEL. Thank you, Mr. Chairman, I would like to address myself first to the subject of the overall ceiling which Mr. Shultz and his associates have requested, and which I would like to support. We have seen in times past some pretty phony budgets sent up to us here by various administrations, where, in effect, an administration has really tried to legislate or undo what the Congress has done in the way of programs, by refusing to put in the budget \$100 or \$150 million for agricultural conservation payments, or even school milk or similar items.

I ask the question: Are there any of those phony kinds of things in this budget presentation? In my cursory view of it, I didn't notice any, but I would like, for the record, to at least put that question, and get some response, because if we are to have a ceiling, these are surely some fears that have been expressed here about the Executive taking away the prerogatives that the Congress rightly likes to hold for itself once in a while. You are certainly not going to get a ceiling if there are some of these phony cuts in here that automatically are going to cut out programs to which Members of Congress have been very sympathetic.

Mr. SHULTZ. We don't believe that we have phony cuts in the budget. We have tried to do a reasonable job of keeping outlays under control, but, in spite of ourselves, we have funded some of these perennial program issues. I believe they are the ones you are thinking of.

Mr. MICHEL. One other item. Last year I got on the subject of supplementals, and there was no question but that last year we were told that there would be at least a billion dollars in supplementals for the AFDC public assistance program—a significant amount. There are several others. Here again, if we are to have a ceiling—and there are expected to be some supplementals in those amounts of a half billion dollars or \$1 billion—you see there again what the problem is in convincing particularly some members of this committee on the other side, of the prospects of getting a ceiling, if there are going to be some big supplemental requests without an escape hatch there to account for it.

Mr. SHULTZ. We have made our best estimates of the outlays for the various uncontrollable items that Mr. Weinberger described. Of course, it is possible that our estimate is wrong, and that more will be needed in those areas. If so, then we will have to find places in the controllable areas of the budget where we can make cuts. This gets right to the necessity of withholding funds from certain programs until we can see how the outlays are developing. I think this is inevitably part of applying a spending ceiling.

Mr. MICHEL. But I am sure you would all recognize here, if we are talking in the magnitude of a half billion dollars or \$1 billion, that if on these uncontrollable items such as public assistance we were forced to ante up another \$1 billion that just went out really not very productively in any sense at all—out in the hinterlands to spur the economy, as distinguished from \$1 billion that would go into spurring housing construction or something of that kind, it makes

a great deal of difference even to those of us who are most sympathetic to an overall ceiling, and wanting to help you get one.

FEDERAL EMPLOYMENT

Let me turn, if I might, to the level of Federal employment. I don't think that subject has come up. Where are we on the level of Federal employment in bodies, in this fiscal year 1973 as against 1972 and 1970? I know in the economic stabilization program, we and the administration, I think, try to pride ourselves in not building up a big fat bureaucracy that is going to be with us for years and we want maybe just a few hundred individuals from the Internal Revenue Service here, but what are the up-to-date figures on Federal employment? Are there a lot of additional bodies you are asking for here?

Mr. SHULTZ. No, sir. If you look on page 107 of the special analysis, you will see a section on civilian employment in the executive branch. The 1971 actual employment as of the end of June was 2,559,000 including the Postal Service. If you exclude the Postal Service, it was 1,956,000. Our current estimate for 1972 is to bring the 1,956,000 down to 1,918,000. Again that excludes the Post Office. The Post Office is independent, on a somewhat different track, and employment there will have risen from 603,000 to 613,000.

As we look to 1973, we expect a very small increase—about 15,000—from 1,918,000 to 1,933,000 for the nonpostal service area. You can see that we have been making quite an effort to keep control of employment.

REDUCTION OF 5 PERCENT IN FEDERAL PERSONNEL

As you know, in connection with the President's August 15 effort to stimulate the economy, he called for a 5-percent reduction from the planned end of the fiscal year employment levels, and we have been striving very hard to reach that goal. We believe that we will get about a 4-percent reduction. We have not been able to get 5 percent, but 4 percent gives us the reduction I described.

Mr. JONAS. Will you yield?

Mr. MICHEL. One question. Mr. Chairman, do I understand that tomorrow Mr. Weinberger is going to place in the record a statement regarding the withholding of funds?

Mr. MAHON. Yes; that is correct.

Mr. MICHEL. I won't be here and I wanted to be sure that subject was covered.

Mr. MAHON. Will you, in response to the question from Mr. Michel, not only speak in terms of percentage as to personnel, the 4 percent, but how many people really would this be.

Mr. SHULTZ. We are able to cut about 81,000 jobs.

Mr. MAHON. What were you hoping for, about 100,000?

Mr. SHULTZ. We were hoping for 100,000. We didn't quite make it.

Mr. MAHON. Does that mean a net reduction?

Mr. SHULTZ. Yes, sir; a net reduction. In other words, Mr. Chairman, we took the approach that we would not lay anybody off if we could help it, but as people left we wouldn't bring in new people so fast. The employment rolls have declined as a result of that.

Mr. MICHEL. I yield to Mr. Jonas.

TURNOVER RATE IN FEDERAL GOVERNMENT

Mr. JONAS. Mr. Director, you say you are afraid you won't be able to achieve the goal of a 5-percent reduction. You think you will get it down to 4. Why is it impossible to get a 5-percent reduction through attrition? Isn't the turnover rate in the Government in excess of 10 or 12 percent a year? What is the present turnover rate?

Mr. SCHULTZ. I don't know the number offhand. If I may, I would like to get it for you. There is a considerable amount of turnover.

Mr. JONAS. It is substantially higher than 4 percent?

Mr. SHULTZ. Yes; I am sure that is true.

Mr. JONAS. I don't understand why you can't achieve a reduction of 5 percent, if you have a turnover rate of double that percentage.

Mr. SHULTZ. If we could arbitrarily apply a replacement rate to the turnover rate, we could, of course, do it. The problem is in battling this through with the agencies. They want to hire people in order to carry out the programs for which money has been appropriated. We recommend places to cut and they argue back and we move back and forth. You can only be so rough. A reduction of about 4 percent is what we have been able to do in the past months. We will continue working.

Mr. JONAS. If you are a little rougher than you have been, you will achieve the 5 percent, and that was the goal set by the President. I am sure you are correct. You won't find the head of any agency happy about that. They never want to reduce personnel, but somebody is going to have to use a pretty heavy club.

Mr. SHULTZ. You will not find a person in Washington who likes us, if that is the test. It is a wonderful job.

Mr. JONAS. That is one of the penalties you and your associates have to pay for occupying the seats of the mighty.

Mr. SHULTZ. We accept the role, and we have been working at it. We haven't given up, but this is all we could get in these past 2 or 3 months.

Mr. JONAS. I wish you would put that turnover rate in the record Government-wide. It ranges up to 15 percent in some agencies.

Mr. SHULTZ. We will do that.

Mr. MICHEL. Could we have pages 107 and 108 of the special analysis inserted in the record at this point on this subject?

Mr. MAHON. Without objection, and we will insert for the record the Office of Management and Budget bulletin that addresses the personnel reduction:

(The information follows:)

The latest information compiled by the Civil Service Commission ends with September 1971. It therefore does not reflect the effects of the current round of employment reductions which would normally tend to reduce turnover rates. For the year ending with September 1971, the annual Government-wide turnover rate was 16.2 percent.

SPECIAL ANALYSES

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Table H-1. SUMMARY OF FULL-TIME PERMANENT CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH

Agency	As of June ¹				Change 1972-73
	1971 actual	1972 estimate		1973 estimate	
		In 1972 budget	Current		
Agriculture.....	84,252	87,300	83,000	83,400	400
Commerce.....	28,435	29,600	28,500	29,700	1,200
Defense—military functions.....	1,062,741	1,061,600	1,011,000	1,005,800	-5,200
Defense—civil functions.....	30,063	31,300	30,600	31,300	700
Health, Education, and Welfare.....	104,283	102,100	102,000	² 99,500	-2,500
Housing and Urban Development.....	16,030	16,700	15,200	16,000	800
Interior.....	57,570	59,100	56,900	56,900	-----
Justice.....	42,662	46,800	45,100	46,300	1,200
Labor.....	11,352	12,100	11,800	12,600	800
State.....	23,398	23,700	22,700	22,800	100
Transportation.....	68,489	71,900	66,400	69,200	2,800
Treasury.....	90,135	100,400	98,500	99,200	700
Atomic Energy Commission.....	6,920	7,000	6,700	6,900	200
Environmental Protection Agency.....	5,959	8,900	8,000	8,500	500
General Services Administration.....	38,076	41,600	39,400	39,400	-----
National Aeronautics and Space Administration.....	29,478	28,400	27,500	26,800	-700
Veterans Administration.....	158,635	160,800	162,700	174,100	11,400
Other agencies:					
Agency for International Development.....	13,477	11,100	12,400	11,800	-600
Civil Service Commission.....	5,324	5,900	5,600	6,000	400
Selective Service System.....	5,569	6,500	6,200	6,100	-100
Small Business Administration.....	4,004	4,200	4,000	4,000	-----
Tennessee Valley Authority.....	13,612	13,300	14,000	14,000	-----
Panama Canal.....	13,967	14,900	14,200	14,000	-200
United States Information Agency.....	9,773	9,900	9,400	9,400	-----
Miscellaneous agencies.....	31,332	33,700	34,300	34,600	300
Subtotal.....	1,955,536	1,988,800	1,916,100	1,928,300	12,200
Allowance for contingencies ³		10,000	2,000	5,000	3,000
Subtotal.....	1,955,536	1,998,800	1,918,100	1,933,300	15,200
Postal Service.....	⁴ 603,782	629,500	613,400	618,500	5,100
Total.....	4,259,318	2,628,300	2,531,500	2,551,800	20,300

¹ Excludes disadvantaged worker-trainees in the Public Service Careers program.² Reflects transfer of federally operated hospitals to local communities.³ Subject to later distribution.⁴ Adjusted to include approximately 39,000 employees previously erroneously classified and, under a labor-management agreement, to be reclassified as full-time permanents in 1972.

Most of the 1973 employment increases occur in:

(1) The Veterans Administration, up by 11,400, for better quality medical care to a greater number of veterans in its hospitals, extended care facilities, and outpatient clinics and other improved services to veterans.

(2) The Postal Service, up by 5,100 or 0.8%, to service a 2.1% increase in mail volume.

(3) The Department of Transportation, increased by 2,800, primarily for air traffic controllers, maintenance, and logistics personnel required for increased air traffic, and other increases for expanded urban and safety programs.

(4) The Department of Commerce, up by 1,200, primarily for the newly organized Social and Economic Statistics Administration, National Oceanic and Atmospheric Administration and the Patent Office.

(5) The Department of Justice, up by about 1,200. Nearly half the increases are in the Bureau of Prisons. The remaining increases are provided for legal staff support for organized crime strike forces, the economic stabilization program, civil rights, and a major emphasis on street and mid-level drug enforcement efforts.

(6) The Department of Housing and Urban Development, up by 800, to provide more effective administration of subsidized housing programs and to deal with current and projected growth in workload related to all housing programs.

(7) The Department of Labor, up by 800, primarily for the new occupational safety and health program.

(8) The Treasury Department, a net increase of 700 in the Bureau of Accounts, the Bureau of Printing and Engraving, the Bureau of Public Debt, the Office of the Treasurer, and the Comptroller of the Currency.

(9) The Environmental Protection Agency, up 500, reflecting increased emphasis on enforcement of air and water quality standards. Significant decreases occur in four agencies. These are:

(1) The Department of Defense, down by 4,500, reflecting workload reductions resulting from withdrawals from Vietnam.

(2) The Department of Health, Education, and Welfare, a net decrease of 2,500, representing the proposed transfer of federally operated hospitals to local communities. The decrease is partially offset by increased emphasis on consumer safety activities in the Food and Drug Administration.

(3) The National Aeronautics and Space Administration, down by 700, due to a rephrasing of space program activity.

(4) The Agency for International Development will decline by 600; virtually all of these reductions are in overseas employment, reflecting further consolidation and centralization of the agency's activities.

TOTAL FEDERAL PERSONNEL

Within the category of total Federal *civilian* employment, full-time permanent employees will account for slightly more than 91% in 1973. The balance is made up of part-time employees, intermittent employees (those employed on an irregular basis), and full-time temporary employees (those in positions occupied for less than a year). The term "total Federal personnel" as used here encompasses Armed Services personnel and civilian employees in the legislative and judicial branches as well as the executive branch civilian employment previously described. The various categories are shown in table H-2.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

BULLETIN NO. 72-5

August 25, 1971

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Federal civilian employment reductions

1. Purpose. This bulletin provides initial guidance on the 5% reduction in Federal civilian employment directed by the President on August 15, 1971, in connection with the economic program he announced on that date.
2. General. New ceilings will be established on June 1972 employment. In addition a ceiling will be placed on dollar totals for civilian personnel compensation and benefits for fiscal year 1972. As soon as data are developed, the Office of Management and Budget will send letters to the heads of departments and agencies establishing specific employment and dollar amounts required to meet the President's directive.

In the meantime, agency heads should take whatever action may be prudent and refrain from taking any action that would inhibit the President's intent to secure the planned employment reduction. The Presidential directive should be carried out in an orderly and nondisruptive manner.

The President expects the active and positive cooperation of all executive agency heads and officials in these essential reductions.

3. Specific Guidance. To assist agencies in their immediate planning, the following guidelines are furnished:

- Every effort should be made to insure that employment reductions occur substantially by attrition.
- Reductions will be made by agencies in such a way that vital and basic services, including those affecting health and safety, will not be interrupted.
- Personnel reallocations within agencies will be made, as required, to meet the needs of the highest priority programs.
- Agency hiring plans should be reviewed to determine whether temporary suspension of hiring new employees is indicated.

- Specified dollar reductions will be applied to fiscal year 1972 obligations for civilian personnel compensation and benefits (budget object classes 11.1, 11.3, 11.5, and 12.1).
- Reductions will be required in both full-time permanent employment and total employment. This will result in the issuance of new and lower employment ceilings for June 30, 1972.
- The average grade reduction in the General Schedule prescribed in OMB Bulletin No. 72-4 will be accomplished, even though the employment base is lowered.

4. Budget Submissions. The fiscal year 1973 budget submission for each agency will be required in accordance with the time schedules set forth in OMB Circular No. A-11. Savings resulting from the reduction in employment and in the average GS grade should be reflected in the budget submitted if this can be done without delaying the submission. If this is not possible, the budget request should be submitted based on the previously planned 1972 employment level. Such requests are to be amended as soon as practicable after submission to reflect the required reductions.

These savings will be reflected in both the 1972 estimates and in the base used in deriving the 1973 estimates. The 1972 estimates will also reflect dollar savings resulting from the 90 day freeze on periodic (within-grade) increases.

GEORGE P. SHULTZ
DIRECTOR

UNEMPLOYMENT COMPENSATION

Mr. MICHEL. Mr. Weinberger, earlier, when the chairman or one of the other members had asked about significant increases, I think you singled out one of the big decreases as being \$1.2 billion, something in that nature, for unemployment compensation.

Mr. WEINBERGER. Yes, Mr. Michel. That is our estimate of what unemployment compensation will cost in fiscal 1973 as compared with fiscal 1972, based on our projection of the fiscal 1973 unemployment rate.

Mr. MICHEL. Can I nail that down a little bit then and ask you what the estimate of unemployment figure was that was used in making that computation?

Mr. WEINBERGER. Yes. The computation is based on a downward unemployment trend from the present 6.1 percent toward 5 percent throughout fiscal 1973.

Mr. MICHEL. Of course there would be one other factor there, depending on what State legislatures may do in the meantime by way of adjusting benefits.

Mr. WEINBERGER. Yes, sir. We have already had to fund an increase in fiscal 1972 because of increases made in unemployment compensation benefits and trigger factors.

SOCIAL SECURITY TAXES

Mr. MICHEL. Let me ask a question or two on the tax bite. Mr. Walker, I noticed in the budget dollar "pie" that usually appears in the first or second page of the budget in brief, that this year 38 cents is expected to come from individual income taxes, and 26 cents from social insurance taxes and contributions. That is the second biggest item and the next is corporate income taxes at 14 cents. Isn't it true or fair to say that the 26 cents from social security could be equally divided, 13 cents coming from corporations or business and 13 cents from individuals.

Mr. WALKER. From businesses, a lot of unincorporated businesses.

Mr. MICHEL. But it is divided equally between what the individual himself contributes and what business contributes, is that true?

Mr. WALKER. Yes.

TAX REFORM

Mr. MICHEL. On that subject of tax reform—and we hear a number of stories critical of the last so-called tax reform in the sense that there were still some millionaires and big money people going tax free—isn't it true that under the Tax Reform Act of 1969, there are several provisions that won't be fully implemented until the year 1974, when it is expected to get at these individuals who, by way of depletion allowance, large philanthropic gifts, et cetera, can get out from underneath the tax man in those brackets?

Mr. WALKER. Yes, sir. Two of the most important items that are phased in, from which those people who were originally disclosed a couple or 3 years ago to have incomes of over \$200,000 and paid no taxes, one big item in those returns was interest expense. That is a phased-in aspect of the Tax Reform Act. I think the final phase-in is just this year.

A second phase—in for a relatively handful of individuals was the unlimited charitable deductions, which also becomes final over a period of years.

We are analyzing those 121 returns. I think they will show that actually instead of the Tax Reform Act of 1969 being ineffective, in closing that particular loophole, it is tending to be highly effective. The numbers have been reduced considerably. We will have those figures available for the Ways and Means Committee and I will also send them to you people as soon as we can.

FULL EMPLOYMENT BUDGET

Mr. MICHEL. Thank you. Mr. Chairman, just one other area that I would like to touch upon if I might. That has to do with the full employment budget concept. I think you say, Mr. Shultz, that it is based upon full employment, or when unemployment is no greater than 4 percent.

Mr. SHULTZ. Yes, that is correct.

Mr. MICHEL. And I think I expressed myself last year as being rather dubious about the prospects of our ever getting down below 4 percent in a period of peacetime. As I look through these unemployment figures, I see that in the year 1950 we were at 5.3 percent unemployed. I remember during the Truman years, Harry Truman saying that 5.2 percent was tolerable. Then, in 1960 the rate was 5.5 percent, in 1961 it was 6.7 percent, and in 1964—as late as that—when we were already involved in the war, but not the big escalation, it was 5.2 percent.

METHOD OF COMPUTING UNEMPLOYMENT

I am concerned—and you were once the Secretary of Labor—about our method of computing unemployment these days. My statistics show that we have considerable movement in the area now, particularly with respect to the number of women employed, the second bread winner in the family.

It's no secret today that working wives who don't particularly like one job will ask whether or not they can vacate that job and look for another that may not be as taxing, and in the interval of change find themselves to be considered as unemployed. Can you shed any light on the problem here of how we are computing these unemployment figures, and whether or not you are going to have to adjust in the future that 4 percent up to 5, or in the Department of Labor make some adjustment as to what are really unemployed individuals?

(The document referred to follows:)

Just a glance at our employment statistics shows how steadily the number of women in the labor force has increased over the years. Since 1948 the number of women in the civilian labor force has increased by more than 85 percent, while the number of men increased by 20 percent. In 1948, women made up a little over 28 percent of the labor force, but by 1971 they accounted for more than 38 percent.

But the most interesting set of statistics has to do with married women working. In 1940, about half of our women workers were single, but by 1960, the percentage of single women working had dropped to less than one-fourth of the female labor force, and in recent years it has dropped even further—to about one-fifth. The percentage of widowed or divorced women has remained relatively constant over the years—at about 15 percent—but the percentage of married women has risen dramatically, from about 36 percent in 1940 to some 64 percent

in 1969. Now, many of these women are what we would call the secondary wage earner in a family, not because their income isn't necessary or important, but because in many cases their earnings are supplemental.

Then, when you break out the unemployment rate among married men—the primary breadwinners—from the total unemployment figure, you find that during a peacetime economy it has generally been about the same or higher than the current 3.2 percent. For example, during the 6 years from 1958 to 1964, it ranged from a low of 3.4 percent in 1963 to a high of 5.1 percent during 1958. The total overall unemployment rate was 5.7 percent in 1963 and 6.8 percent in 1958.

I think these two points—the increase in supplemental wage earners, and the relatively low peacetime unemployment rate for breadwinners—have to be considered when we're discussing the current situation.

Going on from there, when you look at the unemployment rate historically, you get the picture I mentioned before that led me to the question of whether or not we can or should expect to attain an overall unemployment rate of 4 percent or less in peacetime.

When you put the overall unemployment figures on a graph, you see that only once since 1930 was the peacetime unemployment rate lower than 4 percent, and that was during 1946, 1947, and 1948 when we were trying to catch up in production of consumer goods—cars, refrigerators, and so forth. And, even then the rate was 3.9 percent for 1946, 3.9 percent for 1947, and 3.8 percent for 1948—not much below 4 percent.

Another thing we tend to forget is how really high the unemployment rate was during the entire period of the 1930's. It started out at nearly 9 percent in 1930 and went rapidly up to 25 percent in 1933, dipped to over 14 percent in 1937, then went back up to 19 percent in 1938. By 1940, it had come down to less than 15 percent, but as late as 1941, the rate was 10 percent.

Now, admittedly, this chronology doesn't have much bearing on our current situation, but I think we need a little better perspective on the unemployment picture generally, and I believe this helps put it in context.

So, the question remains, is a 4 percent peacetime unemployment figure realistic even as a target, as an objective? When you consider that during 1971 there were more than 600,000 new entrances to the work force, and some 900,000 men discharged from the Armed Forces, and that even so, civilian employment showed an increase, as it has steadily year after year, it seems that our economy must be pretty healthy. Then, when you also consider the fact that we have never attained a 4-percent unemployment rate under what I would consider "ordinary" peacetime conditions, I really wonder if that is a realistic goal?

Mr. SHULTZ. Let me speak first about the unemployment goal. I believe that we can get unemployment down to 4 percent in peacetime. We must try, for that matter, to lower it below 4 percent if we possibly can. Anyone who wants a job and who will work should be able to do so. It seems to me we can't aspire to anything less.

The composition of the labor force, as you suggest, has changed over the last 10 years, or over the last 30 for that matter. A much greater proportion of women, especially married women, want work. Many teenagers want part-time work. All these people, if they can't find work, are counted as unemployed. I see no reason not to regard their problems as significant as anybody else's problems. If they want to work, it's a good thing.

EXPENDITURE CEILING

Mr. MAHON. We have passed the hour to conclude the hearing. We will resume tomorrow at 10 a.m. But before we conclude, there is one question by the gentleman from Maine.

Mr. HATHAWAY. I am sorry I won't be here tomorrow to ask for more detail, but if you want to answer at this time you can expand on it for the record. I am concerned about this expenditure or outlay

ceiling that you are asking for, especially in view of Mr. McFall's remarks. Moreover, for the past 2 or 3 years the Congress has appropriated within the budget. Why is there so much concern that this year you have requested an expenditure ceiling by statute?

Mr. SHULTZ. In the past few years, we have seen that actual budget outlays usually exceed the outlays that were originally projected. Part of this difference is due to congressional action and part is due to unforeseeable increases in uncontrollable areas. We need to get a grip on outlays, and we believe this can be done by a constant monitoring throughout the year of the sum of all the pieces so that as action is taken to fund the individual pieces, we will be more conscious of the effect on and relationship to the total. Our experience suggests that if we don't have something of this kind, we won't be able to hold that total.

Mr. HATHAWAY. You mean even though we have stayed within the budget in the last 2 or 3 years?

Mr. SHULTZ. In 1970 and 1971, actual outlays exceeded our original estimates. Subsequent to the release of our original budgets, additions were made—some by the Congress, some jointly. We regard an outlay ceiling as much as discipline on the executive branch as on the Congress. It certainly is not a suggestion that is aimed solely at the Congress to say, "You have been bad people and now we are trying to discipline you." Not at all. The person who would take most of the heat with this kind of ceiling is the President, because when it looks as though the ceiling will be exceeded, he is the one who is going to have to decide where to cut back and these cutbacks—as we know from the budget process—can make you very unpopular.

But we have to do something. As the Chairman has said, we have a problem and we have to find a way to solve it.

Mr. HATHAWAY. I understand Mr. Weinberger is going to elaborate tomorrow on the discretion that the President has, so I won't go into that now. I would like to ask this question. Assuming we did pass the ceiling, what assurance do we have that the President will not impound funds? For example, if we add a billion dollars to the education budget and take a billion off the defense budget to stay within the ceiling, what assurance do we have that the President won't impound a billion dollars that we added on for education?

Mr. SHULTZ. First, he couldn't simply switch funds that way; if funds are not appropriated for a program, they can't be spent. To put it another way, the President can't add to a program.

Mr. HATHAWAY. I understand that.

Mr. SHULTZ. However, suppose we get halfway through the fiscal year and we find that the way spending is going, we will go over the ceiling. Then what will we do? We will have to draw back somewhere, we will have to restrict spending. That is the only way the ceiling can be maintained.

An effective spending ceiling requires, I believe, placing clearly understood authority somewhere to hold back spending.

Mr. HATHAWAY. That still doesn't answer my question. We will assume we are not running over. We are staying within the \$246.3 billion level. What I am concerned about is if we do any juggling within categories and cut back on defense, as I mentioned, and put that money into education, I know he can't spend the excess that we didn't give him for defense, but could he decide not to spend the excess

that we gave in education, even though the total amount is within the \$246 billion?

Mr. SHULTZ. As long as the total amount was under control, the ceiling would not be operative and there would be no reason why we would have to do that.

Mr. HATHAWAY. Can we be reasonably sure that the President will go ahead and spend it for items that may not necessarily be in his budget?

I could give you other examples. If he has 15 Public Works projects that total \$6 billion, we might knock out all of those that are recommended by the administration and put in 15 others and still stay under the \$6 billion for Public Works. But can we be assured that that \$6 billion is going to be spent, even though they weren't the ones that were recommended by the administration for spending?

Mr. SHULTZ. I wouldn't want to give any blanket assurances.

Mr. HATHAWAY. I for one would not want to make any assurances on a ceiling then, unless I were sure if we did juggle this we are going to have money we appropriate spent for those purposes.

Mr. SHULTZ. When you finally come down to it, if the sort of ceiling that we have proposed were passed, then—when outlays are rising above the ceiling—it would be up to the President to figure out where he is going to hold back. He will have to hold back somewhere, and the somewhere will be a place where Congress has appropriated money.

Mr. HATHAWAY. I am assuming the flow is even and we are not appropriating too much. I am worrying about whether he is going to spend the money that we appropriate for different purposes, although we are still staying within the ceiling.

Mr. SHULTZ. He can't take money that you have appropriated for one purpose and spend it for another purpose.

Mr. HATHAWAY. No, but he can take money we have appropriated for one purpose and not spend it.

Mr. SHULTZ. That is correct. If we are in danger of going over the ceiling, the only way we would be able to hold to it is not to spend as much as has been appropriated.

Mr. MAHON. That is an issue we can pursue tomorrow at greater length, Mr. Hathaway. It seems to me that perhaps we could excuse Mr. Stein for the morning session tomorrow. Perhaps Secretary Volcker, Mr. Shultz, Mr. Weinberger and Mr. Walker could be back in the morning at 10 for a further pursuit of the problems before the committee.

The committee stands adjourned until tomorrow at 10. Thank you very much, gentlemen.

Mr. SHULTZ. Thank you.

FRIDAY, JANUARY 28, 1972.

Mr. MAHON. The committee will be in order.

We will resume the hearing. It seems to me yesterday we explored, as best we could, several of the issues that confront us with regard to the budget. I have made a brief list of things here which I thought we would want to cover a little more adequately this morning. But before I begin I will insert in the record at this point your letter to me, Mrs. Shultz, regarding significant aspects of the budget presentation this year.

(The information follows:)

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

January 25, 1972

Honorable George H. Mahon
Chairman, Committee on Appropriations
House of Representatives
Washington, D. C. 20510

Dear Mr. Chairman:

In accordance with our usual practice, this letter sets forth significant changes in the budget presentation for 1973. We hope that this will assist the members of the Committee on Appropriations in their review of the President's recommendations.

Budget Totals

Public Law 92-126 excluded the Export-Import Bank from the budget totals on and after August 17, 1971. The Bank is therefore presented in the Annexed Budgets this year, for the period after August 16, 1971. For the period prior to conversion, however, the Bank is shown in its former place among other independent agencies. This change is also reflected in various summary tables and special analyses. The Bank continues to be subject to the Government Corporation Control Act, including the requirement for appropriation action by Congress; 1973 appropriation language appears in Part IV of the Appendix (annexed budgets). There is also presented in Part IV a report, prescribed by Public Law 92-126, on the estimates of net lending of the Bank in fiscal year 1972 subsequent to enactment of the law and in fiscal year 1973.

Advance Appropriations

In accordance with our usual practice, advance appropriations are highlighted in the explanation column of Part 5 of the Budget. The 1973 Budget contains only one advance appropriation for 1974, that to the Washington Metropolitan Area Transit Authority.

General Provisions

General provisions of appropriation language are displayed at the end of each agency chapter in the Appendix. Additional general provisions which apply to a group of agencies

contained in a specific appropriations act, are usually placed at the end of the chapter covering the agency that appears first in that act. General provisions contained in the Treasury, Postal Service, and General Government Appropriation Act, 1972 (Public Law 92-49) which are subtitled "Departments, agencies, and corporations," apply Government-wide and are shown at the end of the Executive Office of the President chapter of the Appendix.

Two general provisions contained in Public Law 92-49, which are applicable Government-wide, are proposed for deletion. The first is section 406 pertaining to the procurement of foreign-made handtools. This provision appeared in the Independent Offices and Department of Housing and Urban Development Appropriation Act 1971, and was proposed for deletion during congressional consideration of the Second Supplemental Appropriations Act, 1971. We again propose deletion of this provision because:

- (1) it conflicts with continuing United States policy to seek the elimination of non-tariff barriers to international trade, and is particularly damaging to the U.S. position in international negotiations to secure a fair and uniform approach to foreign source procurement by national governments;
- (2) it increases the costs of the U.S. Government procurement;
- (3) it provides a special preference for a single line of commodities and invites additional proposals for special treatment of others that would result in greater costs to the Government and some damage to our foreign policy.

The second provision proposed for deletion appeared as section 611 of the Treasury, Postal Service, and General Government Appropriation Act, 1972. This provision, which applies to the purchase of typewriters by Federal agencies, has appeared in Federal statutes since 1914. It became unnecessary with the enactment of the Federal Property and Administrative Services Act (40 U.S.C. 471) and issuance of implementing Federal Procurement Regulations, and Federal Property Management Regulations. These regulations govern procurement of property (including typewriters) by all Federal agencies. Further, under the commodity assignment system formalized

through the National Supply Agreement of 1964, General Services Administration was given the exclusive assignment for purchase of all standard office machines and supplies.

Arrangement of the Budget

Several changes have been made in the arrangement of data in the Budget and Appendix. The separate part for Revenue Sharing (formerly Part 2) has been omitted from the 1973 Budget. Since authorizing legislation for this program has not yet been enacted, the additional amounts for revenue sharing in 1973 are displayed in the Appendix in the Legislative Program section of three agency chapters: Amounts for general revenue sharing are presented in the Treasury chapter. Additional amounts for Urban community development revenue sharing are presented in the chapter for the Department of Housing and Urban Development. Education revenue sharing appears at the end of the chapter for the Department of Health, Education, and Welfare. Revenue sharing is also discussed in both the President's Budget Message and Part 4 of the Budget.

In accordance with the Legislative Reorganization Act of 1970 (P.L. 91-510) a new summary table (Table 16) has been added to the Budget to present the future year projections of budget authority and outlays for new or expanded programs under legislative proposals outlined in the budget.

The presentation in Part 5 of the Budget has been simplified by reducing the amount of detailed data shown for the budget authority and outlays of each major trust fund. This detail for each of the major trust funds is displayed in the "Status of funds" table included in the Appendix narrative statement for each fund. Further, in lieu of the tabulation of trust receipts by account title, formerly included in the annexed budgets section of the Appendix, we have added a new table to Special Analysis B presenting receipts and outlays of the major trust funds.

This year, for the first time, we have included in the Appendix, as a new Part III, the proposed appropriation text and explanations for proposed 1972 supplemental appropriations for which reasonably precise estimates can be made whether under existing or pending authorizing legislation. Formal transmittal of these items with the budget will provide more time for congressional consideration of these proposals. The budget schedules for all supplementals, including those now requested, appear in their usual place in the Appendix following the regular budget schedules for the account, if under existing legislation, or, at the end of the chapter, if under proposed

legislation. Supplementals under proposed legislation will be transmitted later in accordance with our usual practice, together with supplementals under existing legislation for which precise determination cannot now be made.

The Exchange Stabilization Fund, previously included in the Treasury chapter though not in the budget totals, is displayed in the Annexed Budgets in the 1973 Appendix.

A Special Analysis N, Federal Civil Rights Activities, has been added to the volume of Special Analyses. The special analysis of selected agency budgets by program categories that was presented last year has been omitted.

Employment Reduction

The impact of the President's personnel reduction is reflected in the budget schedules. Where applicable, amounts of savings to be realized as a result of personnel reductions are displayed on line 25 of the financing schedules as "unobligated balances lapsing" in 1972. In some accounts such savings have been applied to finance additional requirements within current appropriations, or transferred pursuant to Public Law 92-184 to finance the Economic Stabilization Activities (see separate section below).

Pay Raises

Proposed 1972 supplemental appropriations needed for payment of known or expected 1972 wage board pay raises are included in the regular budget schedules on line 44.10. Proposed appropriation language for such estimates of 1972 wage board pay raises is included in Part III. However, since the precise situation concerning further raises in 1972 was unclear at the time the budget was prepared, it is possible that additional supplemental requests may be required. Military pay raises effective in November 1971, pursuant to the P.L. 92-129, are also included in the regular schedules, on line 44.30.

Amounts for pay raises effective in January 1972 for both military and civilian personnel pursuant to Public Laws 90-207 and 92-210 are excluded from the budget schedules. These amounts are included as lump sums under "Allowances" for the Department of Defense, and under "Special Allowances," for all other Government agencies. An estimate of 1973 pay raises is also included. Detailed requests for additional appropriations for the January 1972 pay raise will be transmitted for your consideration as soon as the specific amounts can be determined for both 1972 and 1973.

New Agencies

Several agencies appear for the first time in the 1973 budget volumes.

New appropriations are requested for:

Action (see section on Reorganization Plan No. 1).

Special Action Office for Drug Abuse Prevention, established by Executive Order 11599, dated June 17, 1971.

National Commission on Libraries and Information Science, established by Public Law 91-345.

Office of Consumer Affairs, established by Executive Order 11583, dated February 24, 1971.

Commission on International Broadcasting for which authorizing legislation is pending.

Committee for Purchase of Products and Services of the Blind and Other Severely Handicapped, established by Public Law 92-28.

Pursuant to Section 4 of the Economic Stabilization Act Amendments of 1971 (Public Law 92-210), the National Commission on Productivity is shown as a separate commission in the "Executive Office of the President" chapter of the Appendix. The activities of this commission were initially financed within the appropriation for the Council of Economic Advisers.

In the Appendix, the Legislative Program contains estimates to be requested at a later date: for the Council on International Economic Policy, in the Executive Office of the President chapter; and for the National Foundation for Higher Education and the National Institute of Education, in the Department of Health, Education, and Welfare chapter.

The Commission on Executive, Legislative, and Judicial Salaries, last displayed in the 1971 budget, appears again this year.

Information on the President's Commission on Financial Structure and Regulation is displayed in the Other Independent Agencies chapter of the Appendix, although no appropriation is requested.

Economic Stabilization Activities

For fiscal year 1972, the Congress provided financing in Public Law 92-184 (approved December 15, 1971) for the new Economic stabilization activities account. This account provides for the Cost of Living Council, Pay Board, and Price Commission. Transfers of not to exceed \$20,153,000 were appropriated from balances reserved for savings in such amounts and from such accounts in the Executive Branch as the Director of the Office of Management and Budget may determine. A list of the transfers appears as a footnote to the schedule for the account, in the Funds Appropriated to the President chapter of the Appendix.

The President's Budget for fiscal year 1973 requests a direct appropriation under the title "Economic stabilization activities, Salaries and expenses." In addition, funds for support of the economic stabilization program are included in the fiscal year 1973 budget requests of the Judiciary, and the Departments of Justice, Treasury, and Labor.

Reorganization Plan No. 1

Reorganization Plan No. 1 of 1971 and Executive Order No. 11603 transferred administration of several volunteer programs, as of July 1, 1971, to a new agency to be known as Action. The accounts for Action appear in the "Other Independent Agencies" chapter. The transferred programs include:

Peace Corps (formerly included under Funds Appropriated to the President)

Volunteers in Service to America (from the Office of Economic Opportunity, Funds Appropriated to the President)

Foster Grandparents and the Retired Senior Volunteer Program (from the Department of Health, Education, and Welfare)

Office of Voluntary Action (from the Department of Housing and Urban Development)

Service Corps of Retired Executives and Active Corps of Executives (administered in conjunction with the Small Business Administration)

Since the Peace Corps was transferred in its entirety, amounts applicable to that agency are included in the Action schedules for all three years. Amounts applicable to other programs are included for 1972 and 1973, the period subsequent to the transfer.

Revised Appropriation Structure

Significant reorganizations have taken place within two major cabinet departments. Effective January 1, 1972, the Bureau of Census and the Office of Business Economics have been merged to form the Social and Economic Statistics Administration in the Department of Commerce. The Animal and Plant Health Service was established in the Department of Agriculture on October 31, 1971. The programs of the Service were formerly performed by the Agricultural Research Service. The sequence of accounts has been rearranged. In each department, the reorganizations have resulted in some realignment of the appropriation structure. Where the related accounts have been merged, schedules are so footnoted.

For the Department of Transportation, estimates are presented as the accounts were appropriated in 1972, except for the Federal Aviation Administration's "Operations" account. This account is requested as a general fund appropriation in 1973, in accordance with the provisions of Public Law 92-174. It was formerly an appropriation from the Airport and airway trust fund. The presentation of other accounts follows the simplified structure contained in the 1972 appropriation act.

The Army procurement programs were presented in a single appropriation account for many years. We have this year followed the five-account presentation of the Department of Defense Appropriation Act, 1972.

Presidential emphasis on occupational health and safety, and the passage of the Occupational Safety and Health Act in December 1970, resulted in a Labor Department reorganization. Two new administrations - Occupational Safety and Health, and Employment Standards - were created, to supersede the Workplace Standards Administration.

Revolving Funds

The 1973 budget includes four new revolving funds. In accordance with our usual practice, business-type statements are presented for these funds:

Working capital fund, Treasury Department, established by Public Law 91-614.

Rural telephone bank, Department of Agriculture, established by Public Law 92-12.

Emergency loan guarantee fund, Emergency Loan Guarantee Board, established by Public Law 92-70.

Medical facilities guarantee and loan fund, Department of Health, Education, and Welfare, established under section 626(b) of Title VI, Part B of the Public Health Service Act.

The business-type statements for two other revolving funds, presented last year, are omitted this year pursuant to our informal understanding with the Appropriations Committees; that is, they are neither required by law, and we understand that they are not required in your analysis of the estimates. These funds are:

Revolving fund, National Oceanic and Atmospheric Administration, Department of Commerce

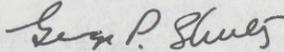
Working capital fund, narcotic hospital, Health Services and Mental Health Administration, Department of Health, Education, and Welfare

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The changes outlined above are designed to provide an appropriate and effective presentation of the President's budget recommendations. These changes also reflect Reorganization Plan No. 1 of 1971 and other public laws affecting the organization and operations of the Executive Branch.

I hope this information will prove useful to the Committee on Appropriations. Please let us know if we can be of any further assistance.

Sincerely,



GEORGE P. SHULTZ
Director

BUDGET AMOUNTS REQUIRING AUTHORIZING LEGISLATION

Mr. MAHON. Would you point out how much of the budget which we will act on in this session will require additional authorization or legislation?

Mr. SHULTZ. For requests transmitted by the budget \$47.6 billion in additional authorizing legislation will be required; in addition, \$10 billion, which is proposed for later transmittal, will be required for proposed new legislation.

Mr. MAHON. It would be helpful, I believe, if you would insert at this point in the record a list of the various amounts in the budget for 1973 for which legislative authorization prior to appropriation action is called for. This would include both a list of proposed new legislation and also a list of expiring authorizing legislation for which extension is requested.

(The information follows:)

1973 BUDGETRecommended Amounts Requiring Additional Authorizing
Legislation

Note:--These amounts are recommended in the 1973 Budget, but the Congress does not generally act on these appropriation requests until after enactment of the authorizing legislation.

(In thousands of dollars)

Judiciary:

Commission on Bankruptcy Laws of the United States	\$ 426
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Executive Office of the President:

Special Action Office for Drug Abuse.....	6,856
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Funds appropriated to the President:

Office of Emergency Preparedness.....	---
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Foreign assistance:

International security assistance:

Military assistance.....	780,000
Foreign military credit sales.....	527,000
Economic supporting assistance.....	807,400

International development assistance:

Multilateral assistance: International organizations and programs.....	175,335
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Bilateral assistance:

Grants and other programs.....	539,358
Development loans.....	634,500

Contingencies.....	100,000
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Office of Economic Opportunity: Economic

opportunity program.....	758,200
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Total, Funds appropriated to the President....	<u>4,321,793</u>
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Commerce:

International activities:

Export control.....	5,507
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Science and technology:

National Bureau of Standards:

Research and technical services.....	8,786
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Commerce-Continued

Science and technology-Continued:

National Oceanic and Atmospheric Administration:

Research, development and facilities.....	900
Fishermen's protective fund.....	61

Ocean shipping:

Maritime Administration:

Ship construction.....	250,000
Operating-differential subsidies.....	232,000
Research and development.....	30,000
Salaries and expenses.....	3,900
Maritime training.....	7,670
State marine schools.....	<u>2,290</u>

Total, Commerce.....	<u>541,114</u>
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Defense--Military:

Military Procurement:

Aircraft procurement, Army.....	134,500
Missile procurement, Army.....	1,153,400
Procurement of weapons and tracked combat vehicles, Army.....	259,500
Procurement of aircraft and missiles, Navy.....	3,871,200
Shipbuilding and conversion, Navy.....	3,564,300
Other procurement, Navy.....	219,900
Procurement, Marine Corps.....	85,200
Aircraft procurement, Air Force.....	2,612,700
Missile procurement, Air Force.....	1,772,300

Research, development, test and evaluation:

Army.....	2,051,100
Navy.....	2,710,900
Air Force.....	3,178,600
Defense agencies.....	507,200
Emergency fund, Defense.....	50,000

Military construction:

Army.....	969,323
Navy.....	490,490
Air Force.....	291,285
Defense agencies.....	46,400
Army National Guard.....	40,000
Air National Guard.....	10,600
Army Reserve.....	38,200
Air Force Reserve.....	16,000

Defense--Military--Continued

Family housing, Defense.....	977,200
Operation and maintenance, civil defense.....	29,041
Special foreign currency program.....	3,000
	<hr/>
Total, Defense-Military.....	25,089,339
	<hr/> <hr/>

Department of Health, Education, and Welfare:

<u>Health Services and Mental Health Administration:</u>	
Health services delivery.....	155,330
Preventive health services.....	8,500
<u>Office of Education:</u>	
Higher education.....	1,449,956
Library resources.....	14,000
Educational renewal (Follow Through).....	177,847
Higher education facilities loan and insurance fund.....	3,352
<u>Social and Rehabilitation Service:</u>	
Social and rehabilitation services.....	864,681
Office of Child Development (Head Start).....	393,642
	<hr/>
Total, Health, Education, and Welfare.....	3,067,308
	<hr/> <hr/>

Department of Housing and Urban Development:

Comprehensive planning.....	100,000
Model cities.....	515,000
Open space.....	100,000
Neighborhood facilities.....	40,000
	<hr/>
Total, Housing and Urban Development.....	755,000
	<hr/> <hr/>

Interior:

<u>Water and Power Resources:</u>	
<u>Bureau of Reclamation:</u>	
Construction and rehabilitation.....	8,840
Upper Colorado River storage project.....	38,185
<u>Water Quality and Research:</u>	
Office of Saline Water: Saline water conversion...	26,871
	<hr/>
Total, Interior.....	73,896
	<hr/> <hr/>

Labor:

<u>Manpower Administration:</u>	
Salaries and expenses.....	52,964
Manpower training services.....	1,633,366
	<hr/>
Total, Labor.....	1,686,330
	<hr/> <hr/>

<u>State:</u> All accounts.....	618,787 ^{1/}
<u>Transportation:</u>	
Office of the Secretary:	
Grants-in-Aid for Natural Gas Pipeline Safety..	1,000
Coast Guard:	
Operating expenses.....	297,693
Acquisition, construction, and improvements....	135,660
Reserve Training.....	23,529
Research, development, test, and evaluation....	1,348
Federal Highway Administration:	
Highway Beautification.....	60,000*
Highway trust fund: Federal-aid highways.....	1,550,000*
Forest highways.....	33,000*
Public lands highways.....	16,000*
Highway-related safety grants (Federal & Trust)..	30,000*
National Highway Traffic Safety Administration:	
Traffic and highway safety.....	36,900
State and community highway safety.....	33,333*
Highway trust fund: trust fund share of highway safety programs.....	66,667*
Federal Railroad Administration:	
High Speed Ground Transportation and Development.....	60,800
Total, Transportation.....	<u>2,345,930</u>
<u>Atomic Energy Commission:</u>	
Operating expenses.....	2,072,830
(Supplemental for 1972).....	(13,300)
Plant and capital equipment.....	366,860
(Supplemental for 1972).....	(9,000)
Total, Atomic Energy Commission.....	2,439,690
(Supplementals for 1972).....	(22,300)
<u>Environmental Protection Agency:</u>	
Waste treatment construction grants.....	2,000,000
Operation, research, and facilities.....	97,000
Total, Environmental Protection Agency.....	<u>2,097,000</u>

* Contract authority.

^{1/} See note on page 5.

National Aeronautics and Space Administration:

Research and development.....	2,600,900
Construction of facilities.....	77,300
Research and program management.....	<u>700,800</u>

Total, National Aeronautics and Space Administration.....	<u><u>3,379,000</u></u>
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Other Independent Agencies:

Action: Operating expenses.....	184,700
(Supplemental for 1972).....	(16,000)
Arms Control and Disarmament Agency.....	10,000
Commission on Civil Rights.....	4,646
Commission on International Radio Broadcasting....	38,795
Corporation for Public Broadcasting.....	45,000
Indian Claims Commission.....	1,050
National Science Foundation.....	653,000
American Revolution Bicentennial Commission.....	6,712
(Supplemental for 1972).....	(2,400)
Smithsonian.....	275
United States Information Agency: All accounts... 1/	198,748
Water Resources Council.....	<u>531</u>

Total, Other Independent Agencies.....	1,143,457
(Supplemental for 1972).....	<u><u>(18,400)</u></u>

Grand Total: 1973 budget authority.....	47,565,926
(Supplementals for 1972).....	(40,700)

1/ The Foreign Assistance Act of 1971 (S. 2819) contains a provision amending Section 701 of the United States Information and Educational Exchange Act of 1948 (22 U.S.C. 1476), to prohibit appropriations to the Department of State and the United States Information Agency in fiscal year 1973 et. seq., except as authorized by legislation enacted after the date of enactment of S. 2819.

1973 BUDGET
Items Proposed for Later Transmittal
Under Proposed Legislation

(in thousands of dollars)

	1972		1973	
	BA	Out	BA	Out
<u>Executive Office of the</u>				
<u>President:</u>				
Council on International				
Economic Policy.....	1,130	980	1,341	1,316
<u>Funds appropriated to the</u>				
<u>President:</u>				
International financial				
institutions.....	380,000	10,000	910,000	103,000
<u>Department of Agriculture:</u>				
<u>Federal Crop Insurance</u>				
<u>Corporation,</u>				
Administrative and				
operating expenses.....	---	---	-1,000	-1,053
FCIC fund.....	---	---	---	1,452
<u>Farmers Home Administration:</u>				
Direct loan account.....	---	-20,158	---	3,977
Agricultural credit				
insurance fund.....	-163,094	20,158	-136,503	-593,816
Total, Agriculture....	-163,094	---	-137,503	-589,440
<u>Department of Commerce:</u>				
<u>Maritime Administration:</u>				
Operating differential				
subsidies.....	15,000	15,000	---	---
<u>Department of Defense:</u>				
All-volunteer armed				
force.....	---	---	400,000	390,000
Military retirement				
systems reform.....	---	---	296,000	290,000
Total, Defense.....	---	---	696,000	680,000
<u>Department of Health,</u>				
<u>Education, and Welfare:</u>				
<u>Food and Drug Adminis-</u>				
<u>tration:</u>				
Food, drug, and product				
safety.....	---	---	38,845	29,743

	1972		1973	
	BA	Out	BA	Out
<u>HEW (Con'd):</u>				
<u>Health Services and Mental</u>				
<u>Health Administration:</u>				
Health services planning and development.....	57,000	9,000	60,000	36,000
<u>Office of Education:</u>				
Education revenue sharing.....	---	---	223,911	110,000
Emergency school assistance.....	500,000	80,665	1,000,000	381,000
Higher education.....	259,500	---	-288,000	-28,500
<u>National Foundation for</u>				
Higher Education.....	3,000	1,000	100,000	30,000
<u>National Institute of</u>				
Education.....	3,000	2,500	125,000	50,000
<u>Social and Rehabilitation</u>				
<u>Service:</u>				
Grants to States for public assistance.....	---	---	-859,220	-859,220
Social and rehabilitation services.....	---	---	10,000	2,340
<u>Social Security Administration:</u>				
Payments to social security trust funds..	200,000	15,000	1,478,000	4,195,000
Welfare Reform.....	---	---	450,000	350,000
Total, HEW.....	<u>1,022,500</u>	<u>108,165</u>	<u>2,338,536</u>	<u>4,296,370</u>
<u>Department of Housing and Urban Development:</u>				
Urban community development revenue sharing....	---	---	490,000	490,000
<u>Department of the Interior:</u>				
<u>Bureau of Land Management: Management of</u>				
land and resources.....	---	---	20,000	10,000
<u>Bureau of Indian Affairs:</u>				
Resources management...	---	---	4,000	4,000
Revolving fund for loans.....	5,000	1,000	5,000	1,000

	1972		1973	
	<u>BA</u>	<u>Out</u>	<u>BA</u>	<u>Out</u>
<u>Interior (Cont'd):</u>				
<u>Territorial Affairs:</u>				
Trust territory of the Pacific Islands.....	1,000	---	1,000	1,000
<u>Geological Survey:</u>				
Surveys, investigations, and research.....	---	---	5,000	4,000
<u>Bureau of Mines: Conservation and development of mineral resources.....</u>				
	---	---	<u>7,000</u>	<u>7,000</u>
Total, Interior.....	<u>6,000</u>	<u>1,000</u>	<u>42,000</u>	<u>27,000</u>
<u>Department of State:</u>				
<u>International Boundary and Water Commission:</u>				
Construction.....	12,881	503	---	4,345
<u>Department of Transportation:</u>				
<u>Federal Railroad Administration: Federal grants to the National Railroad Passenger Corporation...</u>				
	170,000	105,000	---	65,000
<u>Department of the Treasury:</u>				
General revenue sharing...	2,500,000	2,250,000	5,300,000	5,000,000
<u>Environmental Protection Agency:</u>				
Operations, research, and facilities.....	---	---	35,000	22,000
<u>Veteran's Administration:</u>				
Compensation and pensions.	25,000	25,000	151,700	151,700
Readjustment benefits....	54,100	143,100	163,300	167,300
Medical care.....	---	---	15,945	15,945
Medical administration and miscellaneous operating expenses.....	---	---	155	155
General operating expenses.....	---	---	-1,000	-1,000
Grants for construction of state extended care facilities.....	---	---	2,700	---
Total, VA.....	<u>79,100</u>	<u>168,100</u>	<u>332,800</u>	<u>334,100</u>

	1972		1973	
	<u>BA</u>	<u>Out</u>	<u>BA</u>	<u>Out</u>
<u>Other Independent Agencies:</u>				
Federal payment to the District of Columbia....	1,000	1,000	22,000	12,000
Federal contribution to the Washington Metropolitan Area Transit Authority.....	---	---	8,481	8,481
Payment to the John F. Kennedy Center for the Performing Arts.....	1,500	1,500	1,500	1,500
Water Resources Council..	---	---	<u>1,000</u>	<u>800</u>
Total, other independent.....	<u>2,500</u>	<u>2,500</u>	<u>32,981</u>	<u>22,781</u>
Total, items proposed for later transmittal under proposed legislation.....	4,026,017	2,661,248	10,041,155	10,456,473

NATIONAL DEBT

Mr. MAHON. Let me first make reference to the national debt. I would like to place in the record at this point the statistics as to the national debt for the last 10 years.

(The information follows:)

Public Debt Subject to Limitation at End of Fiscal Years 1963-73

[In millions of dollars]

Fiscal year:	<i>Public debt subject to limitation at end of year</i>
1963 -----	\$306, 099
1964 -----	312, 164
1965 -----	317, 581
1966 -----	320, 102
1967 -----	326, 471
1968 -----	350, 743
1969 -----	356, 932
1970 -----	373, 425
1971 -----	399, 475
1972 ¹ -----	446, 022
1973 ¹ -----	481, 878

¹ Estimated.

Source: H. Rept. 92-814, p. 12. "Public Debt Limitation."

I believe the national debt is, today, Mr. Secretary, about \$426 billion.

Mr. WALKER. Yes, sir. The total debt subject to the statutory limitation on January 25 was \$426,939 million.

Mr. MAHON. And the ceiling is now established at \$430 billion.

Mr. WALKER. Yes, sir.

REQUEST FOR DEBT LIMITATION INCREASE

Mr. MAHON. Have you officially asked for an increase in the debt ceiling by \$50 billion?

Mr. WALKER. Yes, sir. The Secretary of the Treasury has sent the request to the Ways and Means Committee and he will testify at 10 a.m. Monday morning.

Mr. MAHON. That will cover what period, in your judgment?

Mr. WALKER. That will take us into the next calendar year, sir, perhaps around this time next year. You can never forecast just correctly. It is doubtful it would take us all the way through fiscal year 1973.

Mr. MAHON. Could you say unequivocally that it would take you through this calendar year, 1972?

Mr. WALKER. I cannot say it unequivocally. You can never tell when some sort of emergency will throw it off. Knowing what we know from the forecast, it should definitely take us through the calendar year. I am not trying to hedge.

Mr. MAHON. What is the \$50 billion predicated upon?

Mr. WALKER. It is based upon the fundamental figures that we get from the budget projections, plus our needs for working balances, and cash balances. You basically start with the deficit you have to finance and add your flexibility to that.

Mr. MAHON. Mr. Secretary, this is fiscal year 1972, and we are considering the budget for fiscal year 1973, which begins on July 1 of this year. Are you asking for the \$50 billion to cover the fiscal year for which the budget is presented?

Mr. WALKER. We are asking for \$50 billion with the clear statement that it probably will not take us through the full fiscal year of 1973. We have a projection for February 28, 1973, which would just break through the new ceiling if it is established at \$480 billion. We are frank to state it will not carry us clear through fiscal year 1973.

CONTROL OF EXPENDITURES THROUGH DEBT CEILING

Mr. MAHON. Yesterday we discussed the possibility of Congress failing to raise the debt ceiling, which would enforce a sharp reduction in spending. But you rejected that proposal out of hand, and I suspect Congress would reject it. If we want an authoritative ceiling on expenditures, of course, that is a way we can get it. It would be binding upon both Congress and the Executive. But you reject that as impractical.

Mr. WALKER. Mr. Volcker made a clear and strong case yesterday that you are working at the wrong end of the sausage machine. All of the money has been appropriated and the bills have come into the Treasury. That is not the way you should control expenditures. You should control them with the type of spending ceiling that Mr. Shultz was talking about yesterday.

Mr. MAHON. You are also operating on the wrong end of the sausage mill with the limitation applied directly on expenditures. A program must first be authorized. Then Congress appropriates money to fund the activity. After that an agency official may incur an obligation against the Federal Government. It is only then that you have to pay the bill. It is only then that an expenditure ceiling would apply. So it seems there is a distinction without a difference.

Mr. WALKER. Not quite. If this is the sausage machine we are talking about, this is the end, this is where the debt ceiling would work. As I understand the expenditure ceiling, it is over toward the middle of the process. It is not after you pay the bills. You would not incur the liability.

EXPENDITURE CONTROLS AND UNEMPLOYMENT

Mr. WHITTEN. Mr. Chairman, if you will yield to me, I have before me Mr. Stein's statement, who is the Chairman of the Council of Economic Advisers. He points out that the last three depressions came because you tried to solve this problem by putting a ceiling on the expenditures in an effort to balance the budget. With Mr. Stein saying that in his statement, you are advocating the same approach.

Mr. WALKER. No, sir; it is all in the matter of timing in the economic cycle. In those instances that I think Dr. Stein was referring to the economy was not, certainly when he was referring to the 1959 situation, in a state of unemployment or slack, as it is now. Turning the budget around so sharply, coupled with the tight monetary policy in 1959 was the fundamental cause for the depression.

Mr. WHITTEN. You make a smooth statement and I have a statement from him and I beg to differ from you, because it doesn't say that. Mr. Stein says that President Hoover's effort in 1932, and he cites another in 1959 and 1960 and another in 1936 and 1937 and he says the mistake was made because they tried to balance the budget

in this way at a time when we did not have full employment. You admit you do not have full employment now. It strikes me you are running right into the argument he made. May I say, and I am sorry Mr. Stein is not here, he said it took up 150 years to come up with his ideas. I am sure he is a brilliant man but 150 years of prior experience questions whether we can be too sure whether his Johnny-come-lately ideas are valid. Time will tell. I have a statement here, as I read the simple English, it says this effort of cutting back on expenditure in a time of unemployment led to the depressions. Which one of you is right?

Mr. WALKER. Mr. Whitten, Mr. Stein was referring—in recounting those experiences—to the strong efforts such as the Revenue Act of 1932 to balance the actual administrative budget in the face of deepening slack in the economy. We are not proposing that. We are proposing a spending ceiling at the level of full employment revenues and you would still have a \$25,500 million deficit for the coming fiscal year. We are not proposing the balance in the sense Mr. Stein was talking about.

SETTING PRIORITIES UNDER AN EXPENDITURE CEILING

Mr. WHITTEN. I understood yesterday, and I will stop with this because I know everybody else wants to talk, you were willing to settle for a ceiling at the level of the total which you had recommended in your own budget. That was agreed to by your side of the table. It was only when I asked you within that overall spending ceiling you would then feel that Congress would have the right or should have the right to juggle around in line with what they thought the people's interest would be, and there is where the Budget Director kind of hit the ceiling, if I may put it that way, you were satisfied if we did not spend too much but you wanted to be the one who said we spent it. Am I wrong about that?

Mr. SHULTZ. I think you misunderstood what I meant. Certainly we respect the appropriations process and the efforts of the Congress to set priorities. We look forward to working with you on that.

Mr. WHITTEN. As long as we stay under your overall ceiling, in other words, the budgeted amount is a ceiling that you said would be satisfactory. If the Congress should adopt a resolution that at the end of the fiscal year, or the actions preparing for the fiscal year, that we would stay within the total spending limits, or total budgetary limits that you have, then that would satisfy you on that score. Then the Congress would be in good shape because we have been doing that, as I understand it, staying under your overall ceiling. We have not been doing it the way you said. You froze some. You talked about research yesterday. You took \$2 million of research funds, so far as I know, without authority of law, and transferred it over to the stabilization. I do not know of any authority that gives you the right to do it. The record shows you did do it. Yet you brag on research. Where do you stand on this matter, is that ceiling you agreed to yesterday sufficient; that is, we adopt a ceiling that we will not exceed the President's total budget, and within that the Congress will work its will. Is that satisfactory?

Mr. SHULTZ. Holding to the ceiling would have to result primarily from the efforts the President makes to work within that total, which he has done.

Mr. WHITTEN. But your free will offering does not apply to my question. I asked if we agreed to the ceiling you agreed to yesterday, and Congress imposed a ceiling of expenditures at the level of your budget recommendations in total, would it then be agreeable with you for the Congress to work its will within and under that ceiling? The answer is yes or no.

Mr. SHULTZ. There is the problem of restricting funds to the extent necessary to hold to the ceiling, and, in that regard, there will not have to be discretionary restrictions if the Congress operates within the ceiling. The question of restricting funds, however is a broader question than that, and as you all know, we were eager to share our views with this committee all day yesterday and we are ready to do it today.

Mr. WHITTEN. That is the reason they will ask you a lot of questions when they get to the subject. That is the reason I ask you to come back to the question I ask and please answer that, because you will be asked those later.

Mr. SHULTZ. We hope you will operate within that ceiling and if you do, that is fine. Then the ceiling would not require that any fund need to be further restricted.

The problem, however, is that you will not be voting on all the appropriation bills at one time. For example, last year the appropriation for education was enacted in early July, while the Defense appropriation was not enacted until mid-December. Coordinating action on all the bills to hold total appropriations to a set level will require a great deal of discipline and the problem would be intensified by supplemental appropriations which might be required.

So I would say that under the best of conditions, prudent management dictates that there would still be a need for the President to have the authority and responsibility to make selective cutbacks to allow for conditions which could not be foreseen, in order to stay within a spending limitation.

TIMELINESS OF BUDGET REQUESTS

Mr. WHITTEN. The chairman has been sort of lenient with me. I do not think I should leave that statement without pointing out with some of the lateness that some of the recommendations came down, because I deplore the situation. I know the chairman does and the Appropriations Committee on this side of the Capitol does. I might say there are a lot of reasons for it; primarily a lack of authorizations. There we cannot look at the legislative committees. Many of the Presidential recommendations came down late in the year, if you recall.

Mr. SHULTZ. I believe the recommendations connected with the budget came promptly. We are really working on the departments to get them promptly this year.

Mr. WHITTEN. When did they come down?

Mr. SHULTZ. The foreign aid authorization has been a problem.

Mr. WHITTEN. You don't answer me. You give me a statement. When did they come down; that is what I asked.

Mr. SHULTZ. I don't happen to have that date in my mind.

Mr. WHITTEN. Was it early or late?

Mr. SHULTZ. I will get the date and put it in the record. I don't know offhand what the date is.

Mr. WHITTEN. Thank you.

If I may undertake a bit of clarification, if possible, the year before last some of the budget estimates came down quite late. Last year they came down in a much more timely fashion. Some of them, however, were late last year, and we will put in the record at this point what the date was, for example, for foreign aid.

(The information follows:)

On April 21, 1971, the President transmitted a special message to the Congress on foreign aid (House of Representatives Document No. 92-94), accompanied by proposed draft bills—the International Security Assistance Act of 1971 and the International Development and Humanitarian Assistance Act of 1971.

On January 26, 1972, S. 2819, "To amend the Foreign Assistance Act of 1961, and for other purposes," was presented to the President as an enrolled bill.

SETTING PRIORITIES UNDER AN EXPENDITURE CEILING

Mr. MAHON. It seems today you are not quite willing to say that if Congress stays within or under your expenditure limitation, but shifts priorities here and there, that you will be contented with what Congress does in shifting priorities and proceed to carry out the will of Congress. Congress, of course, has control over the purse under our system; it has the right to raise revenues and appropriate them.

You seem to choke a bit, Mr. Director.

Mr. SHULTZ. No, sir.

Mr. MAHON. Suppose the budget request is for \$250 billion in spending and the Congress appropriates \$250 billion, but in a different line of priorities. You seemingly have not faced up to whether the executive branch will follow the actions of Congress with respect to the expenditures provided. We have done our best. If you want to add a brief word here, you may.

Mr. SHULTZ. We will certainly respect the shifts that Congress makes and try to carry them out. The reason why I hesitate to give a flat and unequivocal answer is that the withholding of funds and other of the President's responsibilities in executing his Office go beyond the subject of a spending ceiling. I do not want to say anything that would mislead the committee. It would be easy to agree with you now, but you might accuse me of bad faith later. I am trying to be direct and honest.

Mr. MAHON. Thank you. Let me read from page 36 of the budget message. "This administration will vigorously oppose irresponsible and shortsighted spending proposals that would commit large sums of Federal money to schemes that are politically attractive but would endanger an inflation-free prosperity."

That does not meet the issue head on, but it does relate.

TIMELINESS OF APPROPRIATION BILLS

Mr. CEDERBERG. How many appropriation bills were signed into law by the end of fiscal year last year?

Mr. SHULTZ. I don't believe any of the 1972 appropriation bills had been enacted by the end of fiscal year 1971.

Mr. MAHON. We will place in the record at this point when the appropriation bills were signed into law throughout last year.

(The information follows:)

1972 Regular Appropriation Bills
(Arranged by date of enactment)

<u>Bill</u>	<u>Enacted (1971 date)</u>
Education.....	July 9
Legislative Branch.....	July 9
Treasury, Postal Service.....	July 9
Agriculture-Environmental and Consumer Protection.....	August 10
HUD-Space, Science, Veterans.....	August 10
Interior and Related Agencies.....	August 10
Labor and HEW.....	August 10
State, Justice, Commerce, Judiciary.....	August 10
Transportation and Related Agencies.....	August 10
Public Works and AEC.....	October 5
Military Construction.....	November 18
Defense.....	December 18
District of Columbia.....	December 18

NOTE: At the time this hearing was conducted, the 1972 appropriation for Foreign Assistance had not been enacted.

Mr. CEDERBERG. I think this is very pertinent to living within a ceiling. How can you expect an administration to live within a ceiling when it doesn't know what its appropriation bills will be until 6 months of the fiscal year are gone?

Mr. MAHON. The gentleman states the fact that the administration does need to know prior to July 1 of this year what we are going to provide. This is a difficult problem for the administration. It is difficult for this committee, and it is difficult for the Congress. We all agree.

ENACTMENT OF AUTHORIZATIONS NECESSARY TO APPROPRIATIONS ACTION

Mr. WHITTEN. At the time it passed the House and also the date of the authorization, because many times we did not have the authorization, and many times this committee did not have the information.

Mr. MAHON. Without objection, those additional facts will be placed in the record.

(The information follows) :

February 7, 1972

MAJOR 1972 AUTHORIZATION MEASURES
RELATED TO REGULAR APPROPRIATION BILLS

<u>Appropriation bill</u>	<u>Related authorizations, and date of enactment</u>	
Agriculture	Child Nutrition Act (H.R. 9098) Water Pollution Control Act (temporary extension of) <u>2/</u>	<u>1/</u> July 9, October 13
Defense	Military Procurement	November 17
District of Columbia	D.C. Revenue Act	December 15
Education	Higher Education Amendment of 1971 (S. 659)	<u>1/</u>
Foreign Assistance	Peace Corps Foreign military and economic assistance	October 8 <u>3/</u>
HUD, Space, Science, Veterans	National Aeronautics and Space Administration National Science Foundation	August 6 August 11
Interior	Saline Water Conversion Act	July 29
Labor and HEW	Economic Opportunity Act Health Manpower <u>4/</u> Nurses training <u>4/</u> Comprehensive child development (H.R. 6748, S. 1512) Manpower development and training (H.R. 11570) <u>4/</u> Cabinet Committee on Opportunities for Spanish-Speaking People <u>4/</u>	Vetoed December 9 (sustained) November 18 November 18 <u>1/</u> <u>1/</u> August 26
Military construction	Military construction	October 27
Public works and AEC	Appalachian regional development Atomic Energy Commission Water Resources Planning Act	August 5 <u>5/</u> August 11 June 17
State, Justice, Commerce	Commission on Civil Rights Maritime authorization	August 4 July 9
Transportation	Coast Guard	August 13

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- 1/ Pending at the time this hearing was conducted.
 - 2/ Authorization expired on October 31, 1971; a bill (H.R. 11423) to further extend the Act was pending at the time this hearing was conducted.
 - 3/ At the time this hearing was conducted, the measure had been passed by the Congress and sent to the President for action.
 - 4/ Activities deferred from the regular appropriation bill, and funded in the Supplemental Appropriation Act, 1972, P.L. 92-184 of December 15, 1971.
 - 5/ The original authorization (S.575) was vetoed on June 29 and the veto upheld on July 14.

Mr. CEDERBERG. You did not have one appropriation bill passed by the end of the fiscal year. Let me ask the director this question: Would it be much easier for you to live within a given ceiling if you knew by the end of the fiscal year what the total position of the Congress was with regard to all of the appropriations?

Mr. SHULTZ. Yes, sir. I believe from the standpoint of the Congress, as you consider the question of priorities and want to set them, that the closer in time the enactment of all the bills is together, the more you can examine the relationship of the individual parts to the whole. If you could complete action prior to the start of the fiscal year, you would be able to do the same kind of priority setting that the President does in presenting his budget to you.

Mr. MAHON. I don't think we need to go further here. We will place all the relevant facts in the record, which will set the administration in proper posture, the committee in proper posture, and the Congress in proper posture.

I think the record will show that probably 10 of the bills had passed the House in July and nine were signed into law by the end of August. So that is something that the record can show.

DEBT CEILING

I said yesterday that it seems that we are trying to put too rosy an image on a near disastrous fiscal situation. I am inclined to repeat that because, Mr. Walker, you said you are not asking for a debt ceiling which takes into consideration the whole fiscal year. I understood that normally you take into consideration the whole fiscal year in asking for an increase in the debt limit, but you did not do it this year.

Mr. WALKER. No, sir; that varies. The fact is that might follow if we were not running into debt ceiling trouble until the beginning of fiscal year 1973, but we are running into debt ceiling trouble within the next 45 days. The predilection of the House Ways and Means Committee is to have administration witnesses up at least once a year on this issue. If the House Ways and Means Committee and the Congress wants to raise that figure so it takes it through the fiscal year, I am sure you would not get any objection on our part. They rather like an annual review of the whole picture.

EXPENDITURE CEILING

Mr. MAHON. I would like to insert in the record the statement of the President's in regard to an expenditure ceiling which was issued on January 24, 1972.

(The information follows:)

THE WHITE HOUSE, January 24, 1972.

STATEMENT BY THE PRESIDENT

The budget I send to the Congress requires spending more than we will collect in taxes.

It will be a job-creating budget and a noninflationary budget only if spending is limited to the amount the tax system would produce if the economy were operating at full employment.

Those who increase spending beyond that amount will be responsible for causing more inflation.

It is vital that the executive and the Congress act together to stop raids on the Treasury which would trigger another inflationary spiral.

In submitting this budget I am therefore urging the Congress, before it considers any appropriation bills, to enact a rigid ceiling on outlays that will prevent the Government spending more than the \$246 billion requested in this budget. That ceiling on expenditures should apply equally to the Congress and to the executive branch.

We urgently need an absolute limit on Government spending. Only thus can we end inflation, stabilize the economy and provide employment and real prosperity for all.

Mr. MAHON. It is evident to me that our distinguished witnesses are laying too much store on the expenditure ceiling. The real focus of attention should be on the deficit, and on the fiscal situation which confronts us. We should not be diverted from focusing on that by getting too heavily involved in an expenditure ceiling. As I said yesterday, regardless of whether we have an expenditure ceiling, the history shows that the lack of a ceiling might result in expenditures varying as much as \$2 or \$3 billion or more a year. I would doubt it would be very much more than that in the ordinary year.

Often it would be less. So when you are speaking in the context of a \$44.7 billion deficit in Federal funds, that \$2 or \$3 or \$4 billion is not quite the most important thing. The most important thing is the \$44 billion deficit. I would like to place in the record at this time—and I would like for you, Mr. Director, to check the figure—just what the situation has been in the last 4 years regarding expenditures. The difference between the original estimate compared to the actual result, except for perhaps the last year, has not been very sharp.

I will not belabor that question further.

(The information follows:)

BUDGET OUTLAYS, FISCAL YEARS 1968-71, ORIGINAL ESTIMATE VERSUS ACTUAL

[In billions of dollars]

	1968	1969	1970	1971
Original budget estimate.....	179.5	186.1	195.3	200.8
Actual.....	178.9	184.6	196.6	211.4
Actual compared with estimate.....	-.6	-1.5	+1.3	+10.6

Mr. MAHON. We are all familiar with the processes of Government. We realize, as was repeated yesterday many times, the executive cannot spend any money which the Congress does not provide in an appropriation bill or nonappropriation bill. Under those circumstances, there is no perfect way to fix an ironclad expenditure limitation. I think everybody in this room who is sufficiently sophisticated in these matters knows that to be the truth. Aren't you asking us to do the impossible when you ask us to fix an absolute ceiling in advance of action by Congress on the appropriation bills, and on nonappropriation bills which mandate spending? What about that?

Mr. SHULTZ. Mr. Chairman, I do not think it is impossible. Certainly the appropriations process is central to effectively setting priorities and holding to some given level of outlays that you think is a proper level. If the ceiling we recommend seems proper to you, it seems to me that it can be maintained. But it cannot be maintained unless, once the whole process has ended and we see where we have come out, somebody has the authority to manage the flow of funds so that we actually do stay within the limit.

DEALING WITH RELATIVELY UNCONTROLLABLE EXPENDITURES UNDER AN EXPENDITURE CEILING

Mr. MAHON. This is a difficult problem. You recognized that last year when you said in the hearing on the 1972 budget, "There are many programs in the budget for which spending is relatively uncontrollable under the present law."

You cannot tell us how much you are going to spend on the interest on the debt this year. You cannot tell us what you are going to have to do on certain other relatively uncontrollable items. You cannot tell us what you are going to do and we cannot predict in advance precisely what we are going to do. When we are talking about a flat unadjustable ceiling, your comments seem pertinent. Let me read what you said:

There are many programs in the budget for which spending is relatively uncontrollable under present law, and that the estimates for spending for such programs can only be guesses. They can never be completely accurate. For this reason an inflexible ceiling which would apply to total budget outlays could result in heavy, even chaotic reductions in essential Government services to accommodate spending increases in the programs that cannot be cut. In lieu of that kind of ceiling, we advocate one that will be adjusted by changes in the relatively uncontrollable programs.

Mr. SHULTZ. We have come to share many of the sentiments that you have been expressing yesterday and today that we do have a serious problem of controlling the outlays of the Federal Government. Perhaps this is the time to throw the switch and to say we must try to stay within some overall number and make a very determined effort to do that. We are trying to do our best in the budget process in the executive branch. We want to work with the Congress in every way we can to help you to have a speedy process so you can see what is going on. Then the President's proposal is that we put on top of that a rigid, absolute ceiling that we all know about, and we understand the constraints that may be placed on us.

Mr. MAHON. I, myself, am in favor of the expenditure ceiling because I think it will tend to have a wholesome effect on the Congress and the Executive and the country, and maybe on the economy. I am in favor of working with you on that, but I did think we ought to understand the difficulties involved. We will work with you on that, and we will have further meetings with you, if we may, on how we might draft a proposal that would be as helpful and as responsible as possible.

Mr. SHULTZ. We welcome that, Mr. Chairman.

Mr. MAHON. Are there any questions on the expenditure ceiling from my colleague on my left?

Mr. PATTEN. Mr. Chairman, I would simply like to make a comment. Since some of us have other priorities, I am afraid of this ceiling. I would like to be called the "Educational Congressman." A lot of things you have in the budget I am not interested in. But under a ceiling I wouldn't know which programs might be cut.

You have to pay the interest and the debt and make payments on a lot of other mandatory programs. Maybe cuts would come in programs that we work for and run for.

Mr. SHULTZ. The President has presented a budget with estimates of spending in all the various uncontrollable areas and proposals for the amount of outlays in all other areas. The sum total of all these things results in estimated outlays of \$246.3 billion, and that is our

proposed outlay ceiling. You can see all the supporting detail that goes into that. There is no proposal for a cut. The budget has a rise in outlays from 1972 to 1973 that is smaller than in recent years, but nevertheless, it is a proposed increase of about 4.1 percent. We think that it represents a very reasonable program.

Mr. MAHON. Are there any other questions on my left?

REQUIREMENT FOR EXPENDITURE CEILING LAW

Mr. FLOOD. Mr. Shultz, as Chairman of the Appropriation Subcommittee on the Department of Labor and HEW, when you were Secretary of Labor, I was an admirer of yours. And I still am today. I am not sure this question goes to you. I know you are not a lawyer, but you will live that down.

Mr. SHULTZ. I have a lawyer—Mr. Weinberger—on my left.

Mr. FLOOD. But he got smart and became a bureaucrat. He is pretty smart, period. I am not clear about a legal question, Mr. Weinberger. This business of the imposition of the ceiling—why is that not an Executive prerogative? Why must the Executive ask that Congress take action to impose such a ceiling, unless, and I don't blame them. It is to share the burden? Couldn't the imposition of such a ceiling be done by Executive fiat? It has been done at the State and Federal levels before. Why now out of a clear blue sky must Congress also act?

Mr. WEINBERGER. Mr. Chairman, Mr. Flood, the Congress has enacted spending ceilings in the past.

Mr. FLOOD. That is correct.

Mr. WEINBERGER. There were spending ceilings for fiscal years 1970 and 1971.

Mr. FLOOD. May I interrupt for the purpose of emphasis, there were also cases where it was done by Executive fiat.

Mr. WEINBERGER. The President, under the Constitution and under very specific acts of the Congress, has the duty to keep spending within certain limits. Two of these specific acts are the Anti-Deficiency Act and the debt ceiling that Secretary Walker was talking about a moment ago.

Mr. FLOOD. You know that is not responsive.

Mr. WEINBERGER. I am coming to the response, Congressman Flood. I think it is important to set the background. We do think there is a Presidential prerogative and duty in this connection. Obviously, the Congress does not agree in some situations. For example, the Congress has just enacted a bill which purports to restrict the President's authority to spend foreign aid funds unless he has spent funds in totally unrelated and irrelevant areas.

Mr. FLOOD. That is true but it is not responsive to my question.

Mr. WEINBERGER. The response is that the matter is obviously in some doubt. The President may feel he does have the authority to impose a spending ceiling, but many of your colleagues—I am sorry to say a majority in both Houses—do not agree with that. They have enacted legislation which would not enable the President to do this, if that legislation—which covers funds appropriated in 1971 and prior years for three agencies—were given full force and effect. For that reason and for many others it seems extremely desirable to have a spending ceiling that joins both the executive and legislative branches of the Government in the desire to hold down outlays to the sum fixed in the President's budget.

Mr. FLOOD. The fact of the matter is, the President could, if he saw fit—at least in my judgment, and apparently yours to a degree—by Executive fiat declare the expenditure ceiling if he so wished. I mean he could.

Mr. WEINBERGER. Yes; he could.

Mr. FLOOD. Of course, he could.

Mr. WEINBERGER. The effect of the ceiling is what we are interested in. We want to be sure it is effective. We have no desire to get into any kind of a running battle with another branch of the Government. What we would like is to have a joint effort to hold down outlays to the amount proposed in the budget.

Mr. FLOOD. Exactly. Were I the President, I would do precisely the same thing. He wishes out of an abundance of caution to join hands with the Congress on this ceiling.

Mr. WEINBERGER. We have had ceilings in the past which have been quite ineffective because they applied only to the Executive. They did not apply to the Congress. Every time the Congress enacted an appropriation bill, it could expand the ceiling. What we are asking for this time is a ceiling that applies to the executive branch but also to the legislative branch. We are not asking for a ceiling for the purpose of securing some edict or gaining publicity or anything of that kind. We are asking for a ceiling that will be effective in holding outlays to the level proposed in the budget. For that purpose, I think it is essential that we have both branches, legislative and executive, join in this effort.

Mr. FLOOD. If and when an expenditure ceiling were enacted, the Congress and the President would sooner or later take action to set aside its impact. If what you propose takes place, following precedent, that will be the result.

Mr. WEINBERGER. No.

Mr. FLOOD. Don't you think so?

Mr. WEINBERGER. We don't want to follow the precedent of the 1970 spending ceiling because it did not apply to the legislative branch.

Mr. FLOOD. This is going to be something new? The President asked Congress to pass this legislation, even though he could act independently. If Congress acts and imposes the ceiling, on Monday at 9 o'clock, Congress will still have the power to do something else.

FULL EMPLOYMENT BUDGET

Mr. Shultz, I have a question for you. Let me direct your attention to page 65 of the budget for fiscal year 1973. There under the title "Economic Assumptions" you talk about a full employment budget but you don't say upon what rate of unemployment this is based, do you?

Mr. SHULTZ. We have stated that the assumption in the full employment receipts is a total unemployment rate of 4 percent.

Mr. FLOOD. Yes, I know; but do you say that any place in the budget?

Mr. SHULTZ. If I may read from the budget—

Mr. FLOOD. Yes.

Mr. SHULTZ. "*** full employment receipts are based on the amount of income that would be generated if the economy were continually operating at full employment (conventionally defined as unemployment equal to 4 percent of the civilian labor force)."

So we have stated that explicitly.

Mr. MAHON. If the gentleman has concluded, I will yield to somebody else for a question.

Mr. FLOOD. Yes.

Mr. YATES. Mr. Chairman, may I have a question?

Mr. MAHON. Yes; the gentleman is recognized.

DETERMINING PRIORITIES WITHIN AN EXPENDITURE CEILING

Mr. YATES. Mr. Shultz, I would like to pursue Mr. Whitten's questioning. In the event that a ceiling were agreed upon between the Executive and the Congress, wouldn't that initiate a confrontation between the Executive and the Congress to determine which should be the boss in requiring which program should be not only enacted into law but carried out?

For example, we have examples of bills that were passed by the Congress for which funds were frozen by your agency. Suppose the Congress were to enact, as it did, the Mansfield resolution, the Congress doing so in an effort to bring the war to an end and to cut down the expenditures of the war and thereby to live within the ceiling. The Mansfield resolution was passed, but President Nixon stated directly he would not follow it, that he would not follow this law as enacted by the Congress. Congress said "Let the money be cut off by a certain date." The President said he wouldn't abide that decision. Who wins?

Mr. SHULTZ. A fundamental point is that the Executive cannot spend money unless the Congress authorizes and appropriates that money, and there is no if, and, or but about that.

Now, if there is an expenditure ceiling that has bite to it, and the sum total of all of the appropriations would mean that outlays would rise above that ceiling, then something has to be held down in order for the flow of spending as it evolves during the fiscal year to stay under control, and there has to be some determination of exactly what it is that is going to be held down.

Mr. YATES. Well, the question then that Mr. Whitten was asking and which I am pursuing is that within that ceiling do you not then have the battle between the executive branch and the legislative branch in the determination of which programs are to be carried out?

Mr. SHULTZ. Only to the extent that the appropriations would generate outlays rising above the ceiling—which we hope you would participate in and set. If that is the case, we have to get back within the ceiling and there has to be a holding down of spending in some areas.

Mr. YATES. Well, perhaps I am not making myself clear. Suppose Congress establishes a ceiling.

Mr. SHULTZ. Yes.

Mr. YATES. The question is how funds are to be allocated within that established ceiling.

Mr. SHULTZ. Right.

Mr. YATES. Congress votes certain programs, and then implements them with appropriations.

Mr. SHULTZ. Right.

Mr. YATES. The Executive in his discretion decides he wants to freeze some of those appropriations, all within the ceiling. Congress

wants those funds spent within the ceiling. Then my question becomes clear. Isn't there a real conflict between the Executive and Congress for a determination within the ceiling as to which program will be carried out?

Mr. ROBISON. Would you yield?

Mr. YATES. I will yield in just a minute.

Mr. ROBISON. Thank you.

Mr. SHULTZ. So long as the sum total appropriated is less than the ceiling, then the ceiling in and of itself would pose no difficulty in this regard.

Mr. YATES. Apparently, you don't understand my question because the point is that there is a limited number of dollars available for spending. There are more programs to implement than there are dollars to spend. The question is which programs are to get the dollars within that ceiling? For example, some of us support the Mansfield resolution and would want the war ended and the money that goes for that war allocated to other programs. The Executive in his discretion says, "No, I want that war to go on and therefore I will take funds away from housing, from health, from agriculture, from other programs."

Mr. SHULTZ. I must say that the executive branch of this Government has no desire to see that war go on. If there is one thing that distinguishes the record of this administration from its predecessors it is that during President Nixon's term that war has been wound way down, whereas when we came into office it had been building up, so I think to say that this administration is trying to continue that war is a total distortion of what has been taking place.

Mr. YATES. I was not attempting to distort the administration's position. That position is clear. The President has said that he will not follow the Mansfield resolution that was enacted by the Congress.

Mr. SHULTZ. The President is trying his best to negotiate an end to that war, but he cannot negotiate if the things that he is negotiating with are taken away from him by the Congress. You cannot have 50 people or 500 people all negotiating at once. You have to have one negotiator, and that is the President.

Mr. YATES. Mr. Shultz, let's get back to the question I asked you and then I will yield to Mr. Robison. The question I asked you was suppose the Congress wants to end the war. The Executive says he wants to end the war. The Congress goes a step further than the Mansfield resolution that was enacted and passes a resolution to cut off funds for carrying on the war. That would bind the Executive, would it not?

Mr. SHULTZ. That would bind the Executive so far as I can see.

Mr. YATES. All right. Now, suppose that is done and there is a limitation imposed on the expenditure of those funds.

Mr. SHULTZ. If the Congress doesn't appropriate the funds there are no funds to be expended.

Mr. YATES. That is right. This is within the ceiling, but you have so many more programs that are within the ceiling. Who is going to make the ultimate determination as to which programs are to get the fund? Is it the executive or the legislative branch?

Mr. SHULTZ. As long as the sum total of the appropriations would yield outlays less than the ceiling, then the ceiling in and of itself doesn't operate as a factor in this allocation process.

Mr. YATES. There is a difference between appropriations and expenditures, isn't there? Suppose the Congress' appropriations exceed the ceiling. Then you have to have your choice, don't you?

Mr. SHULTZ. If you exceed the ceiling. We hope that this whole process will operate within the ceiling, but it may not, so the ceiling is partly discipline beforehand and partly discipline afterward.

Mr. YATES. Let's define our ceiling. Are we talking about an expenditure ceiling or appropriations ceiling?

Mr. SHULTZ. It is an outlay ceiling.

Mr. YATES. That is an expenditure ceiling?

Mr. SHULTZ. Expenditure ceiling.

Mr. YATES. So it is possible for Congress to pass appropriations in total that exceed the ceiling?

Mr. SHULTZ. Certainly.

Mr. YATES. All right. If that is done, then there has to be a determination as to which programs get the funds within the ceiling; is that correct?

Mr. SHULTZ. That is correct.

Mr. YATES. Then, as Mr. Whitten pointed out so capably, it becomes a battle between the Executive and the Congress to determine which programs get money.

Now I yield.

Mr. SHULTZ. Our proposal sets forth explicitly that it would be the responsibility of the President to do that.

Thank you. That's the answer to my question.

Mr. YATES. I yield to the gentleman.

Mr. ROBISON. Mr. Shultz, my friend from Illinois is assuming that if we have this kind of an expenditure ceiling it would, or could, automatically produce a conflict between the Congress and the Chief Executive. Well, your own advice to us relative to long range initiatives ran along these lines, and I will quote you:

"Whenever a new program is proposed, that program must be important enough to warrant taking something else out of the budget. * * *"

Now, that means, to my mind, that Congress has a responsibility here, too; that the battle doesn't necessarily have to be between Congress and the Chief Executive. It can be waged here on Capitol Hill, too. If our assessment of priorities is such that we want to take new initiatives, or add money to existing programs, then, quite properly, we ought to consider taking something else, of lower priority, out of the budget or to consider raising taxes accordingly, and that is our responsibility.

Mr. YATES. In reply to the gentleman, the difficulty with that approach is the fact that we already have so many programs authorized that if they were implemented fully it would exceed whatever ceiling that was agreed upon between the Executive and the congressional branch. You still would have the necessity to choose programs.

Mr. WHITTEN. Would my colleague yield to me at this point?

Mr. YATES. Yes, sir.

Mr. WHITTEN. I wish to commend my colleague for eliciting an answer. I sought for a couple of days to get from the budget director and that was it would leave it in the hands of the Executive to decide which programs to implement and which programs not to implement, but I carry that further and show that what that is leading to is a breaking down of Government. Each time that the President as Chief

Executive through his Office of Management and Budget freezes funds, you invite the Congress through its legislative committees to appropriate in the legislation, which in turn bypasses the Appropriations Committee. This is not a matter of pride of jurisdiction. But if the Appropriations Committee's review and efforts to hold down funds are to be bypassed as a result of the fact that the legislative committees are sick and tired of seeing their programs frozen not by the Congress but by the Executive, we see more and more that they are providing in the legislation that the appropriation must be made.

REVENUE SHARING

Then in the presentation, Mr. Shultz, that you presented you fall into the same area as I understand it in your recommendation for revenue-sharing. For 5 years you not only recommend \$5.1 billion but you recommend that it be tied down as an appropriation, if I understand it correctly.

Mr. SHULTZ. That is correct; our proposal would be that general revenue-sharing be paid automatically with \$5 billion outlays in 1973 resulting.

Mr. WHITTEN. Taken out from under the supervision, annual review, or anything else on the part not only of this committee in its recommendations but of the Congress?

Mr. SHULTZ. No; the Congress, of course, will have to pass this law before it becomes operative. There isn't any way around that. If the Congress decided that it didn't wish to have the program continued, it could repeal the law, so it is totally under the control of the Congress.

Mr. YATES. But it would operate like the highway trust fund does now. The executive branch makes the determination of how the funds are to be expended and all the Congress can do is just make the funds available without any discretion on its part, is that correct?

Mr. SHULTZ. I believe the Appropriations Committee—we look to this committee with great respect—has quite properly said, for example, on the urban mass transit money, that, to be sure, there is a general authorization but you cannot exceed a specified program level in a specific year. I believe last year the maximum level was set at \$900 million and so we have said, "All right, we have to operate within that restriction." You didn't say we had to spend \$900 million. You said we could not spend more than that, and we are programing for less.

Mr. YATES. I think that legislation is different from the highway legislation. I think the highway trust fund provides a different kind of review by the executive.

Thank you.

Mr. MAHON. If the committee will permit me to be a bit arbitrary, I think we should discontinue discussion of the expenditure ceiling at this point. This is going to require a great deal of consideration and probably additional hearings.

SETTING PRIORITIES IN THE 1973 BUDGET

Now, since this is a hearing for the purpose of considering the entire operation of the Government, I think it would be well, Mr. Shultz, if you would tell us who has fixed the priorities for the programs for fiscal 1973. Did the Office of Management and Budget do

it? Did the Treasury do it? Did the President do it personally? Did the Cabinet members do it? How did you decide that you would give so much for mass transit, so much for health, so much for education, so much for defense? How did you do this? Was this done in a way that is so well contrived that we shouldn't bother with it or make readjustments? Is there something magic and absolutely correct in what you have done? Would it be absolutely incorrect for us to modify what you have done? What is the situation?

Mr. SHULTZ. Mr. Chairman, I would have to say we would be very alarmed if you didn't modify what we have done and put the wisdom of your committee into this process. The President's recommendations, however, have emerged from a process which has developed over a period of years. Part of this process was set when the Congress passed the Social Security Act in the 1930's.

We have talked about the fact that something like 71 percent of the outlays are predetermined in the sense that the budget process in a given year doesn't bear on them. In this sense, I guess you would have to say that the Congress has had a tremendous impact on this budget that the President has presented.

Within the framework of our own operations, the budget process is one that goes on all year long. We are starting on the 1974 budget now. We work back and forth between setting the various pieces of the budget and determining whether the total is satisfactory. If it isn't, we try to go back and modify the programs. The process involves the President and the Cabinet. The Office of Management and Budget essentially tries to be an information link between the President and his principal officers in this working back and forth between the individual parts and the total. Finally, out of the process comes a statement in the budget of the priorities for spending as the President sees them, given all the constraints of the laws that are on the books.

Mr. MAHON. The Secretary of HEW, the Secretary of Defense, the Secretary of the Interior, and the others present their case, they make their special pleas. Their positions are considered back and forth, and finally you come up with the best budget you are able to present. It is not wholly satisfactory to the Cabinet members and the agency heads. You just do the best you can and present us a budget. That is what you have done this year, so it really is up to us now to apply our judgment to it?

Mr. SHULTZ. Yes, sir.

Mr. MAHON. And our judgment will come after your judgment and maybe we will have some additional facts. There may be some changes that would make mandatory that we modify what you have proposed as the year goes along. You would agree to that?

Mr. SHULTZ. Certainly; I think a budget is best thought of not as some fixed thing, but as a document that has to live and breathe and reflect changing conditions. Conditions will change between now and 18 months from now.

Mr. MAHON. That is right. The Congress, of course, does not handle the situation in the same fashion as the executive branch. We are trying first to look at the whole picture as best we can. This hearing is a part of that process. I think it is a wholesome thing for us to do. We realize you have to support the budget. If you didn't support it, then you ought to have modified it before you sent it to us. We are not impatient about that.

NEW INITIATIVES IN THE BUDGET

Now, do you have any room for initiatives in this budget for the administration or for the Congress?

Mr. SHULTZ. There are of course many initiatives proposed by the budget.

Mr. MAHON. What are some of the initiatives?

Mr. SHULTZ. There are many within the Defense budget, for example. A variety of initiatives are proposed in the strategic programs area, in the shipbuilding area, and in the research and development area.

Mr. MAHON. Will you comment for the record at this point on some of those major initiatives?

(The information follows:)

MAJOR DEFENSE PROGRAM INITIATIVES FISCAL 1973 COMPARED WITH FISCAL 1972

[In millions]

	1972	1973	Increase
Strategic:			
Airborne warning and control system.....	\$139	\$470	\$331
Sea-based strategic deterrent.....	140	942	802
General purpose:			
Sea-Cobra helicopter.....	2	33	31
Nuclear carrier (CVAN-70).....		299	299
Dragon antitank missile.....	15	57	42
F-15 air superiority fighter.....	420	910	490
Patrol escort ship.....		192	192
Sparrow III missile.....	20	109	89
Heavy lift helicopter.....	30	53	23
Prototyping:			
Advanced short takeoff or landing transport.....	12	46	34
Lightweight fighter.....	6	46	40
Other Antarctica aircraft (LC-130R).....		32	32

The following excerpt from the President's budget message indicates some of the major initiatives and high priority programs in the 1973 budget:

Another priority of this budget is to direct the resources of the Federal Government toward those needs the American people most want met and to the people who are most in need.

Welfare reform, with training and work incentives, with a new fairness toward the working poor and a minimum income for every dependent family, is a good idea whose time has come. It has been proposed and studied; it has been refined and improved upon; it is ripe for action now. Further delay in enactment would not only be unwise in fiscal terms, but cruel in human terms. The proposed program is infinitely better than the wasteful, demeaning system that now calls itself welfare. This budget proposes appropriation of \$450 million to start the replacement of welfare with "workfare."

Revenue sharing has been debated at length. Each day and each State's experience only confirms the inescapable fact that it is wanted and needed—now. The States and cities urgently require this aid; individual Americans need it for everything from improved law enforcement to tax relief. This budget allocates \$2.5 billion in 1972 and \$5.3 billion in 1973 to make general revenue sharing a reality now.

Schools need emergency assistance now to make necessary adjustments to provide equal educational opportunity. This budget allocates \$500 million in 1972 and \$1 billion in 1973 for this purpose.

Government reorganization is needed now, to deliver more services for each tax dollar collected. The pain this change will bring to special interests and bureaucracies is less important than the pain existing bureaucratic arrangements now cause the people. A reorganized government will be a better, more efficient government.

Health care must be improved and made available to all Americans, without driving up medical costs. This budget provides for legislative actions and necessary funding to make better health care available on the most widespread basis, to emphasize preventive medicine, and to pursue an all-out campaign to eliminate cancer and sickle cell anemia.

Drug abuse prevention must be intensified to curb narcotics trafficking and to expand Federal drug rehabilitation efforts coordinated by the White House Special Action Office. The budget allocates \$594 million to these and other drug abuse prevention campaigns.

A new commitment to the aging is long overdue to add dignity and usefulness to their lives. This budget provides for total spending of \$50 billion on behalf of the aging, \$16 billion more than in 1969. Most importantly, \$5½ billion will be added to the incomes of older Americans when proposed social security and welfare reform legislation is fully in effect. In addition, service initiatives will be launched that will focus on better nutrition and other services designed to help the elderly live independently in their own homes.

Scientific research and technology, so essential to our national security, also must focus more directly on solving our domestic problems, increasing our productivity, and improving our competitive position in international trade. The budget allocates \$17.8 billion for this, an increase of \$1.4 billion over 1972.

Veterans of the Nation will receive the special consideration they deserve, with particular emphasis on those reentering civilian life after service in Vietnam. This budget provides more than \$12 billion in budget authority for veterans benefits, with an increase of over \$1 billion for modernization, replacement, and record staffing of VA hospitals, higher compensation for disabled veterans, and enhanced job training opportunities, higher GI bill allowances, and other improved services.

CONGRESSIONAL BUDGET INITIATIVES

Mr. MAHON. In other words, you are trying to do the job in a little better way. That is what you seem to mean by initiatives in this context. Now will you tell us whether or not you have any room for initiatives by Congress?

Mr. SHULTZ. The Congress, of course, is called upon by the President to act on the proposals that he makes, and they are shown in the budget. In addition, the President believes the total outlays estimated in this budget are the right level of outlays for the economy. Thus, we believe outlays should come up to the level that the President proposes but not go beyond it.

We do have in the budget a contingency allowance of half a billion dollars. That amount is very small in proportion to the total budget, but we always do try to have an amount like that in the budget to provide flexibility within the total for these things that are very difficult to foresee.

Mr. MAHON. On page 47 of the budget I read:

"The projection reflects no new Federal initiatives beyond those proposed in this budget."

You do have a half billion dollars in contingency funds which gives some maneuver room. But there is no maneuver room on the part of Congress if we stay within your proposed ceilings unless we scale down some of the programs included in the budget.

Mr. SHULTZ. That is correct. The President has tried to present to you the complete financial and program plan he recommends for fiscal year 1973. That is what his budget is.

LEGISLATIVE PROPOSALS IN 1973 BUDGET

Mr. MAHON. I think maybe the pages 540, et sequentia, in the budget would be helpful at this point.

(The pages follow:)

Table 16. LEGISLATIVE PROPOSALS FOR MAJOR NEW AND EXPANDED PROGRAMS IN THE 1973 BUDGET
PROJECTION OF COSTS¹ (in millions of dollars)

Description	Fiscal year estimate						Explanation
	1972	1973	1974	1975	1976	1977	
REVENUE SHARING							
General revenue sharing.....	2,500	5,300	5,500	6,100	6,900	7,500	General revenue sharing grants are to be a fixed percentage of taxable personal income.
	2,250	5,000	5,730	6,400	6,900	7,500	
Special revenue sharing and the categorical programs converted:							
Urban community development.....		2,145	2,300	2,300	2,300	2,300	
		2,270	3,380	3,725	3,300	2,950	
Converted programs.....		-1,655	-1,800	-1,800	-1,800	-1,800	
		-1,780	-2,050	-2,050	-1,575	-1,425	
Rural community development.....			1,072	1,072	1,071	1,071	
			1,553	1,425	1,300	1,171	
Converted programs.....			-919	-919	-919	-919	
			-920	-920	-920	-920	
Education.....		3,237	3,237	3,237	3,237	3,235	
		3,097	3,200	3,220	3,220	3,220	
Converted programs.....		-3,013	-3,013	-3,013	-3,013	-3,013	
		-2,987	-3,000	-3,000	-3,000	-3,000	
Manpower.....			2,000	2,000	2,000	2,000	
			1,820	2,000	2,000	2,000	
Converted programs.....			-1,633	-1,633	-1,633	-1,633	
			-1,633	-1,633	-1,633	-1,633	
Law enforcement.....			876	876	876	876	
			750	800	850	876	
Converted programs.....			-850	-850	-850	-850	
			-700	-750	-800	-850	
Transportation.....			2,800	2,800	2,800	2,800	
			700	1,840	2,265	2,450	
Converted programs.....			-1,220	-1,240	-1,220	-1,220	
			-290	-1,230	-1,685	-1,940	

Proposes converting narrower categorical grant programs into special revenue sharing for broad functional areas.

See footnotes at end of table.

OTHER LEGISLATION

Funds appropriated to the President.....	BA O	430 10	910 103	870 204	100 290	404	453	Contributions to International Development Association, Asian Development Bank and Inter-American Development Bank.
Department of Agriculture: FHA insured operating loans.....	BA O	163	136 590	136 275	136 275	136 275	136 275	Reflects merging of Direct Loan Account with Agricultural Credit Insurance Fund and conversion from direct to insured operating loans.
Other.....	BA O		1 10	12 10	17 14	23 19	28 24	Includes Sawtooth and Oregon Dunes National Recreation Areas, and Federal crop insurance amendment, and other items.
Department of Defense.....	BA O		696 680	785 783	751 750	736 736	634 634	Represents additional costs of All-Volunteer Armed Force and reform of military retirement pay system.
Department of Health, Education, and Welfare: Family health insurance.....	BA O			1,100 1,100	1,500 1,500	1,800 1,800	2,100 2,100	Amounts are over and above Medicaid program.
Other health programs.....	BA O	57	99 66	118 93	118 107	118 113	118 113	Includes consumer safety legislation and Health Maintenance Organizations.
Education programs.....	BA O	766 84	937 433	225 870	225 520	225 263	225 225	Principal item is assistance to desegregating schools.
Social security reforms.....	BA ³ O	13	3,500	4,299	5,866	8,111	10,122	Automatic cost-of-living benefit increases, full benefits for widows, and other reforms under H.R. 1.
Medicare changes.....	BA ³ O	2	520	1,645	1,935	2,241	2,573	H.R. 1 Medicare program amendments.
Departments of Labor and Health, Education, and Welfare: Welfare Reform programs ⁴	BA O		450 350	5,500 5,500	5,900 5,900	6,000 6,000	5,500 5,500	Provisional estimate. See footnote 4, below.
Department of the Interior.....	BA O	6 1	42 27	57 49	65 55	65 61	65 62	Largest portion is for mined area protection and national land use policy.
Environmental Protection Agency.....	BA O		35 22	60 55	70 65	75 70	80 75	Represents costs of implementing new environmental programs, such as programs for the control of noise, toxic substances, and ocean dumping.

See footnotes at end of table.

Table 16. LEGISLATIVE PROPOSALS FOR MAJOR NEW AND EXPANDED PROGRAMS IN THE 1973 BUDGET—Continued
 PROJECTION OF COSTS¹ (in millions of dollars)

Description	Fiscal year estimate						Explanation
	1972	1973	1974	1975	1976	1977	
OTHER LEGISLATION—Con.							
Veterans Administration:							
Compensation.....	25	148	151	153	156	159	Includes cost of living increases.
	O	148	151	153	156	159	
Readjustment benefits.....	54	167	163	135	132	116	Educational advances and raised G.I. bill benefits.
	O	171	163	136	132	116	
Other.....	-----	18	17	18	20	22	
	O	-----	15	18	20	22	
National Capital Area.....	-----	30	34	42	48	51	Includes District of Columbia Capital Financing Act and METRO bond guarantee.
	O	-----	20	24	37	53	
Allowance for relatively small and unforecast items.	200	400	600	600	600	600	
	O	200	400	600	800	600	

¹ This table is supplied pursuant to the requirements of sec. 221(a) of the Legislative Reorganization Act of 1970 (Public Law 91-510). Except for cost-of-living adjustments for social security and veterans compensation, the estimates represent simple projections of cost expressed in constant dollars at prices existing at the time the estimates are prepared. They are not intended to predict future economic conditions; they do not reflect possible changes in the scope or quality of the proposal which might result from experience gained in actual practice; nor do they reflect in all cases possible reductions in the costs of other programs that may come about as a result of adoption of the proposals. Further, the resources which might appropriately be applied in later years will require a reexamination of the relative priorities of these and other Government programs, in the light of economic and other circumstances then prevailing. Thus, the estimates do not represent a commitment as to amounts to be included in future budgets.

² BA represents budget authority and O represents outlays.

³ Since budget authority for these trust funds equals receipts, and since the trust fund outlays are determined by the number of eligible beneficiaries, no budget authority is shown.

⁴ Estimates are incremental costs of benefit payments, services, etc., as stated on p. 249 of the House of Representatives' Ways and Means Committee Report on H.R. 1 (H. Rept. No. 92-831, May 26, 1971). These estimates are subject to substantial revision due to differences in effective dates and the availability of later data.

1972 SUPPLEMENTAL APPROPRIATIONS

Mr. MAHON. Are you prepared to say how urgent it is that we give early consideration to a supplemental? Within the next 2 or 3 months? Would that be reasonably adequate for a supplemental?

Mr. SHULTZ. Most of the supplemental items are derived from the obligations of Government to expend funds; for example, unemployment compensation. As you know, at the end of the session, the Magnuson bill which establishes a new unemployment compensation obligation, was enacted. There are a variety of other things and I believe that we are fairly pressed for some of the money, but I can't give you an exact time estimate.

Mr. MAHON. All right. We can confer about that later.

IMPOUNDING FUNDS

Mr. Weinberger, we have from time to time discussed the matter of impounding funds. I assume that when funds are impounded you mean that you don't expend them in the time frame that had been proposed. The funds are not canceled; in the case of no-year appropriation they would remain available unless Congress should rescind the appropriation; in the case of annual appropriations, they would revert back to the Treasury at the close of the fiscal year. In some cases where funds are impounded it is the objective of the administration never to spend the funds. The Executive in that kind of case I assume would generally rely upon the authority of the Anti-Deficiency Act. Will you proceed without interruption to a statement in regard to this subject?

HISTORICAL BACKGROUND OF RESERVED FUNDS

Mr. WEINBERGER. Thank you, Mr. Chairman and members of the committee. I do not have a prepared statement to read but I do want to mention several major considerations in order to clarify the reserved funds issue, which, certainly last year, was subject to a great deal of confusion and misunderstanding, as we saw it. I should note before I begin, Mr. Chairman, that the word "impounding" does not seem to be subject to a precise definition.

One example that comes to mind is this: Military construction, ship construction, or the construction of a new aircraft may take 3, 4, or 5 years to complete. It would be the height of improvidence (and the Congress has said so in law) were we to pay the full amount appropriated for such construction before the carrier, aircraft, or whatever, is completed and delivered. Of course, under the contracts we make, we may make progress payments at given times in the contract. Theoretically, any amounts that were appropriated for a carrier, for example, that are not yet ready to be awarded under contract are withheld, or reserved, or whatever anybody wants to call them. They are in fact appropriated. They are available. They are not obligated or spent until needed.

To visualize this process, I find it helpful to think of the appropriation acts of the Congress as, in effect, diverting or pouring large sums of money into what might be called a water tank or a water tower out of which lead a great many separate pipes or spigots that can be

turned on at appropriate times. When the time comes, either under the provisions of a specific statute or under the provisions of a contract, funds are released through the appropriate pipe to the purpose for which they are to be spent. Nevertheless, there remains a very large sum, comparatively speaking 4, 5, 6, sometimes 7 percent of total outlays in this tank at any given time, awaiting the proper time for release.

There is nothing new about this process. There is ample historical precedent for it. President Jefferson, in 1803, reserved funds that the Congress had appropriated for the purchase of gunboats for the Mississippi. He chose not to spend the funds made available because a peaceful turn of events rendered the boats unnecessary. Although this is the earliest reservation of funds we can document, it may well be that there were earlier instances under President Washington. We have not yet found them.

Mr. SHULTZ. Don't think we haven't looked.

Mr. WEINBERGER. Yes, sir. Since that time, there have been a great many instances and undoubtedly there will be many more.

Funds are appropriated. They are technically withheld, reserved, or not released, not apportioned—any one of a number of ways you may wish to describe it. Since 1959, approximately 6 to 6½ percent of total outlays has remained in this so-called reserve tank at the end of each fiscal year. Of course, the exact figure and percentage vary over the fiscal year. In order to compare reserve totals across several fiscal years, one must choose a comparable point in time, June, or the end of each fiscal year, seems most suitable.

FUNDS CURRENTLY HELD IN RESERVE

Mr. MAHON. Mr. Weinberger, we are aware that we have had withholding of funds since the time of Thomas Jefferson. I think it would be good to make that record clear and as extensive as you can, but mainly we are interested at the moment in frozen funds that are now in the hands of the Executive.

Mr. WEINBERGER. I understand, Mr. Chairman. I have that list and copies are being given to the committee. I would be glad to go into detail. I thought it desirable to give some historical background at the beginning because last year many people labored under the impression that reserved funds were an innovation we had personally thought up. Let me clarify the context and perspective here.

We have divided the list of funds currently in this reserve tank, if I might use that expression, into two categories. The first category consists of genuine restrictive reserves. Restrictive reserves are here defined as funds which could or might be used; that is, obligated, during the apportionment time period, but which have not been apportioned because of the Executive's responsibility to (1) help meet a statutory limitation on the outstanding public debt or other congressionally imposed requirements, (2) develop a governmental financial plan for the current year that synchronizes program by program with the budget being recommended by the President for the following year, or (3) otherwise carry out broad economic and program policy objectives. That list, it should be noted, adds to \$1,748 million as of January 24, when the list was compiled.

The second list, which is much longer, consists of budgetary reserves for routine financial administrative purposes; that is, the kind of reserve that I have been describing. The second list adds to \$10,558 million.

The two lists together include \$12,306 million, which is about 5.1 percent of 1972 outlays. This is somewhat less than recent yearend percentages of outlays in reserve.

Of course, the list and amounts in reserve change continually. The changes result from various reapportionments that take place normally and from initial apportionments. Late passage of appropriation bills, such as occurred this past year, results in late initial apportionments. And it is not possible to determine the total reserves situation for a given fiscal year until the appropriation bills have been passed and the subsequent apportionment process completed.

I emphasize again that the genuine restrictive reserves list includes only \$1,748 million, which as you can see is a very small percentage—actually well under 1 percent of total outlays. The actual restrictive reserves are listed on the sheets before you and I would be happy to try to answer any of your questions.

Mr. MAHON. In the light of criticisms that have been leveled, I would like you to state your best view in the record. You can supplement what you have said for the record in order to make this very important issue clear.

(The information follows:)

January 25, 1972

BUDGETARY RESERVES AND "IMPOUNDMENTS"

Under authority delegated by the President, the Office of Management and Budget operates a system of apportioning the funds provided by the Congress. The apportionments generally are for the current fiscal year and limit the amounts the agencies may obligate during specified periods.

There are occasions when the amounts of available funds are not fully apportioned. That is, some amounts are either withheld from apportionment, or their use is temporarily deferred.

The reasons for withholding or deferring the apportionment of available funds usually are concerned with financial administration. They have to do with the effective and prudent use of the financial resources made available by the Congress. Thus, specific apportionments sometimes await (1) development by the affected agencies of approved plans and specifications, (2) completion of studies for the effective use of the funds, including necessary coordination with the other Federal and non-Federal parties that might be involved, (3) establishment of a necessary organization and designation of accountable officers to manage the programs, (4) the arrival of certain contingencies under which the funds must by statute be made available (e.g., certain direct Federal credit aids when private sector loans are not available).

Under these and other, related conditions the funds not apportioned are said to be held or placed "in reserve." This practice is one of long standing and has been exercised by both Republican and Democrat Administrations as a customary part of financial management. Amounts are frequently released from reserve--and put to use--during each fiscal year as plans, designs, specifications, studies, project approvals, and so on are completed. Thus, the total amount held in reserve usually reaches a low point at the end of the fiscal year.

At the end of fiscal years 1959 through 1961, the funds held in reserve ranged from 7.5% to 8.7% of total unified budget outlays. At the end of fiscal 1967, the comparable percentage was 6.7%, and a range in the neighborhood of 6% has been normal in recent years. Currently, the fiscal year 1972 percentage is 5.1% and the total amount held in reserve is expected to decline during the remainder of the fiscal year.

It is apparent that most reserves are, in fact, temporary deferrals and their need or wisdom is not usually questioned. In other cases, however, the affected reserves have been criticized as "impoundments" of funds.

Thus, the term "impoundment" has generally been applied to funds which could or might be used (i.e., obligated) during the apportionment time period, but which have not been apportioned because of the Executive's responsibility to (1) help keep total Government spending within a congressionally-imposed ceiling, (2) help meet a statutory limitation on the outstanding public debt, (3) develop a governmentwide financial plan for the current year that synchronizes program-by-program with the budget being recommended by the President for the following year, or (4) otherwise carry out broad economic and program policy objectives.

The items in the list below have been reserved for one or more of the reasons set forth in the preceding paragraph. On the basis of past experience changes in this listing may occur--to take account of changing conditions--before the fiscal year 1972 ends. The list itself is consistent with the estimates in the 1973 budget transmitted on January 24, 1972.

<u>Description</u>	<u>Million</u>
Reserves established pursuant to President's August 15, 1971 directive to curtail previously planned Federal employment levels.....	\$280 ^{a/}
Additional reserves established so that the funds will be available for later use:	
Department of Agriculture	
Farmers Home Administration	
Sewer and water grants.....	58 ^{b/}
Rural Electrification Administration--	
Loans.....	107 ^{c/}
Department of Commerce	
Regional Action Planning Commissions.....	*

<u>Description</u>	<u>Million</u>
Department of Housing and Urban Development	
Rehabilitation loans.....	\$ 53 <u>c/</u>
Grants for new community development	
assistance.....	5 <u>c/</u>
Basic water and sewer grants.....	500 <u>b/</u>
Department of Transportation	
Federal-aid highways.....	623
Rights-of-way for highways.....	50
Urban mass transportation <u>d/</u>	[300] <u>d/</u>
Atomic Energy Commission.....	18
NERVA-Nuclear Rocket.....	(17)
Plowshare.....	(1)
National Aeronautics and Space Administration	
NERVA-Nuclear Rocket.....	24
National Science Foundation	
Educational and institutional support.....	21 <u>c/</u>
Graduate traineeships.....	<u>10 e/</u>
Total.....	1,748

* Less than \$500,000.

- a/ Consists primarily of funds that had been appropriated prior to the President's directive. Excludes the comparable savings in trust fund and public enterprise accounts and the corresponding savings reflected in appropriation actions of the Congress after August 15, 1971. Includes accounts transferred to economic stabilization activities pursuant to the First Supplemental Appropriations Act, 1972. The accounts being reserved are currently under review, and in many cases they are likely to be released and apportioned to cover part of the cost of the Federal pay raise that took effect early in January 1972.
- b/ This amount is planned to be used for continuation of the water and sewer grant program in fiscal years 1973 and 1974.
- c/ Apportionment of entire amount is planned on July 1, 1972, consistent with program and financial plan in the 1973 budget.

d/ This item is listed here only because of public and congressional interest. It is not counted in the total below because its planned use is consistent with congressional intent. The Congress provided a total of \$3.1 billion of contract authority for the five-year period 1971-1975. Executive Branch apportionments will result in \$1.0 billion of this amount having been used by June 30, 1972, another \$1.0 billion (including this \$300 million) will be apportioned July 1, 1972, for fiscal 1973, leaving \$1.1 billion, or \$550 million per year for the fiscal years 1974 and 1975. The \$300 million shown is the difference between the \$600 million apportioned for 1972 and the \$900 million upper limit for which administrative expenses may be incurred under the 1972 Appropriation Act for the Department of Transportation:

"Sec. 308. None of the funds provided in this Act shall be available for administrative expenses in connection with commitments for grants for Urban Mass Transportation aggregating more than \$900,000,000 in fiscal year 1972." (Underlining supplied.)

e/ Apportionment awaiting NSF review of how these funds can be used effectively without worsening the current unemployment among scientists and engineers.

January 25, 1972

BUDGETARY RESERVES FOR ROUTINE
FINANCIAL ADMINISTRATION

(in thousands of dollars)

Funds Appropriated to the President

International development assistance:	
Prototype desalting plant.....	20,000
Apportionment awaits development by the agency of approved plans and specifications.	
Philippine education program.....	1,282
Apportionment awaits development by the agency of approved plans.	

Executive Office of the President

<u>Council on Environmental Quality</u>	140
Apportionment awaits development of proposals for contract studies of environmental problems.	
<u>National Security Council</u>	318
Apportionment awaits development by the agency of approved plans.	

Department of Agriculture

<u>Farmers Home Administration:</u>	
Farm labor housing grants.....	2,963
Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.	
Mutual and self-help housing grants.....	729
Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.	

Department of Agriculture--Continued

Animal and Plant Health Service..... 3,500

This amount is in excess of current estimate of 1972 needs. The funds will be apportioned, if needed, for animal and pest control.

Agricultural Research Service:

Construction..... 70

Residual amount appropriated, but not required for planning. Apportionment awaits additional appropriation for construction.

Special foreign currency program..... 352

Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.

Cooperative State Research Service:

Payments and expenses..... 4,600

As provided by the 1972 appropriation act, funds are to be held in reserve pending determination of "qualified and necessary projects."

Extension Service:

Payments and expenses..... 2,000

Funds are available for use by Land Grant Colleges of 1890 and Tuskegee Institute as soon as project guidelines are developed and necessary personnel available.

Consumer and Marketing Service:

Consumer protective, marketing, and regulatory programs..... 1,011

Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.

Department of Agriculture--ContinuedConsumer and Marketing Service--Continued:

Perishable Commodities Act Fund.....	14
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Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.

Food and Nutrition Service:

Food stamp program.....	198,516
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Funds appropriated by Congress in excess of estimated need under food stamp regulations announced earlier. These funds will be apportioned if and as needed to meet the cost of revisions in the regulations announced January 15, 1972.

Foreign Agricultural Service:

Salaries and expenses, special foreign currency program.....	3,087
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Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.

Forest Service:

Expenses, brush disposal.....	13,170
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Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.

Restoration of forest lands and improvements.....	6
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Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.

Forest fire prevention.....	115
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Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.

Department of Agriculture--ContinuedForest Service--Continued:

Forest protection and utilization:

Cooperative range improvement.....	1,910
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Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.

Forest roads and trails.....	401,869
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Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.

Department of CommerceBureau of the Census:

19th Decennial Census.....	11,028
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These funds are to be used for printing costs and will be apportioned when needed for this purpose.

Promotion of Industry and Commerce:

Inter-American Cultural and Trade Center.....	5,446
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Funds will be released when plans for participation in U.S. Bicentennial are completed and approved.

Trade adjustment assistance.....	50,000
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Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.

National Oceanic and Atmospheric Administration:

Promote and develop fishery products and research pertaining to American fisheries.....	257
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Amount shown here is in excess of current estimates of 1972 needs. If conditions change and the funds are needed, apportionments will be made.

Department of Commerce--ContinuedNational Oceanic and Atmospheric Administration--Continued:

Research, development, and facilities..... 564

These funds are for disaster relief to fisheries. Apportionment awaits arrival of contingencies under which the funds must, by statute, be made available.

Research, development, and facilities:
Special foreign currency program..... 411

Apportionment awaits development of research contracts with foreign organizations.

National Bureau of Standards:

Plant and facilities..... 1,495

Funds are for a new laboratory now in the planning stage. Apportionment awaits development of approved plans and specifications.

Maritime Administration:

Ship construction..... 14,804

Funds are for engineering changes and contract cancellation contingencies.

Department of Defense--Military

Shipbuilding and conversion..... 1,388,946

For use in subsequent years; these projects are fully funded when appropriated.

Other procurement programs..... 46,020

For use in subsequent years; these projects are fully funded when appropriated.

Research, development, test, and evaluation, Air Force.. 25,000

This balance of unobligated 1971 appropriations was set aside by Appropriations Committees to meet potential 1972 requirements. Will be released and apportioned if and as needed.

<u>Department of Defense--Military--Continued</u>	
Military construction and family housing.....	839,107
Apportionment awaits development by the agency of approved plans and specifications.	
Special foreign currency program.....	5,506
Apportionment awaits development by the agency of approved plans and specifications.	
Civil defense programs.....	1,080
Amount is in excess of currently estimated needs. It will be used, as needed, in subsequent fiscal years.	
<u>Department of Defense--Civil</u>	
Wildlife conservation.....	529
Includes estimated receipts not needed for current year program. Will be used in subsequent years.	
<u>Corps of Engineers:</u>	
<u>Construction, General:</u>	
Lafayette Lake, Indiana.....	183
Funds are being held in reserve because of local opposition to initiation of construction of the project.	
Lukfata Lake, Oklahoma.....	450
Funds are being held in reserve because the State of Oklahoma is considering designating one of the streams to be inundated as a wild and scenic stream.	
New York Harbor Collection and Removal of Drift.....	80
Funds are being held in reserve because, although the project has been authorized by the Congress for initiation and partial accomplishment, initiation of construction must await approval of the Secretary of the Army and the President. The Secretary of the Army has neither approved the project nor sent the project report to the President.	

Department of Health, Education, and WelfareFood and Drug Administration:

Building and facilities..... 13,545

Apportionment awaits development by the agency of approved plans and specifications. Construction obligations are to be incurred in subsequent years.

Health Services and Mental Health Administration:

Medical facilities construction..... 4,928

Apportionment awaits development by the agency of approved plans and specifications. Construction obligations are to be incurred in subsequent years.

Building and facilities..... 2,158

Apportionment awaits development by the agency of approved plans and specifications. Construction obligations are to be incurred in subsequent years.

Indian health facilities..... 1,312

Apportionment awaits development by the agency of approved plans and specifications. Construction obligations are to be incurred in subsequent years.

National Institutes of Health:

Buildings and facilities..... 5,702

Apportionment awaits development by the agency of approved plans and specifications. Construction obligations are to be incurred in subsequent years.

Gallaudet College..... 516

Congress appropriated \$616 thousand to Gallaudet College for a national continuing education program for the deaf. Funds are being withheld pending the development of a plan for the effective use of the funds, including any necessary coordination with the other Federal and non-Federal parties that might be involved.

Department of Housing and Urban Development
Model cities programs..... 105,000

The 1972 appropriation is available for use in 1972 and 1973; the amount reserved is being allocated among cities to cover obligations to be made early in 1973. Thus, each city will have in advance a target figure against which to plan.

Interstate land sales, special fund..... 1,468

Amount shown here is in excess of current estimates of 1972 needs. Fee collections are used to cover part of the costs of operating the interstate land sales registration program. Because of the unpredictability of fee collections, there is a substantial lag between collection and use. Thus 1971 fee collections are planned for use in 1973, and are carried in reserve in 1972.

Department of the Interior

Bureau of Land Management:

Public lands development, roads and trails..... 16,694

Reserve reflects amounts of available contract authority above the obligation program that was financed by the appropriation Congress enacted to liquidate the obligations.

Bureau of Indian Affairs:

Road construction..... 53,941

Reserve reflects amounts of available contract authority above the obligation program that was financed by the appropriation Congress enacted to liquidate the obligations.

Bureau of Outdoor Recreation:

Land and Water Conservation Fund..... 30,000

Consists of 1972 annual contract authority which the 1973 budget shows as not being obligated. This contract authority, which was made available annually through FY 1989 by P.L. 91-308, approved July 7, 1970, is

Department of the Interior--ContinuedBureau of Outdoor Recreation--Continued:Land and Water Conservation Fund--Continued

not being used because the Federal agencies purchasing park lands have found annual contract authority cumbersome to administer. Instead, they prefer ordinary appropriations to finance such land purchases and the budget proposes appropriation of the full \$300 million annual authorization for the Fund, of which about \$98 million is for Federal land purchases in 1973.

Bureau of Sport Fisheries and Wildlife:

Construction..... 9,075

Appropriated funds for D.C. Aquarium withheld because authorized facility cannot be constructed within the funding limits established by the authorization.

Bureau of Mines:

Drainage of anthracite mines..... 3,623

Funds are spent on a matching basis with Pennsylvania as that State and the Department of the Interior develop projects for this purpose. Apportionment awaits development of approved plans and specifications.

National Park Service:

Parkway and road construction..... 79,051

Reserve reflects amounts of available contract authority above the obligation program that was financed by the appropriation Congress enacted to liquidate the obligations.

Bureau of Reclamation:

Construction and rehabilitation..... 1,055

Funds are being held in reserve pending completion and review of the economic restudy to determine the most effective use of funds for the Second Bacon Siphon and Tunnel Unit, Wash.

Department of State

Educational exchange fund (earmarked proceeds of payment by Finland on World War I debt)..... 22

Apportionment awaits development by the agency of specific plans for the exchange of students.

Department of TransportationCoast Guard:

Acquisition, construction and improvements..... 3,380

Funds are for equipment or improvements and will not be needed until construction on seven projects is in an advanced stage. They will be released when needed.

Retired pay..... 571

Appropriation is in excess of needs due to a lag in voluntary retirements.

Federal Aviation Administration:

Facilities and equipment..... 58,958

Facilities and equipment (Airport and Airway trust fund)..... 157,000

Operations (Airport and Airway trust fund)..... 247,269

Research and Development (Airport and Airway trust fund)..... 11,409

Operation and maintenance, National Capital Airports.. 5,279

Safety regulation..... 40,152

Research and Development..... 353

Funds for these accounts have not been apportioned for the fourth quarter of 1972. Apportionment is awaiting agency development of a financial plan for the remainder of the year.

Grants-in-aid for airports (Airport and Airway trust fund)..... 56,459

Construction, National Capital Airports..... 900

U.S. International Aeronautical Exposition..... 218

Civil supersonic aircraft development termination.... 4,506

Apportionment of the above FAA accounts awaits development of approved plans and specifications.

Department of Transportation--ContinuedFederal Highway Administration:

Federal-aid highways

(1) Contract authority intended for use in 1973.....	5,700,000
(2) Remaining balance from prior reductions to meet outlay ceilings and abate inflation.....	267,830
Territorial Highways.....	5,000

New program established by the 1970 Highway Act, effective December 30, 1970. No appropriation was provided until August 1971, although \$4.5M of contract authority was authorized for each of 1971 and 1972. Territories were not prepared to handle program and have just begun to organize agencies and prepare studies for use of the funds. Total obligations through December 31, 1971 were about \$93,000.

Darien Gap Highway..... 100

Apportionment awaits development of approved plans and specifications. Reserve will be released as soon as the agency has organized field offices requiring these funds.

Urban Mass Transportation Administration:

Urban mass transportation*..... 300,000

The Congress provided a total of \$3.1B of contract authority for the five-year period 1971-1975. Executive Branch apportionments will result in \$1.0B of this amount having been used by June 30, 1972, another \$1.0B (including this \$300M) will be apportioned July 1, 1972, for fiscal 1973, leaving \$1.1B, or \$550M per year for the fiscal years 1974 and 1975. By appropriation action in fiscal years 1971 and 1972, the Congress effectively limited the amount of the contract authority that could be used each fiscal year. Thus, the \$300M shown is the difference between the \$600M apportioned for 1972 and the \$900M upper limit for which administrative expenses may be

* Similarly (for background information), the Congress established the same limitation at \$600M in 1971. The Administration used \$400M in 1971. The difference of \$200M is being applied to the years after 1971.

Department of Transportation--ContinuedUrban Mass Transportation Administration--Continued:Urban mass transportation--Continued

incurred under the 1972 Appropriation Act for the Department of Transportation: "Sec. 308. None of the funds provided in this Act shall be available for administrative expenses in connection with commitments for grants for Urban Mass Transportation aggregating more than \$900,000,000 in fiscal year 1972." (Underlining supplied.)

Treasury Department

Construction, Federal Law Enforcement Training Center... 22,239

Apportionment awaits development by the agency of approved plans and specifications.

Atomic Energy CommissionPlant and capital equipment:

Funds held in reserve awaiting AEC's development of firm plans or specifications for two projects in the nuclear materials and weapons programs..... 9,600

Funds held in reserve awaiting AEC's completion of feasibility studies or the results of research and development efforts for the national radioactive waste repository and two other projects... 3,133

Funds held in reserve for cost overruns and other contingencies..... 5,000

Operating expenses:

Funds held in reserve for the Liquid Metal Fast Breeder Reactor (LMFBR) demonstration plant awaiting the completion of detailed negotiations now underway involving AEC and the Commonwealth Edison Company and TVA..... 43,650

Biomedical Research:

Funds held in reserve pending development of a plan for effective utilization..... 400

Environmental Protection Agency

Operations, research and facilities..... 46,794

Awaiting completion of: (1) EPA study of requirements for Cincinnati laboratory (\$28.0M) and other laboratory facilities (\$7.294M); and (2) CEQ-EPA contract study on technology and reports leading to the development of criteria for selection of projects for use of resource recovery (solid waste) demonstration grants (\$11.5M).

General Services Administration

Operating expenses, Property Management and Disposal Service..... 2,200

Amount shown here is in excess of the current estimate of 1972 needs for stockpile disposals. If conditions change and the funds are needed, apportionments will be made.

Operating expenses, Public Buildings Service..... 5,000

Amount shown here is in excess of the current estimate of 1972 needs. It reflects revised estimates of utility costs and rent receipts from the Postal Service. If conditions change and the funds are needed, apportionments will be made.

Construction, public buildings projects..... 45,514

San Antonio, Texas, project awaiting OMB and Congressional approval of revised prospectus -- \$7,402 thousand.

Philadelphia project awaiting appropriation of additional funds needed to permit letting contract -- \$23,033 thousand.

\$10,803 thousand to be reprogrammed upon enactment of pending legislation authorizing private investment financing.

\$4,273 thousand is reserved to meet possible contingencies that might arise in the course of construction.

<u>General Services Administration--Continued</u>	
Sites and expenses, public buildings projects.....	14,666
Reserved to meet possible contingencies or for use in subsequent years -- \$10,380 thousand.	
Projects involving space for Postal Service are being restudied -- \$4,286 thousand. Apportionment awaits the completion of this study for the effective use of the funds.	
<u>National Aeronautics and Space Administration</u>	
Research and development..... (Space Shuttle program)	25,000
Although the decision has been made in the fiscal year 1973 budget to proceed with the development of the Shuttle, final plans and schedules have not yet been completed by NASA. After NASA has selected the booster option and issued its request for proposals (RFP) to the contractors, it is anticipated that the \$25 million will be released.	
<u>Veterans Administration</u>	
Grants to States for extended care facilities.....	8,420
State plans and requests for funds have not been presented to the extent originally expected.	
<u>Appalachian Regional Commission</u>	
Appalachian Regional Development Program.....	40,000
Apportionment awaits development by the agency of approved plans and specifications.	
<u>Cabinet Committee on Opportunities for Spanish-Speaking Peoples.....</u>	
	30
The obligation rate has been lower than anticipated because of operation under continuing resolution for two quarters.	
<u>District of Columbia</u>	
Loans to D. C. for capital outlay.....	49,015
Reserves represent prior appropriations not required to finance the planned fiscal year 1972 capital outlay program.	

<u>Federal Communications Commission</u>	
Salaries and expenses, (construction).....	460
<p>These funds are intended for replacement of a monitoring station. They cannot be used until the Congress raises the current limitation on FCC's 1972 construction program. It is expected that this will take place before the end of fiscal year 1972.</p>	
<u>Foreign Claims Settlement Commission</u>	
Payment of Vietnam and Pueblo prisoner of war claims....	150
<p>Apportionment awaits arrival of contingencies under which the funds must, by statute, be made available.</p>	
Salaries and expenses.....	19
<p>Apportionment awaits development by the agency of approved plans.</p>	
<u>Selective Service System</u>	
Salaries and expenses.....	1,600
<p>Since enactment of the 1972 appropriation, the expected number of inductions into the Armed Forces has declined, permitting this amount to be reserved for savings. The reserve would be released in the unlikely event that the declining trend of inductions should be reversed.</p>	
<u>Smithsonian Institution</u>	
Salaries and expenses, Woodrow Wilson International Center for Scholars.....	11
<p>Reserved for contingencies. Will be apportioned if and when needed.</p>	
<u>Temporary Study Commissions</u>	
Aviation Advisory Commission.....	587
<p>Funds in 1972 reserve will be used in 1973 to carry Commission through its expiration date of March 1973.</p>	
Commission on Highway Beautification.....	25
<p>For completion of Commission's work in 1973.</p>	

Temporary Study Commissions--Continued

Commission on Population Growth and the American Future.....	30
<p>A small contingency amount is set aside to cover any increases in contracted costs after the Commission completes its work and disbands in May 1972.</p>	
National Commission on Consumer Finance.....	50
<p>For terminating the Commission in 1973 after the report is completed.</p>	
<u>United States Information Agency</u>	
Salaries and expenses (special foreign currency program).....	407
Special international exhibitions.....	746
<p>Apportionment of the above accounts awaits development of approved plans and specifications.</p>	
Total.....	<u>10,558,778</u>

PROVISION REGARDING IMPOUNDED FUNDS IN FOREIGN ASSISTANCE ACT
OF 1971

Mr. MAHON. I would like for you to comment on the significance of of section 658 of the foreign assistance bill for 1971 with respect to fiscal year 1971 funds for HEW, for Agriculture, and for HUD.

Some of us voted against that bill because of that provision. We thought it was a very unwise provision. But the report will be enacted into law if the President signs it.

Mr. WEINBERGER. Yes, Mr. Chairman. I should say at the outset—I think you will appreciate this and I am sure the committee will—that what I have to say is essentially a personal opinion. There are many very difficult legal problems involved in that section and they have not, in any sense, been resolved. There are difficult legal problems because I don't think the section is, in any sense, clear.

Mr. MAHON. We will put the section in the record at this point.
(Section 658 follows:)

FOREIGN ASSISTANCE ACT OF 1971—SECTION 658

"SEC. 658. LIMITATION ON USE OF FUNDS.—(a) Except as otherwise provided in this section, none of the funds appropriated to carry out the provisions of this act or the Foreign Military Sales Act shall be obligated or expended until the Comptroller General of the United States certifies to the Congress that all funds previously appropriated and thereafter impounded during the fiscal year 1971 for programs and activities administered by or under the direction of the Department of Agriculture, the Department of Housing and Urban Development, and the Department of Health, Education, and Welfare have been released for obligation and expenditure.

"(b) The provisions of this section shall not apply—

"(1) to funds being withheld in accordance with specific requirements of law; and

"(2) to appropriations obligated or expended prior to April 30, 1972."

(c) (1) Section 644(m) of such act, relating to definitions, is amended by striking out—

"(m) 'Value' means—"
and inserting in lieu thereof—

"(m) 'Value' means, other than in section 657 of this act—"

(2) Subsection (a) of section 634 of such act, relating to reports and information, is repealed.

(3) The provisions of this subsection and section 657 of such act, as added by subsection (b) of this act, shall apply with respect to each fiscal year commencing on or after July 1, 1971.

Mr. MAHON. Now proceed, please.

Mr. WEINBERGER. For example, there is no definition of the term "impoundment" and I mentioned a few moments ago that that is not a term easily subject to definition because it is apparently used in a very general sense. There are many appropriations in HEW, in Agriculture, and in HUD that simply cannot be obligated at this point in time. There is no way to use some of the appropriations. So if all of the reserves in that category are to be considered impounded, then we have a very difficult legal problem.

I will also volunteer, since you have asked me and it is a personal opinion, that I have very grave doubts as to the constitutionality of a section of this kind because it attempts to tie together an appropriation for one subject—foreign assistance—with a requirement that appropriations not all related to foreign assistance be spent first.

Again, as I say, there are some real conflicts involved in the wording because the term "impoundment" lacks precise definition and also be-

cause what is meant by impoundments of 1971 funds and funds "previously appropriated" is not clear. We also have a very difficult "last-in, last-out," or "first-in, first-out" type of problem that has in no sense been resolved.

Mr. MAHON. More particularly we want to know what impact the provision would have with respect to the fiscal 1971 funds which are involved. Please give us the best statement you can on this matter for the record.

Mr. WEINBERGER. We certainly will. I tried to outline some of the difficulties that are presented to us at the moment. The section, as you know, requires certification by the Comptroller General. There are some serious definitional problems with it, but we will be glad to put a statement in the record as to the impact on these agencies.

(The statement follows:)

Section 658 of the Foreign Assistance Act of 1971 requires a certification by the Comptroller General before any funds appropriated under that act or the Foreign Military Sales Act can be obligated or expanded on or after April 30, 1972. The required certification is to be made to the Congress upon a determination by the Comptroller General that all funds impounded in 1971 for programs of the Departments of Agriculture, Housing and Urban Development, and Health, Education, and Welfare have been released.

The Office of Management and Budget has explored the requirements and implications of section 658 upon amounts which are currently in reserve. We are suggesting to the Comptroller General that the following criteria be used to conform with the statutory requirements:

1. Since most reserves are technical actions taken for purposes of routine financial administration, there are very few impoundments in the restrictive or prohibitive sense in which that word is generally understood. Currently those reserves which are restrictive and which could thus be interpreted as impoundments are confined to the \$1,748 million shown for the executive branch as a whole on the January 25, 1972, listing of Budgetary Reserves and Impoundments (provided elsewhere in the record of this hearing).

2. Annual accounts are not covered by section 658, since current reserves in these accounts cannot include 1971 or prior-year funds.

3. For reserves in no-year or multiple-year accounts (those in which funds are carried over from year to year) we apply the "first in, first out" rule. This means that except for specific project funds (see criterion 4 below), when a 1972 apportionment is greater than the amount in reserve on June 30, 1971, the entire amount in reserve on June 30, 1971, has been released.

4. Amounts reserved in no-year or multiple-year accounts on June 30, 1971, which were for a specific item or project would be covered by section 658, if they were still in reserve on April 30, 1972. (There are no such funds.)

In our opinion, under these criteria, there are no funds currently in reserve which would have to be released to comply with section 658. Of course, under the provisions of the law, the Comptroller General will make the final determination.

Mr. WEINBERGER. At this point I would just say that there are some considerable doubts raised by it, one of them being the point that I mentioned, that there are literally in some cases no way the appropriation can be used because either plans have not been completed or necessary construction has not been accomplished or other actions must occur. You will see examples in the detailed lists that we are providing.

Mr. MAHON. I am going to yield for a moment to Mr. Whitten and then I am going to yield on my right. Mr. Whitten.

IMPOUNDMENT OF DEPARTMENT OF AGRICULTURE FUNDS

Mr. WHITTEN. Mr. Chairman, I realize time is short, but I would like to point out here in the matter of impoundment that the technical definition that we find in the dictionary might not be very prominent

here or pertinent. I am sure that Mr. Weinberger knows what is meant by in the minds of the Members of Congress. The problem about this, though it has been carried on through the years, is fairness or unfairness with which our power is exercised. I have sat here and seen the Bureau of the Budget release money for new starts where it was sponsored by administrations, but turned down all the money for new starts that the Congress had included. Mr. Weinberger is familiar with that.

I have before me the funds that have been frozen for rural water loans, grants, housing grants, and many, many other things in the Department of Agriculture at a time when the administration recommends rural—I forget the word—rural development, and there has been sent up legislation as I understand it. So on the one hand the administration, and it has been true under others, I grant you—you said back to Thomas Jefferson. I haven't studied the history that far back with regard to this, but the point of it is when anybody in the Budget Bureau, usually a nameless person, can freeze the agricultural conservation program where 1 million Americans put up their money and their time, despite a directive from the Congress, when they espouse the cause of protecting the environment, it leaves some question of judgment as to whether it is a matter of legality.

When you release this program in your announcement as you did a few weeks ago after Secretary Butz, who understood the program, came in, then your budget I see cuts it back again. This is a program where I am glad to say I was one who was in position to sponsor it. The Congress had to restore in 16 out of 19 years and never found out who in the Bureau of the Budget is responsible for annually cutting it out.

What I am trying to say is you are freezing funds that are very important in revitalizing rural America while, on the other hand, you send up messages wanting us to pass legislation to revitalize rural America. I don't see how you can justify the freezing. Now, I have agreed to start with, not that it is important about me individually agreeing—certainly you have the power, but it is questionable whether you have the moral right or whether you should have the nerve to freeze all these funds for these purposes and then come up and ask us to pass legislation providing for it. In the first place, I haven't had much chance to know you. You may have more sides than I understand, but it is hard for me to understand.

Mr. WEINBERGER. Congressman, the two are tied together in many ways. The new legislation and the delay in the allocation—and it is no more than that—do relate because the legislation is designed to pull together the programs of a great many agencies which sometimes come to compete in this field. It is extremely desirable to put them together.

With respect to the agricultural conservation program, you will note that there are no funds withheld from that program.

Mr. WHITTEN. Yes; but your amount for next year has been cut back to the level you cut back last year and Congress told you not to do it.

Mr. WEINBERGER. The level proposed in the 1973 budget is the recommendation of the President. It may be less than the amount proposed in 1972 plus the congressional add-on but it is, as we said a moment ago, the President's best judgment as to the proper amount to allocate to this program.

I might add just one more thing, sir. We believe that substantial improvements were made in this program while some of the funds were withheld. You have pointed out that 16 out of the last 20 years—

Mr. WHITTEN. I think I am right on that.

Mr. WEINBERGER. I think that is right; yes, sir. Presidents of both parties have agreed that this program is of some concern.

Mr. WHITTEN. Budget bureaus haven't.

Mr. WEINBERGER. Budget bureaus don't operate without presidential approval, sir.

REVENUE SHARING

Mr. WHITTEN. Well, you fixed the responsibility. One other statement, and I am not trying to cut you short. I want you to feel free to enlarge on the record. I promised my chairman I wouldn't take up but 1 more minute. In your revenue sharing you list the Extension Service and many other programs as a part of it, so it won't be new money. It means programs that have been going on for years, in the law, with some degree of Federal supervision, of cooperation through agreement. The money will still be there. You will count it as part of your new program. What we are doing is just taking away any Federal supervision; is that not right?

ON-GOING PROGRAMS INCLUDED IN SPECIAL REVENUE-SHARING PROPOSAL

Mr. WEINBERGER. Not quite, no, sir. There are two parts to revenue sharing. General revenue sharing is all new money and it would be entirely up to the States, cities, and counties to dispose of it as they wish. Special revenue sharing, and I believe that is what you particularly refer to in this case, does include several on-going programs financed as they are now or at increasing levels in our projections.

Mr. WHITTEN. Will you list at this point those on-going programs for all six of the special revenue-sharing programs?

Mr. WEINBERGER. I would like to close by saying that there are also new funds in each of the special revenue-sharing programs. While there are on-going programs proposed to be put in, there are also additional funds proposed to be added. There would be new money as well as old money.

Mr. WHITTEN. Thank you again. I wish I could pursue it.
(The information follows:)

PROGRAMS THAT WILL BE FOLDED INTO SPECIAL REVENUE SHARING

Urban community development

Housing and Urban Development:
 Urban Renewal;
 Model Cities;
 Rehabilitation loans;
 Neighborhood facilities; and
 Open space.

Rural community development

- Department of Agriculture :
 - Extension service ;
 - Rural environmental assistance program ;
 - Water and sewer grants ;
 - Forestry grants ;
 - Great plains program ;
 - Water bank program ;
 - Resource conservation and development program ; and
 - Tree planting assistance.
- Department of Commerce :
 - Economic development assistance ;
 - Regional commissions ; and Appalachia.

Manpower training

- Department of Labor :
 - Manpower training services.
- Law Enforcement Assistance :
 - Department of Justice :
 - LEAA bloc action grants ; and
 - LEAA discretionary grants.

Transportation

- Department of Transportation :
 - Federal-aid highways (except interstate) ;
 - Highway beauty ;
 - Highway safety grants ;
 - Territorial highways ;
 - Urban Mass Transportation Administration ; and
 - Grants-in-aid for airports.

Education

- Department of Agriculture :
 - School lunch program (sec. 4—excluding assistance to needy children) ;
 - Nonfood assistance program ;
 - State administrative expenses ;
- Health, Education, and Welfare :
 - Title I ESEA (education of the disadvantaged) ;
 - Title II ESEA (school library resources) ;
 - Title III ESEA (supplementary services—excluding Commissioner's 15-percent discretionary portion) ;
 - Title V ESEA (strengthening State agencies—excluding grants for special projects) ;
 - Equipment and minor remodeling ;
 - Education of the handicapped (State grants) ;
 - Impacted school aid (excluding federally operated schools) ;
 - Vocational education (excluding discretionary portion) ;
 - Adult basic education (excluding special projects and training) ; and
 - Education professions development (State grants).

Mr. MAHON. I yield on my right to the gentleman from Wisconsin, Mr. Davis.

FULBRIGHT AMENDMENT

Mr. DAVIS. Mr. Chairman, I had planned to ask Mr. Weinberger whether he had had an opportunity to study this impact of the so-called Fulbright amendment, but it is apparent from the explanation you have already given that there are a number of legal questions that prevent you from giving us the story on the full impact of it.

In your statement which you are proposing to submit for the record, I think it would be well if you could summarize the impact on expenditures for the fiscal year if this were to be interpreted in its broadest sense and all funds in those areas referred to were required to actually be expended during the fiscal year.

Mr. WEINBERGER. It might be very substantial. I have not added up the three departments immediately concerned. Congressman Davis, on page 7 of the budgetary reserves for routine financial administration list, for example, we see the HEW proposal for a building for the Food and Drug Administration at \$13,545,000. There are no plans. There are no specifications. How would we use that money? Yet if we did not—although we are not in position to obligate or spend the money—this would throw into question whether any of the foreign aid funds could be spent.

The provision in itself has enormous administrative difficulties. I am bound to add, as I did to the chairman, I have very grave personal doubts as to its constitutionality.

Mr. DAVIS. I have just five general questions that probably Secretary Walker or Mr. Shultz may want to respond to.

MILITARY RETIREMENT PROGRAM

The first one relates to the projection which appeared in the report of our Defense Appropriations Subcommittee of where we are going expenditurewise in the years ahead on the present military retirement program. I believe that the table showed that, assuming the recomputation and assuming the increases in military pay based upon the escalating schedule, we would reach a level of \$43 billion per year by the year 2000. Has any initiative been put into effect in the executive branch of the Government toward recommendations that might alleviate that prospect for us?

Mr. WEINBERGER. I believe, Congressman Davis, that there are executive branch proposals under study for recomputation of retired military pay as well as the overall retirement system. The full extent of the details and what they would do to that specific figure I don't have before me at this time.

(The information follows:)

On March 10, 1971, the President, because of his concern about the equity considerations as well as the costs of military retirement, directed the establishment of an interagency committee to study the whole range of questions concerning uniformed services retirement and survivors' benefits. This committee has virtually completed its work and administration proposals will soon be before the Congress.

We are aware that, if current provisions are left intact, a gigantic sum will be required for retired pay within the foreseeable future.

Mr. DAVIS. Is there any thought being given to development of a contributory system in order to reduce the net expenditure of the Federal Government?

Mr. WEINBERGER. I believe there is, but I will have to answer only in that way because I am not prepared at this time to go into the details.

(The information follows:)

The Interagency Committee considered this question at length but concluded that the military retirement system should remain noncontributory.

STUDENT LOAN INSURANCE PROGRAM

Mr. DAVIS. One of the General Accounting Office's reports, I believe in December, indicated a certain amount of laxness in the recoupment and the recovery of various loan programs of the Federal Government.

Of course that is bound to be reflected in our net expenditure levels in these years, too.

Have you had an opportunity to look into that problem?

Mr. WEINBERGER. I believe your reference is to the GAO report of December 30, on the Student Loan Insurance program. We are aware of the problems developing in this program. Insurance commitments under it reached significant levels in 1968, but a program feature was the deferment of principal and interest payments until 9 months after students have completed their schooling. Accordingly, payments have only recently started to become due in significant volume—so that the risks and problems of the program were not apparent from earlier program experience. While some of this adverse experience may be the result of temporary difficulties in the employment markets for college graduates, we have already authorized increased staff in fiscal 1972 to assist HEW's efforts to rectify the administrative problems this experience has revealed. As you say, perfectly correctly, loans that are not repaid to the Government have a major outlay effect and they add to the problems that the Chairman and others have referred to.

NET BUDGET OUTLAYS FOR DEPARTMENT OF INTERIOR

Mr. DAVIS. I noted in the summary tables that were set forth here that it shows a net outlay, as far as the Department of Interior goes, of a minus billion dollars. It was my understanding that such major sources of revenue—such as the leases on the offshore oil operations and the receipts from power generated at the multiple purpose projects, and so on—went into the general treasury fund and that it is confusing and perhaps even questionable to show the situation with respect to the Department of Interior in that manner. In other words, these receipts aren't to the Department of Interior. They are receipts to the general fund of the Treasury.

Mr. WEINBERGER. They do go into the Treasury, Congressman Davis. They are shown, however, as negative outlays. This doesn't interfere in any way with the discretion or authority of the Congress. As a general rule, the budget shows these kinds of receipts as negative outlays against the proposed expenditures of the Department that disposes of a particular resource—in this case, Interior.

The reason that they are that large in the fiscal 1973 budget for Interior is because there is an extraordinary and non-recurring item in the allocation to the United States from a disputed escrow fund of a little over \$1.3 billion. The U.S. Supreme Court has now found these funds not to be in dispute. They do not have to await the outcome of a lengthy lawsuit brought by the United States against Louisiana.

Those funds will be transferred from a deposit account to a receipt account and will count in fiscal year 1973. They do give a negative total to the Interior Department. But they do pass through the Treasury.

ALASKA NATIVE CLAIMS LEGISLATION

Mr. DAVIS. Just within the past several weeks the Alaska Native Claims legislation was enacted. Is that reflected in the budget that we have before us?

Mr. WEINBERGER. My understanding is that it is, yes, the budget reflects payment, preparation of the native roles, and land surveying. We do not yet have a request before you for the joint Federal-State Land

Use Planning Commission. The first year outlays are small. There are additional requirements that have to be met by claimants and others will start showing up in fiscal 1974, 1975, and beyond. But the provision for starting the program is in the budget.

SEIGNIORAGE

Mr. DAVIS. I wasn't able to identify the item of seigniorage in the receipts. Is that covered under the item others that you show here?

Mr. WEINBERGER. Yes.

Mr. WALKER. It's not a budget receipt. It's money creation. We would like to have it as a budget receipt, but a decision was made with the new unified budget concept that it would simply be a means of financing. It helps finance the public debt, but it's not a budget receipt; profit on the silver Eisenhower dollar is included as a budget receipt.

Mr. DAVIS. This doesn't appear anywhere in the budget at all?

Mr. WEINBERGER. It's shown on page 504 in this volume.

Mr. DAVIS. For the record, could we have a statement inserted to indicate the seigniorage amounts for the past 3 fiscal years, the current fiscal year, the previous fiscal year and the anticipated?

Mr. WEINBERGER. It's right here, \$378 million for 1971, \$540 million for 1972, anticipated \$532 million for 1973. That is net.

USE OF TRUST FUND SURPLUSES TO FINANCE FEDERAL FUND OUTLAYS

Mr. DAVIS. One final question. We are relying, and have relied for a number of years, on surpluses in the trust fund to help finance the total outlays of the Government. As we look down the road with respect to them, what do we see in terms of the status of these trust funds as a group in the next few years? Are we going to continue to have surpluses?

Mr. WEINBERGER. I think the budget surplus or deficit—by fund group table shows, Congressman Davis, that there is some misapprehension about this right now. The Federal funds, about which there has been so much discussion, actually pay \$12,900 billion net, almost \$13 billion a year to the trust funds. The trust fund surplus, which is \$5.9 billion in 1972, comes very largely from payments from the Federal fund. Part of the Federal funds payments represent interest on the U.S. securities held by the trust fund. So, there will be a paper surplus in the trust funds, but this does not mean that the trust funds are being used to finance the Federal funds.

Mr. DAVIS. The experience with these things that occurs to me is that, while there may be isolated periods of time when they are going to be running surpluses, the political temptations are such that I can foresee in the not too distant future, we are actually going to be having deficits in these trust funds. Then it's certainly going to accentuate the problem that we do have if we forget about the significance of keeping the Federal outlays somewhere close to the actual general tax revenues that we are achieving.

Mr. WEINBERGER. I think without any question, Congressman Davis, viewed either separately as trust funds and Federal funds or on the unified basis that we are required to use, there is no doubt that the outlays do have to be kept within the revenues unless we want a tax increase, which none of us do.

It seems to me that for that reason, the outlay ceiling is all the more important and its essential character is underlined by your questions. There is just no doubt about it. These funds are not inexhaustible, even though there may be several increases in the social security tax scheduled to take effect in later years.

We can see, as Dr. Shultz mentioned, that over the next few years the so-called budget margin is not there. We are right out to the end of it now.

DEFINITION OF PUBLIC DEBT CEILING

Mr. CEDERBERG. Will the gentleman yield? Isn't it true that if you had a balanced unified budget, you would still be required to come in and ask for an increase in the national debt because these trust funds are in effect a part of the national debt? This is something that I think ought to be alluded to in the hearings here because this could be misleading to many people.

Mr. WALKER. Early in 1969 we asked for a redefinition of the public debt ceiling so that anomaly wouldn't exist. We were strongly rebuffed by the Ways and Means Committee.

Mr. YATES. Will the gentleman yield for a question?

Mr. DAVIS. Yes.

VALUE-ADDED TAX

Mr. YATES. Mr. Weinberger, you indicated this administration was trying to avoid an increase in taxes. Does that effort include the proposed value-added tax?

Mr. WEINBERGER. The value-added tax is not a proposal. It is a matter, as Mr. Volcker and Mr. Walker indicated yesterday, that has been under study for a long time. It's not a proposal, but is a matter under study.

SURPLUS-DEFICIT OUTLOOK FOR TRUST FUNDS

Mr. MAHON. Will you place in the record, in connection with these matters you have been discussing with Mr. Davis, what the outlook is for the trust funds, as to whether or not we will have a surplus or a deficit and how much for the next 4 or 5 years?

Mr. WEINBERGER. If we are able to do that.

(The information follows:)

The outlook is for continued trust fund surpluses over the next 4 or 5 years. The amount of the surpluses depends largely upon whether the social security tax rate and base increases proposed in H.R. 1 are enacted. (Without these tax increases, the trust fund surpluses will be about \$10 billion per year over the next several years.) (If these increases are enacted and no benefit increases are, the trust fund surplus will increase sharply beginning in fiscal year 1975.)

NATIONAL DEBT

Mr. Bow. Mr. Chairman, I would like to ask my usual question I have asked in these hearings over the years.

What is the present national debt?

Mr. WALKER. As of January 25 it was \$426.9 billion.

COST OF NATIONAL DEBT PER MINUTE

Mr. Bow. As my next question I always like to have you get computation on that for me. How much is it costing us every minute to pay the interest on the national debt?

Mr. WALKER. I will get that.

Mr. MAHON. Put it in the record, please.

Mr. WEINBERGER. Interest on the public debt is estimated at \$22.7 billion for fiscal year 1973.

Mr. BOW. I am talking about the national debt as it is today. I think that ought to be a figure of about \$480 billion, shouldn't it?

Mr. WALKER. The debt is projected at \$480 billion at the end of fiscal 1973. Now it's \$425 billion. Every minute costs \$43,000 in interest.

Mr. BOW. In other words, we are now paying \$43,000 a minute in interest on the national debt?

Mr. WALKER. \$718 a second.

Mr. MAHON. The gentleman on the left.

OVERSIGHT RESPONSIBILITY OF THE OFFICE OF MANAGEMENT AND BUDGET

Mr. BOLAND. I am dazzled by the power of the Office of Management and Budget. I hasten to add I am rather happy that, if this is really necessary, the power is in your hands, Mr. Director.

What sort of oversight does the OMB have upon specific programs? For example, the Space Shuttle is just getting off the ground. We appropriated \$118 million in fiscal 1972 for this program. I think the total budget calls for about \$5.5 billion over the next several years. There have been various estimates on the total cost of this program, and these keep changing as charges are made in the shuttle concepts.

I know that OMB doesn't make a determination as to our national policy with respect to the Space Shuttle. This, of course, is made by the Congress and by the President.

Does the OMB have the ability to project the total cost for the Space Shuttle?

Mr. SHULTZ. We have worked with NASA in trying to project the costs of the Space Shuttle in the form in which they are proposing it. Although, as you may know, the precise form, the type of propulsion, and the precise size has not finally been determined by them. We try to work with them and establish, as well as we can, estimates for the projected costs.

Mr. BOLAND. Is there a projected cost?

Mr. SHULTZ. Yes.

Mr. BOLAND. What is that cost?

Mr. WEINBERGER. It's about \$5.5 billion for development. But it's spread over about a 7-year period.

Mr. BOLAND. What type of oversight does the OMB have on this project?

Mr. SHULTZ. There are all sorts of increments of cost. There is the development cost and then there are certain operating costs. Do you want to count the payload that goes in the shuttle? There are all these different elements of cost. I think Mr. Weinberger was speaking about our estimate of development costs.

Mr. BOLAND. Yes.

Mr. SHULTZ. It would be in the neighborhood of \$5.5 billion for development. In addition, facilities will cost about \$300 million, each added orbiter will cost \$250 million, and each added booster will be \$50 million.

Mr. WEINBERGER. The operating costs will depend on the frequency of use which is awfully hard to estimate now. The cost per flight will probably be less than \$10 million.

Mr. BOLAND. The number of boosters we want, and the number of shuttles we want in the years to come, might add substantially to its cost.

What type of oversight does Mr. Cohn, who is the Rockefeller award winner, exercise in his budget review of particular programs—this program, for instance?

Mr. SHULTZ. He runs everything, Mr. Boland.

OMB OVERSIGHT OF SPACE SHUTTLE PROGRAM

Mr. BOLAND. I know. He does it well. Is there an oversight by your office with respect to the operations of NASA in the space shuttle programs?

Mr. SHULTZ. The Budget Review Division within the OMB has the task of drawing all the threads together. Mr. Cohn works with our various division directors in monitoring what is going on and trying to keep an accurate picture before us of what is taking place. He carries the burden of putting these extensive documents together.

Mr. BOLAND. Let me ask this question: There is about \$228 million requested for fiscal year 1973 for the Space Shuttle program. Was that all the NASA requested, or did they request more and was it reduced by OMB?

Mr. SHULTZ. We had a lengthy period of study with NASA as to what the nature of the shuttle should be, what its size should be, what amount of thrust would be necessary, and so on. There was a great deal of interaction back and forth in studying it.

The estimates we have are estimates which are jointly produced and which the President approved, but they are the President's estimates and the President's decision.

Mr. MAHON. Mr. Shultz, they are lower than had been originally projected to the OMB by the space people. What was the high dollar that they first initiated?

Mr. SHULTZ. At one time in the early stages of the development of the Space Shuttle they had in mind—

Mr. MAHON. I mean for fiscal 1973?

Mr. SHULTZ. When they had in mind a rather different shuttle—much larger with a different kind of propulsion—the cost was well over double. We felt that that was too much. As we requested, NASA worked hard to see if the design could be changed and if we could get a shuttle design that would fit more within the budget constraints that seemed to the President to be necessary.

As I mentioned yesterday, we are looking toward more or less level funding for NASA on the order of \$3.2 billion as an annual total. At this time, we are trying to include the space shuttle program within that.

Mr. BOLAND. Your last remark indicates that you would hope the space shuttle program could fit within the \$3.2 billion level that you project for NASA for the next few years. I am delighted that you have that kind of oversight. We have often wondered whether OMB willy-

nilly makes the cuts and then forces an agency to live within it. Apparently Mr. Cohn doesn't think that is the way it ought to be done. I am glad you have that kind of operation.

Mr. MAHON. Any further question on my left?

EXPENDITURE CEILING

Mr. FLOOD. Thank you, Mr. Chairman. Mr. Shultz, I have in my hand the Federal budget for 1972, the hearings before the Appropriations Committee. On page 198 thereof, you say among other things, and I quote with reference to the expenditure ceiling halfway down the page:

For this reason an inflexible ceiling which would apply to total budget outlays could result in heavy, even chaotic, reductions in essential Government services to accommodate spending increases in the programs that cannot be cut. In lieu of that kind of ceiling, we advocate one which will be adjusted by changes in the relatively uncontrollable program.

Have you now developed an affection for ceilings—inflexible, rigid ceilings?

Mr. SHULTZ. We have come to the view that a very stern discipline is necessary on the rise in outlays so in a sense you might say we have tightened our position as compared with last year.

Mr. FLOOD. There is nothing wrong with that.

Mr. SHULTZ. In the discussion we had with the chairman a while ago we suggested that we can work with the committee and try to get a reasonable statement of the ceiling.

Mr. FLOOD. I am not quarreling, Mr. Shultz. I know better than to quarrel with you. I simply say you did say this last year, and for very good reasons which you had detailed. Now you have a different point of view. This is not wrong. Of course not.

Mr. TALCOTT. May I ask a 30-second question?

Mr. FLOOD. I would be happy to yield.

RECOMPUTATION OF RETIRED MILITARY PAY

Mr. TALCOTT. Thank you very much for yielding.

Mr. Secretary, I have just two questions that can be answered quickly. It seems to me there are two major programs which the President has practically promised to the American people. There is a private pension plan and the recomputation of pay for retired military personnel. I don't see anything in the budget that includes these rather major programs. By not being in the budget does that mean you are deferring it until next year or some years in the future? You can answer this for the record if you prefer.

Mr. WALKER. The pension in the budget is \$400 million for the next fiscal year for the private pension funds.

Mr. TALCOTT. I don't find it. Where would it be?

Mr. SHULTZ. Provision for reform and recomputation of the military retirement system is in the military budget.

Mr. TALCOTT. It's in the military budget?

Mr. SHULTZ. Yes, sir.

Mr. TALCOTT. That is good news then.

POSTAL SERVICE SUBSIDY

The other question I have is recently we have transferred the Post Office Department to a public independent Postal Service. This should make a dramatic reduction in the overall Federal budget. Is that reflected anywhere in this budget?

Mr. SHULTZ. We are required to continue the subsidy to the Post Office and it's supposed to taper off as the years unfold. So we still carry a large subsidy for the Post Office.

Mr. TALCOTT. But the subsidy should be only a small part of the total outlays that we have been putting out for buildings, construction, personnel, equipment and all those things.

Mr. WEINBERGER. Unfortunately, Congressman Talcott, the legislation did not come through as requested by the President. We are required for 8 years to fund the subsidy at approximately last year's level, although there is some tapering off. We did make some reductions in the request of the Post Office Department based on that subsidy. We are also required to fund some building projects. We have very little leeway for the next several years due to the form that the legislation finally took, which was not as the President had requested.

Mr. TALCOTT. So the postal reform really didn't reduce the Federal subsidy to the Postal Service?

Mr. WEINBERGER. As requested it would have. As enacted, we will have to maintain substantial subsidies. Our hope is that they will not be of an ever-increasing nature as they were in previous years. We have at least the hope of holding them relatively level. As far as substantial budget reductions are concerned, I don't think we will see those for some years unless the legislation is changed.

Mr. TALCOTT. Thank you very much, Mr. Chairman.

Mr. MAHON. Does any member of the committee who has not been recognized want to be recognized?

Mr. Evans?

FINANCING THE FEDERAL DEBT

Mr. EVANS. You can answer this for the record if you wish. I am very concerned about the extent to which we are going to finance our Federal Government's debt through the issuance of securities. In 2 years we have reached \$65 billion in deficits, and we are anticipating deficits in the future. I don't see how the economy is going to improve sufficiently to significantly increase our Federal revenues through the current taxes we now have.

Can you tell us, Mr. Walker, what you have in mind in terms of when you are going to go to the market and with what kind of maturities and what amounts? What kind of management are you going to crank into this sale of securities to get the money we need?

Mr. WALKER. Congressman, I think I can perhaps best answer that by referring to an announcement on January 26, just a couple of days ago, where we were refunding \$19 billion of securities maturing in February this year and February and May next year, of which the public held \$3.7 billion of the February, 1972, securities. That is the part we really have to be concerned about.

We offered a 5 $\frac{3}{4}$ -percent Treasury note due in 1976, something over 4 years, and a 6 $\frac{3}{8}$ -percent Treasury bond that is of a 10-year maturity.

We were able to offer that 10-year bond now where we couldn't a year ago because the legislation last year which permits us to sell some of those bonds beyond the legal interest rate ceiling.

Mr. EVANS. In regard to that 10-year bond, how much interest can you expect on that?

Mr. WALKER. It was issued at 6 $\frac{3}{8}$ percent. Since this is a refunding operation in which holders of maturing issues have the privilege of exchanging for either of the two issues or making for cash, we cannot estimate precisely what we will get. That is up to the holders. I would say that we are making an estimate of something less than a billion dollars or so in the 10-year bond. I cite this illustration because we are determined in the administration to move as much long-term debt out as we can without disturbing the mortgage market, the State and local security market and other long-term markets. We are faced with a very short maturity. It's a continuing problem. We will be leaning toward this intermediate term financing.

Mr. EVANS. By intermediate you are talking about what, 3 or 4 or 5 years?

Mr. WALKER. We are offering now a 4-year and a 10-year bond. By intermediate term I mean 5 to 10 years. We hope at some stage of the game to get out considerably longer than that, but at this particular phase of the cycle, trying to cure unemployment and promote economic growth, with a very strong housing boom going on, we don't want to do so much that we shake up those markets.

Mr. EVANS. That was going to be my next question—that is, the extent to which you feel you can float these obligations without disturbing the interest situation.

Mr. WALKER. We think we can under current circumstances. The amount of money available, the funds available for investment in a wide range of securities, is very large. We believe that we have considerable leeway with the economy slack for financing these size deficits, without undue disturbances to financial markets. If we were at full employment, it would be an entirely different situation.

CONSUMER SAVINGS RATE

Mr. EVANS. Turning to another question, I am confused when I look at the economic picture of this Nation today. I understand that savings are at the highest levels ever. I think the last figure I saw was \$8.3 billion.

Mr. WALKER. Eight percent of personal disposable income.

Mr. EVANS. I have two questions. No. 1, when you use this term "savings" or when it's used for purposes of assessing the economy, do you mean potential purchasing power?

Mr. WALKER. It is potential purchasing power.

Mr. EVANS. Do we have cranked into this figure any figures relating to the quantity of outstanding installment loans?

Mr. WALKER. Yes, sir.

Mr. EVANS. Why do you crank them into a savings figure?

Mr. WALKER. This is a matter of the definition in the national income accounts. If I make \$100 a week and I take \$10 of that to pay off an earlier installment loan, I am not consuming that portion of my income. I am saving to pay off a debt. It's genuine savings, according

to that definition. If I go into debt, then it's dissaving and reduces the percent.

Mr. EVANS. To the extent that a person is making those installment payments monthly, he is not going out and buying something else. The money in those installment payments is being spent, not saved, and does not represent money that is available to be spent on other items.

Mr. WALKER. That is right; correct.

Mr. EVANS. It really doesn't represent a capacity to buy with those moneys, does it? What I am trying to get at is just how much do we have that could be spent that is not being spent and why aren't people spending it for goods and services?

Mr. WALKER. You put your finger right on one of the major questions in the economy, as to why the consumer increased his savings rate relative to personal disposable income up to 8 percent when the average over the years was probably closer to 6 percent. That may not sound like much difference, but it's a tremendous difference when you compare it to the possibility of his increasing his consumption spending. The consumer for a variety of reasons was uncertain, has been uncertain during the last couple of years. Unemployment was one factor in the picture, perhaps social unrest. We could list a large number of things.

As to your economic forecast, if the consumer moves back toward this traditional level of around 6 percent, and he may not—we may have a secular trend here—to the extent he tends to move back, 1972 will be an even stronger year than our GNP forecast prevails.

The other type of savings in the dollar terms that go particularly into savings and loan associations, commercial banks and savings banks have skyrocketed. One reason for the housing boom has been this great flow of savings. This adds up to consumers who are in a very strong financial position, as the corporations are. It means the basic fuel is there for a strong economic advance.

Mr. EVANS of Colorado. Thank you, Mr. Chairman.

Mr. MAHON. Mr. Yates?

CONSUMER CONFIDENCE

Mr. YATES. Supplementing your last answer, Mr. Walker, does that mean a lack of confidence in this administration because consumers are choosing not to spend their savings?

Mr. WALKER. No. As a matter of fact, we have had expansion all through this period. We have had retail sales on the up trend. It's just that the consumer evidently has been in an uncertain position. I don't want to call it lack of confidence in any one person, any one administration or Government as a whole. He has just been saving more of his income. We think that condition is passing.

I would emphasize the release just yesterday of the new economic leading indicators which portend the future many times in the economy. We had a very strong advance in December. Within that, the advances in the early indications of employment, as Mr. Shultz said yesterday, were very encouraging. The work week increased. Claims on new unemployment insurance went down across the board. That was strong in December, and we hope it will continue.

RATE OF FEDERAL SPENDING

Mr. YATES. In your document "Budget Highlights," the statement appears:

One priority that most Americans will agree upon is the return of power to people, after decades of flow of power to Washington. We do this by sharply cutting the rate of increase in Federal spending, and by major reductions in the individual income tax.

Is this administration taking credit for the major reductions in the individual income taxes? Is that what that statement means?

Mr. SHULTZ. Certainly this administration participated in that process. We think that the result is good.

Mr. YATES. How do you reconcile that statement with the fact that this administration has submitted the biggest budget in the history of the country? You say, "We do this by sharply cutting the rate of increase in Federal spending." Wherein are you cutting the rate of increase in Federal spending?

Mr. SHULTZ. One of the charts we showed yesterday reflected that. The chart showed an increase of 17 percent a year in the 3 years immediately preceding this administration, an increase of about 9 percent a year in the succeeding 3 years, and a projected increase of 4 percent for 1973.

Mr. YATES. As a matter of fact, the total spending is increased, isn't it?

Mr. SHULTZ. Total spending has increased.

Mr. YATES. Significantly?

Mr. SHULTZ. Surely. I think that we are going to see statements by administration people and others that such and such is a record. We are going to be setting records constantly because the country is growing and the economy is growing.

Mr. YATES. What kind of records are you speaking about?

Mr. SHULTZ. There will always be increases in a great many things. We have an unemployment problem today, but employment is at a record. There have never been so many people employed as there are today.

Mr. YATES. I think that is true. Except for the depression, you never had so many people unemployed. In the depression you had a higher number of unemployed.

Mr. WALKER. 25 percent.

Mr. YATES. That is all, Mr. Chairman.

Mr. MAHON. Mr. Jonas, did you have a question?

OUTLAYS FOR DEFENSE IN FISCAL 1973

Mr. JONAS. Mr. Weinberger, yesterday I asked you to put in the record a tabulation showing where the projected \$10 billion increase in outlays will fall. You told me that one increase was nearly \$1 billion for Defense.

Mr. WEINBERGER. \$900 million.

Mr. JONAS. \$900 million. As a matter of fact, your summary of budget outlays on page 73 of the big budget book shows an increase in outlays for national defense of only \$280 million. How do you reconcile those figures?

Mr. WEINBERGER. There is a negative outlay, sir. Against the outlays we get some receipts from stockpile sales which we anticipate making

within the year. The net outlay is the figure you have given. The increase is the figure I have given.

Mr. JONAS. Actually, the burden on the Treasury then, so far as the national defense is concerned, is only \$280 million more in 1973 than in 1972.

Mr. WEINBERGER. If we are able to complete those stockpile sales as we anticipate, yes, sir.

Mr. JONAS. Am I correct? I would like to refer you to table 3 on page 78 of the "Budget in Brief," which has a breakdown of these defense items. I note from that table, if you have it before you—and correct me if I misread it—that, for example, there is no increase in operation and maintenance. There is no increase in military personnel—although there has been a substantial pay increase, but the total number on board has been reduced and therefore there is no reflection of any increase in personnel cost.

Mr. WEINBERGER. I think for military personnel, that is correct.

Mr. JONAS. There is actually a decrease of nearly \$1 billion in military procurement. Is that correct?

Mr. WEINBERGER. It's about \$1.9 billion.

Mr. JONAS. Your table shows outlays for military procurement in 1972 as \$17.9 billion and \$16.1 billion with 1973. This is a reduction in procurement outlays of \$1.9 billion—1973 as compared with 1972.

Mr. WEINBERGER. I decrease of nearly \$2 billion is correct. Congressman Jonas. The problem, however, is that this is the actual estimate of the contracts that will have to be paid in fiscal year 1973.

Mr. JONAS. I know; I am talking about outlays and not NOA. There is a substantial increase proposed in budget authority for Defense. But I am speaking now of actual expenditures.

Mr. WEINBERGER. That is correct.

Mr. JONAS. How about R. & D. outlays?

Mr. WEINBERGER. We are estimating \$7.9 billion in research and development for 1973, which is higher than 1972, higher than 1970, higher than 1969, in fact higher than any year that I can see on the table.

Mr. JONAS. That is right, back to 1966. All of those years the expenditures for R. & D. were in excess of \$7 billion.

Mr. WEINBERGER. In 1966 they were \$6.3 billion. We are now estimating \$7.9 billion in 1973.

Mr. JONAS. The biggest item that I see in the table, the biggest increase in spending, you call allowances. It goes up from \$800 million to \$3.4 billion. What is that? Is that military pay allowances, retirement allowances, or what?

Mr. WEINBERGER. Yes, sir; the allowance is for military retirement and civilian and military pay raises that have been estimated.

Mr. JONAS. What all this means is if you analyze this table, there are no substantial increases proposed in 1973 for actual military outlays except that item of allowance.

Mr. WEINBERGER. There is about \$150 million in R. & D. There is, without any question, an increase in the expenditures for retired military personnel. There is a plan to expand on a longer range basis defense strength. There is also a reflection of the winding down of the war and a decrease in the total number of military personnel.

Mr. JONAS. As I look at the table I didn't see any substantial increases in 1973 except in that one item of allowances.

Mr. WEINBERGER. I don't think outlays are the full reflection of the military strength, sir.

Mr. JONAS. You misunderstood me. I am not talking about expenditures.

Mr. WEINBERGER. There is no question that this table correctly reflects this.

Mr. JONAS. I am talking about how much money we are going to have to go out and borrow next year.

Mr. WEINBERGER. That is reflected in this table.

Mr. JONAS. I understand there are substantially higher requests for budget authority to be exercised in the future, but I am talking about expenditures in 1973. I am trying to find where all this \$10 billion increase is. I don't find much of it in defense.

Mr. WEINBERGER. As I mentioned, approximately \$900 million is in defense outlays. I mentioned \$6 billion in social security outlays.

Mr. JONAS. As I see it, there is only about \$280 million net increase in defense spending.

1973 SPENDING INCREASES OVER 1972

It looks to me that this record will show that the major portion of the increased spending projected in 1973 over 1972 is for social security or income security items and for health and education.

Mr. WEINBERGER. There are major increases in those programs, as I mentioned yesterday.

Mr. JONAS. Of course you have revenue sharing in there, which is a questionable item.

Mr. WEINBERGER. About \$6 billion of the \$9.6 billion outlay increase mentioned yesterday is social security.

Mr. JONAS. I think since 1967 we have had about a 25- or 30-percent increase in costs caused by inflation. Is that not true? So in sound constant dollars there is really not much increase in defense spending.

Mr. SHULTZ. In constant dollars our defense levels are back to the levels of pre-Vietnam in the early 1960's. The President feels that we have gone down as far as we can safely go, and that we must devote substantial resources to the improvement of our defense posture.

Mr. JONAS. Thank you.

MAJOR INCREASES IN 1973 NEW BUDGET AUTHORITY AND SPENDING

Mr. MAHON. In connection with this colloquy here with Mr. Jonas, I wish you would place in the record at this point a statement as to the increased new obligational authority for 1973. In the 1973 budget, your spending would go up \$9.6 billion, but the budget provides for a \$21.1 billion increase in new obligational authority. These new obligational amounts would have to be considered for the first time this year by this committee and other committees and, of course, the Congress.

Mr. WEINBERGER. Not all of that would be expended in fiscal 1973.

Mr. MAHON. Certainly, not all of it would be expended in 1973. I would like for you to explain what these increases of the major items are. You can do that for the record. Of course, if you increase new obligational authority, ultimately you increase spending. We understand, of course, that the spending increase does not necessarily take place

in the year in which the new obligational authority increase takes place.

(The information follows:)

MAJOR INCREASES IN 1973 BUDGET AUTHORITY AND RELATED OUTLAYS

[In billions of dollars]

Function	Increase in—	
	Budget authority	Outlay
National defense.....	6.0	0.9
Foreign economic and financial assistance.....	.9	.1
Community development and housing.....	.8	.8
Education and manpower.....	.7	1.1
Medical services (excluding VA programs).....	4.5	.5
Retirement and social insurance.....	5.2	4.4
Public assistance.....	1.3	.3
Veterans benefits and services.....	1.0	.6
Interest on the public debt.....	1.3	1.3
General revenue sharing.....	2.8	2.8
All other, net.....	-3.4	-4.2
Total.....	21.1	9.6

MR. MAHON. Gentlemen, it would be good if we could use the hearing that we held yesterday and today as somewhat of a basic document for this session. With that in mind, it should reveal the facts as best you are able to present them and as best we are able to present them. I hope, in looking at your remarks, you will feel at liberty to insert pertinent additional information, quotations, references, and tables. We will undertake to do the same.

TRIBUTE TO SAMUEL COHN

This Government owes a great deal to the civil servants. Reference had been made this morning to Mr. Samuel Cohn. I believe you said yesterday this was the 26th budget on which he has worked. He has been very cooperative with us under all administrations. He is a man of great ability.

I believe this Rockefeller Public Service Award which you have received, Mr. Cohn, is considered the most prestigious that a civil servant can receive. I think you are due a great deal of credit. I wanted to take note of that at this time.

QUESTIONS ON OVERALL BUDGET BY MR. HATHAWAY

At this point the record will include questions on the overall budget set forth by Mr. Hathaway in letters to Dr. Shultz and Dr. Stein and their respective replies.

(The information follows:)

January 28, 1972

Doctor Herbert Stein
Chairman
Council of Economic Advisers
Washington, D.C. 20503

Dear Doctor Stein:

I'm sorry I didn't have an opportunity to question you at the hearing yesterday. I would like you to comment on the following questions for the record.

Last year the Administration came out with a planned deficit designed to bring about full employment. Obviously it didn't work. This year the Administration seems to have the same plan, except that the deficit is larger. What is your prognosis?

In 1969 the unemployment rate was 3.9%. To what do you attribute the substantial increase in unemployment since that time?

Sincerely,

William D. Hathaway
U.S. Congressman

WDH/fs

cc:
Clerk, House Committee on Appropriations

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

February 18, 1972

Dear Mr. Hathaway:

This is in reply to your letter of January 28, 1972 asking me to reply to certain questions for the record of the hearings of the House Committee on Appropriations held the previous day.

A year ago we were not forecasting that full employment would be reached in 1971. We were forecasting a substantial decline of unemployment during the year, which would continue into 1972. Our forecast hinged on a rapid rate of monetary growth and a decline in consumers' saving. The fiscal policy accompanying the forecast was believed consistent with the rapid economic expansion we foresaw but was not the main driving force in it. We recognized at the time, of course, that we were forecasting a more rapid expansion than most other economists were forecasting.

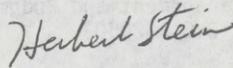
For reasons which we explained in the Economic Report of January 1972 this forecast was not met, and a radical change of policy was initiated in August 1971. We now have a more stimulative fiscal policy than a year ago. We also have a positive program to restrain inflation and new measures to improve our balance of payments. Moreover, the economy was rising much more vigorously as 1971 closed than it had been as 1970 closed. We believe that the combined effect of the forces already at work in the economy, plus the policies adopted by the Government, will be a strong, steady expansion of the economy, bringing the unemployment rate down to the neighborhood of 5 percent by the end of 1972.

The rise of the unemployment rate since 1969 is the result of the response of the economy to the inflationary boom which had been allowed to develop from 1965 to 1968, including in that response the

- 2 -

steps taken by the government to check the inflation. The unemployment rate we have been experiencing is an aspect of the transition from inflation to stability, and, as already indicated, we expect the rate to decline during the year.

Sincerely yours,



Herbert Stein

Honorable William D. Hathaway
House of Representatives
Congress of the United States
Washington, D. C. 20515

January 28, 1972

Honorable George P. Shultz
Director
Office of Management and Budget
Washington, D.C. 20503

Dear George:

In view of the time squeeze yesterday afternoon, you really didn't have an opportunity to respond to my questions. However, I would like you to state for the record why you feel Congress should enact an expenditure limitation this year when, for the past three fiscal years, Congress has appropriated within the budget. Even when outlays mandated by non-appropriation bills are considered, the Congress has managed to stay below the recommended budgetary outlays in two out of the past three fiscal years.

Also, since the President has considerable discretion to spend or not to spend, even if Congress did appropriate a little over the budget, wouldn't the President's discretionary power over spending take care of any minor excesses?

Finally, if the Congress passes an expenditure limitation, what assurances does Congress have that the monies appropriated will be spent for the purposes for which the Congress intends? For example, if Congress were to cut back on defense expenditures by \$1 billion and put that money into education, would the President spend the additional money appropriated for education?

It was good to see you at the hearings.

Sincerely,

William D. Hathaway
U.S. Congressman

WDH/fs

cc: Clerk, House Committee on Appropriations

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FEB 28 1972

Honorable William D. Hathaway
House of Representatives
Washington, D.C. 20515

Dear Mr. Hathaway:

I appreciate the opportunity afforded by your recent letter to discuss further the need for an outlay limitation in fiscal 1973.

As I stressed in the hearings before the House Appropriations Committee, the overriding fiscal policy consideration for the period immediately ahead is the need to provide sufficient economic stimulation to permit the rate of unemployment to be reduced. But this stimulation must be accomplished without rekindling runaway inflation by increasing spending to the point where the budget would be in deficit even under conditions of full employment. The full-employment spending guideline maintains the needed stimulus as long as excessive unemployment persists, but automatically turns it off as the effects of stimulation begin to lead to inflation.

To make certain that the 1973 budget does not breach the full-employment principle, the President has proposed a ceiling on 1973 outlays. Further, he has recommended that this ceiling be enacted into law early, before the Congress has completed action on any of this session's bills that would affect the level of spending in the fiscal year 1973. For several reasons it is desirable that a rigid ceiling be established in legislation:

First, the enactment of such a limitation would serve as a clear statement of intent. The President and the Congress would join in formally recognizing the urgent requirement to avoid inflationary spending.

Second, the legislation would be more than high sounding rhetoric bespeaking good intentions in that it would unequivocally provide the authority to force the spending total within the fiscal policy limit considered to be appropriate for the times. In this way it would correct a defect of Section 138 of the Legislative Reorganization Act of 1946, which has been ignored by the Congress after only two years of experimentation. That legislative provision has been

ignored because the Congress found that its legislative intentions with respect to the total of appropriations was apparently different from its legislative judgment with respect to the individual pieces--and tacitly decided to allow the sum of the individual legislative judgments to have priority over the legislative judgment with respect to the total.

Third, in its annual actions on authorizing legislation, the Congress has--quite understandably, because of the limited jurisdiction of its separate oversight committees--emphasized individual program objectives and its assessment of dollar needs or goals rather than making a realistic appraisal of the total resources available. This problem and the resulting so-called "authorization-appropriation gap" or pressure for "full funding" was discussed in my colloquy with Congressman Cederberg during the course of the hearing.

Fourth, these annual authorization actions have made it extremely difficult and, in my opinion, politically painful for the Congress to limit appropriations in certain areas. Considering the difficulties, I believe the Appropriations Committees have tried to act responsibly, but their actions have been increasingly conditioned and delayed by the separate authorizing measures. Further, the impact of the annual appropriating process on the budget total (and, hence on the total economy) has been limited by the use of trust funds and other mandatory spending authorizations, and by such devices as contract authority and borrowing authority in bills that do not receive the screening of the appropriations process. Somewhere, somehow, the Congress has to arrange for a judgment of each of its actions against the desired total and against all other actions affecting that total.

Finally, efficiency of program operations and optimal use of tax resources demand that we know before the fiscal year begins the approximate total of budget outlays that the Congress considers appropriate, and that we start early in the year those actions needed to keep that total under control. When legislative action through December (or later) affects the total for the year beginning the preceding July 1, our objectives of efficiency, economy, and control are weakened and jeopardized.

This last point responds, at least in part, to the statement in your letter that if the Congress decided "to cut back on defense expenditures...and put that money into education, would the President spend the additional money appropriated for education?" In recent years, a number of members of Congress undoubtedly had this kind of trade-off in mind, but the result is always in doubt until the last appropriations bill is passed. For example, last year the appropriation bill for education was enrolled on June 30, but the military construction bill was not enrolled until November 16 and the Department of Defense bill not until December 15. The foreign assistance appropriation bill for the year starting last July 1, as you know, has not been enrolled as of this writing.

Another reason we believe a legislated expenditure limit is desirable can be seen from an apparent inconsistency in the second and third paragraphs of your letter. In the second paragraph you grant that the President "has considerable discretion to spend or not spend," but in the third paragraph you seek assurances that he will not exercise at least a portion of his authority not to spend.

The very existence of a legal limit on outlays would remove this ambiguity. It could thus clarify the President's authority not to spend; obviously his authority to spend stems from the specific grants of authority made by the Congress. As you know, the President cannot spend funds the Congress has not provided. But if he must exercise his authority not to spend, he will have to deny use of some of the funds voted by the Congress, whether they were provided by approving his recommended amounts or by Congressional addition.

I assure you that the President's decision in such cases will be based on a careful consideration of requirements, with full weight given to the expressed wishes of the Congress. Although it obviously is impossible to insure in advance that each and every program would be funded at the level of the appropriation, let me assure you that our proposal has as its basis the desire to work with the Congress in the national interest.

Your letter also refers to the effects of Congressional action on budget outlays. While the Congress has kept within the recommended outlays in two of the past three years, for the

three-year period as a whole, the Congress has increased spending by \$3.2 billion over the President's proposals.

Further, these reports do not take into account many increases over the budget estimates that arise in the so-called "relatively uncontrollable" programs. While it is easy to dismiss such increases as "mis-estimates of the Administration"--and to some degree they are--the fact is that they do represent payments out of the Treasury. They are part of our legacy from previous Presidents and/or previous Congresses, and most of the "mis-estimates" arise out of changes in the external environment, changes that in a private enterprise economy are extremely difficult to forecast. Nevertheless, increased Federal spending for such activities are generally just as inflationary as increases enacted by a current session of the Congress--the impact on total Federal disbursements and total Federal borrowing in the private capital markets is just the same.

The President's proposal for prompt enactment of a fixed limitation on total outlays would require the Government to curtail other spending when the outlays for relatively uncontrollable programs rise. Such a requirement is especially appropriate at this time, when there is rather general agreement on the prospect of substantial expansion in economic activity and a concomitant reduction in the rate of unemployment.

I hope that this discussion will assist you in understanding our position.

Sincerely,

(Signed) George P. Shultz

Director

Enclosure

cc: ~~Clerk~~, House Committee on Appropriations

February 9, 1972

IMPACT OF CONGRESSIONAL ACTION
ON BUDGET TOTALS,
FISCAL YEARS 1970-72 1/

(in millions of dollars)

	<u>Change in budget authority</u>	<u>Effect on outlays in the fiscal year cited</u>
FISCAL YEAR 1970		
--91st Congress, 1st Session:		
Appropriation bills.....	-5,594	-2,920
Mandatory authorization measures.....	+212	+133
Other measures, including inaction on Administration proposals.....	+5,858	+2,449
Subtotal.....	+476	-337
--91st Congress, 2nd Session:		
Appropriation bills.....	+158	+51
Mandatory authorization measures.....	+107	+94
Other measures, including inaction on Administration proposals.....	+996	+186
Subtotal.....	+1,262	+331
TOTAL, FISCAL YEAR 1970 2/.....	+1,738	-6
FISCAL YEAR 1971		
--91st Congress, 2nd Session:		
Appropriation bills.....	-1,706	-211
Mandatory authorization measures.....	+1,971	+2,314
Other measures, including inaction on Administration proposals.....	+2,421	+1,276
Subtotal.....	+2,685	+3,379
--92nd Congress, 1st Session:		
Appropriation bills.....	-911	-446
Mandatory authorization measures.....	-157	+626
Inaction on Administration proposals...	-495	-273
Subtotal.....	-1,564	-92
TOTAL, FISCAL YEAR 1971.....	+1,121	+3,287

	<u>Change in budget authority</u>	<u>Effect on outlays in the fiscal year cited</u>
FISCAL YEAR 1972		
--92nd Congress, 1st Session:		
Appropriation bills <u>3</u> /.....	-2,222	-744
Mandatory authorization measures.....	+702	+3,586
Other measures, including inaction on Administration proposals <u>4</u> /.....	-4,946	-2,915
TOTAL, FISCAL YEAR 1972 <u>5</u> /.....	-6,466	-73

- 1/ Source: Budget Scorekeeping Reports, Joint Committee on the Reduction of Federal Expenditures.
- 2/ The budget request to which these totals relate reflects revisions transmitted to the Congress on April 15, 1969, shortly after the current Administration took office, which comprised reductions from the budget totals of \$5,511 million in budget authority and \$4,022 million in outlays.
- 3/ These changes include the following:

	<u>Change in budget authority</u>	<u>Effect on outlays (1972)</u>
Defense appropriations.....	-3,025	-1,200
Foreign assistance (action pending at adjournment of first session, 92nd Congress).....	-1,582	-500

The 1972 outlay effect appears to be at least \$300 million too high.

- 4/ Includes decreases of \$3,506 million in budget authority and \$2,419 million in outlays, reflecting inaction on the President's general and special revenue sharing proposals. These decreases assume the deletion of all amounts for revenue sharing in fiscal 1972. The 1973 budget proposes that general revenue sharing be made retroactive to January 1, 1972, and includes \$2,500 million in budget authority and \$2,250 million in outlays for fiscal 1972.
- 5/ Reported as of the end of the 1st Session of the 92nd Congress.

Mr. Walker, do you have anything further to say at the moment?

Mr. WALKER. No, sir.

Mr. MAHON. Mr. Shultz?

Mr. SHULTZ. No, sir.

Mr. MAHON. Mr. Weinberger?

Mr. WEINBERGER. No, sir.

Mr. MAHON. I realize that a hearing of this type cannot be conducted in a perfectly orderly way because different members of the committee are interested in different questions. I believe the opportunity to tap your expertise has been worthwhile. I think the printed record of this hearing, with the supplementary matter, will be of great value to us. The sooner we can get it in our hands, the better we will be able to give consideration to the so-called expenditure limitation and to the budget in general.

TIMELY APPROPRIATIONS

Congress has been derelict in not finding a way to pass appropriation bills in a more timely way. Generally speaking, this is not the fault of the Appropriations Committee. The main trouble lies in the failure of the legislative committees to secure enactment of authorization legislation which must precede consideration of appropriation bills. Each year we have high hopes, but somehow or other something happens and our hopes are shattered. We hope that early action will be taken on authorization bills at this session in order that we may handle the appropriations in a timely way. We could handle the appropriations if we were not constrained and restricted by the lack of authorization.

Mr. Shultz, do you have anything to say?

Mr. SHULTZ. I would just like to say on my own behalf and my colleagues behalf that we appreciate very much all the courtesies that you and the members of the committee have extended to us during this hearing. Further, we wish to cooperate with the committee in every way we possibly can to have an orderly and timely consideration of the appropriations. If there is anything at all we can do that would be helpful, if you will just call on us we will respond.

Mr. MAHON. Thank you very much.

Mr. Weinberger?

Mr. WEINBERGER. I appreciate very much the courtesies you have extended to me and will look forward to working with you as closely as possible.

Mr. MAHON. We will hope for good fortune as the year unfolds. Thank you very much.

Mr. SHULTZ. Thank you.

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The first of the year was a very dry one, and the crops were much injured. The weather was very hot, and the ground was very hard. The crops were much injured, and the yield was very small. The weather was very hot, and the ground was very hard. The crops were much injured, and the yield was very small.

The second of the year was a very wet one, and the crops were much injured. The weather was very cold, and the ground was very soft. The crops were much injured, and the yield was very small. The weather was very cold, and the ground was very soft. The crops were much injured, and the yield was very small.

The third of the year was a very dry one, and the crops were much injured. The weather was very hot, and the ground was very hard. The crops were much injured, and the yield was very small. The weather was very hot, and the ground was very hard. The crops were much injured, and the yield was very small.

The fourth of the year was a very wet one, and the crops were much injured. The weather was very cold, and the ground was very soft. The crops were much injured, and the yield was very small. The weather was very cold, and the ground was very soft. The crops were much injured, and the yield was very small.

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